

Polgári Szemle

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Civic Review

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People Who Will Leave Their Mark on the 21st century

Welcome by the Editor-in-Chief



Journal of Economic Literature (JEL) codes: B20, N01

Keywords: economic policy, social policy, J. M. Keynes, COVID-19, Hungary

In the mid-1990s, following the collapse of socialism and the accompanying socialist planned economy system, a publication entitled “People Who Have Left Their Mark on the 20th Century. Lectures on the History of Ideas” was published with the participation of the then Hungarian intellectual elite (Andor et al., 1996). Nearly a quarter of a century after the book’s publication, with some “intellectual import”, and by correcting the title, this welcome by the editor-in-chief undertakes to provide a brief awareness-raising outreach to what is happening, but especially to the challenges ahead.

From Tibor Erdős to György Matolcsy, prominent economists discussed the fact that the Great World Economic Crisis, which “launched” the economy of the twentieth century, John M. Keynes’ response to the crisis and Keynes’s own theoretical work, were utterly decisive and have left their mark on the events of the century behind us. As Tibor Erdős writes, the great depression provided far too many evidences against the idea of a self-regulating economy, and this inspired Keynes to bring about a macro-economic mind-set for radical change. Keynes’s final conclusion was that if prudently used, fiscal policy (and, to a lesser extent, monetary policy) may change the aggregate demand from households, businesses and the governments as against goods and services, and thus full employment can be achieved. In other words, Keynes attributed a key role to state interventions and based on his principles the economy was successfully stabilised before and after World War II (for more details, see Keynes, 1936). W.J. Baumol rightly considered Keynes’ masterpiece as the (“probably”) most significant book in the twentieth century, and P.A. Samuelson described it as the “performance of an intellectual giant,” and these two opinions are the cornerstones of this editorial (Samuelson, 1946, p. 190).

Yes, Keynes broke taboos, as contrary to the views of classics and monetarists, he showed in theory, and practice proved that a mode of capitalism without state inter-

vention would be a self-regulatory system that provides full (or in today's terminology, optimum) employment. In the economic policy predominated by his ideas, the acceleration of inflation from the second half of the 1960's, then the oil crisis, and most importantly the weakening of the Bretton Woods monetary system, rapid deterioration in the constant value of the US dollar and in its capability to hold its value, which brought an end to the conversion of the U.S. currency into gold, resulted in a decline in the influence of the Keynesian teachings. However, it was a mistake to banish Keynes' thoughts, and to curb the role of his propositions in shaping the prevailing processes. The rise of monetarists in the 1970's, or in the words of Alan Greenspan, the emergence of a world without "shackles and checks," that is, a significant curtailment of the state's regulatory and supervisory role – especially in the financial sector – inevitably led to a crisis. By 2007, instead of an overproduction crisis, an over-lending crisis evolved, and that, and along with the subsequent ten-year consolidation period, it showed that the active regulatory and supervisory role of the state was vital.

We Hungarians, here in the middle of Central Europe, as part of the former socialist planned economy system, and for a long time in its base dependence, have run a slightly "different trajectory" than the developed capitalist countries. Following the collapse of the cohesive socialist system, we fell victim to a fast, monetarist market economy transformation without any transitional period. Planned economy was irremediable, but the market economy transformation that took place in a short time claimed more victims than it made beneficiaries. György Matolcsy rightly "raised his voice" already in 1996: "Let's read and not bury John Maynard Keynes" (Andor et al., 1996; Matolcsy, 1999, p. 178). Yes, more Keynes, more prudent and proportionate state influence would have been needed...

The ideas of our contemporary economist László Bogár (former State Secretary in the government led by the Hungarian Democratic Forum and then in the Fidesz-led government), which may also be considered as a diagnostic report of Hungary and an action plan for the future, should be added in this context: "With the collapse of the bloc ruled by the soviet globalisation power, during the past decade Hungary set out on the road of integration into the globalisation space predominated by the American world power. This adaptation came at a huge sacrifice. All over the 20th century, only the two World Wars caused similarly enormous losses in income and wealth to Hungary as suffered during the past decade [...] Consequently, 60-70 per cent of the Hungarian population has actually come out as losers of the transformation process following the change of regime change, and about 10-15 per cent is literally "out of history" and does not stand a chance to rise. All this poses stupendous social, economic, political and cultural challenges" (Matolcsy, 1999; the quoted sentence is found on pp. 7-8). According to the vision of the future by György Matolcsy, the volume editor who embraced Bogár's thoughts, "ours is the 21st century". His focus is as follows: "Economic growth is thus the key to the Hungarian part of the global game in the 21st century: we can win the game if we follow the rules of the global space but avoid the traps that almost automatically close if the rules are followed" (Matolcsy, 1999, pp. 68-69).

And we followed the rules. After 2010, the budget was stabilised, and the operating mechanisms applied by the National Bank of Hungary moderated inflation, while at the same time moved the economy towards growth and financial stability. Monetary policy set multiple objectives, is implemented in a macro-economic and social context, and in this modern age, a hundred years after Keynes, its role has appreciated significantly. The state's active economy organisation policy, stronger regulation and control of the markets have resulted in an impressive decade of economic development in Hungary, implemented in accordance with the principles of the Keynesian economic philosophy. It can be admitted that even in an advanced political and cultural reading, the stabilising role of the state is not a kind of a desirable and sought-after function, or a sort of salvation, but a corporate duty to citizens who vote for or against any government. Employment increased, and together with the Visegrád group of countries (V-4), Hungary became the engine of growth in the European Union, while maintaining the budget and foreign economic balance. These events have nearly reached the period of rapid growth seen during the Austro-Hungarian Monarchy (1867–1914), described by successes.

However, the COVID-19 pandemic crisis gave a slight “shake” to the country. The way the central bank and the government are dealing with the inevitable economic downturn calls for the recovery to take place as soon as possible. We also have good reasons to focus on this topic in the English-language special issue of the 16th volume of this journal. We wish to describe the effects of the crisis on the country and to present the methodology of Hungarian crisis management. We point out that this crisis has reached us in a “stuffed” and stable condition, and it was caused by external factors, unlike the previous crises. It is in our interests to move towards a more advanced system after the pandemic, and to implement economic policy measures that will bring sustainable economy and the society closer in view.

It can be argued that the government will only be able to manage the crisis by the application of focused and effective state aid rather than intervention (remember Keynes' teachings), and with full “commitment” to the stabilising function of the state. One of the most difficult tasks, but perhaps the most honourable charge, in this crisis management is the efficient implementation and communication of consultation and feedback to both the governing and structured strata of society. Maintaining trust and preserving credibility. This may also apply to other countries, regardless of political system and historical peculiarities. This is another message of the current issue of our journal to governments and central banks dealing with the crisis all over the world.

And what about the 21st century? Obviously, everyone wants to survive this crisis, and any further crises. Both citizens and companies want to survive and remain standing. However, in a hundred years, life will span a thousand years. Processes and lifestyles are accelerating, and the economy needs to remain stable and well-managed in order to survive without wars, social unrest, and ethnic conflicts.

And who will leave their mark on the 21st century? This topic has already been raised in a previous editorial (Lentner, 2018). “A multitude of leaders and intellec-

tuals go – overtly or covertly – after their dreams to become part of history. Among them, the well-intentioned obviously hope that the goods, systems, creations, scientific results created by them or under their control will rise to a scale that people will remember and enjoy their beneficial effects even years, decades, and centuries later. Their greatness will be included in the books, which posterity will be happy to turn to, and they will be the starting points for moving forward, becoming a point of reference.”

However, no less important is the work done by people who put their hand to a plough or stand beside a turning-lathe or work three shifts day by day focusing their efforts on providing for their families and raising their children. True, we love spectacular things. Perhaps everyone loves them. But it is the daily struggle that organizes millions of families into a society and ensures sustainability. Values, traditions, love and the mother tongue can only be handed down, maintained and carried on if the smallest unit of society, the family exists. And those scientists and statesmen who promote this, and put the improvement of the lives of societies at the heart of their work, will rightly arouse appreciation from the current and future generations.

Consequently, patterns and acceptable theories will be created by thinkers who no longer want to return to the pre-crisis conditions. Because more will be in demand. The 21st century will be a period of regionalisation, digitisation, a revolution in the monetary system and taxation, and the period of green economy. Consumption habits, the social division of labour and work flows are being transformed, changes are coming, and the challenge of aging societies must be tackled. The theoreticians who will be able to create lasting things and ideas that serve the benefit of humanity will leave a mark on our lives; they will be the geniuses of the 21st century.

It is worth reading *Polgári Szemle* and about Hungary.

Budapest, Advent of 2020

Dr Csaba Lentner, university professor
Editor-in-chief of *Polgári Szemle*

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György Matolcsy

Quo vadis Hungaria? – Facing a New World



Summary

Over the past decade, the Hungarian economy has achieved unique successes building on the fiscal and monetary policy turnaround implemented in the early 2010's. The targeted measures of the government and the central bank have helped to put the Hungarian economy on a sustainable convergence path, and at the same time, they have strengthened the immune system of the economy. As a result, the Hungarian economy has been properly prepared to face the crisis caused by the coronavirus pandemic recently. However, in addition to addressing the short-term consequences, a longer-term perspective must be continuously kept in mind as well. Only countries that are rapidly adapting to the norms of the new – post-Covid-19 pandemic – world, will be able to win the next decade. The norms of the 21st century are just taking shape, so every country has a chance to become a frontrunner. To continue the economic catch-up process, Hungary's growth model needs to be further developed and adjusted to these new megatrends, and monetary policy must play an active role in this change.

Journal of Economic Literature (JEL) codes: E52, E61, G01, H12, O23

Keywords: monetary policy, competitiveness, crisis management, Covid-19 pandemic, money creation, economic development, digital central bank money, monetisation of debts, hybrid financial system

FACING A NEW WORLD

Hungary faced the Covid-19 pandemic and its economic effects with strong fundamentals, significant reserves and adequate room for manoeuvre in economic policy. The Hungarian economy and economic policy have come a long way in the last ten years to achieve this favourable position. While the 2008 global financial crisis hit Hungary “in an extremely weakened state” (Matolcsy, 2019), the economic immune system has since strengthened and is ready to overcome threatening trials. However, it would be a fatal mistake to look presumptuously at the next period. Uncertainty remained, with international economic and financial developments following a rapidly changing trajectory.

Economic policy cannot rely on well-established recipes. We have to retain successful, well-proven components, but break away from previously failed approaches and manoeuvre based on lessons learnt. By recognising the internationally emerging megatrends and turning them to our advantage, and taking into account domestic peculiarities, we can develop a winning economic strategy promoting a successful economic convergence for Hungary in the coming years and decades as well.

WHAT HAS HAPPENED TO CENTRAL BANKS OVER THE LAST TEN YEARS?

Over the past decade, the external monetary policy environment has changed significantly

In response to the 2008–2009 global economic crisis and to the crisis of confidence, major central banks took significant monetary easing measures. The moderation of interest rate conditions soon ran into the zero lower bound in several countries, prompting monetary policy makers to use unconventional instruments changing the size and/or composition of central bank balance sheets. The most common examples of this, followed by large central banks over the past decade, have been asset purchase programmes, under which these institutions have purchased government securities, corporate bonds and, at times, even equities. As a result of asset purchase programmes, central banks’ balance sheet totals have expanded remarkably, and responses to the Covid-19 pandemic have further inflated already increased central bank balance sheets.

Instead of the previous one goal – one instrument approach, central banks are now shaping their monetary policy along the multi-goals – multi-instruments principle, which has also made the instruments more complex. While maintaining the priority of price stability, central banks are paying greater attention to sustainable growth, and the aspect of financial stability has become more important as well.

Central bank measures have become more targeted. The global crisis of 2008–2009 and then the euro area crisis of 2011–2012 resulted in a completely new central bank operation globally. Basically, central banks are no longer trying to influence the economy by shaping the policy rates but, by using a range of new instruments, to influence the entire yield curve. For the asset purchase programmes launched by large central

banks over the past decade, it has been observed that the newer and newer general asset purchase programmes have had less and less impact on financial markets, and their impact on the real economy can also be considered more modest. This has drawn attention to the importance of targeted, unconventional tools.

In order to address the challenges of the decade ahead the coordination of economic policy branches, has become important again. In a complex economic policy, the coordinated and targeted operation of monetary policy, fiscal policy, debt management, competitiveness policy and macroprudential policy can ensure sustainable economic growth.

Unprecedented turnaround at Hungary's central bank

The innovative measures of the Magyar Nemzeti Bank have contributed significantly to the economic convergence in recent years and to the strengthening of the fundamentals of the Hungarian economy. In order to ease monetary conditions, the MNB launched its *easing cycle* in 2012. As a result, the central bank base rate fell from 7 per cent to a historic low of 0.9 per cent by 2016. Keeping the low base rate on hold has been in line with the achievement of the inflation target in a sustainable manner. At the same time, in 2016 the central bank introduced a new monetary policy framework, which allowed it to implement targeted, unconventional monetary easing in addition to keeping the base rate unchanged and taking into account inflation developments. In a forward-looking way, the new framework ensured that, in addition to the base rate, other targeted instruments would also be available to the central bank in order to achieve its monetary policy objectives (Magyar Nemzeti Bank, 2017a).

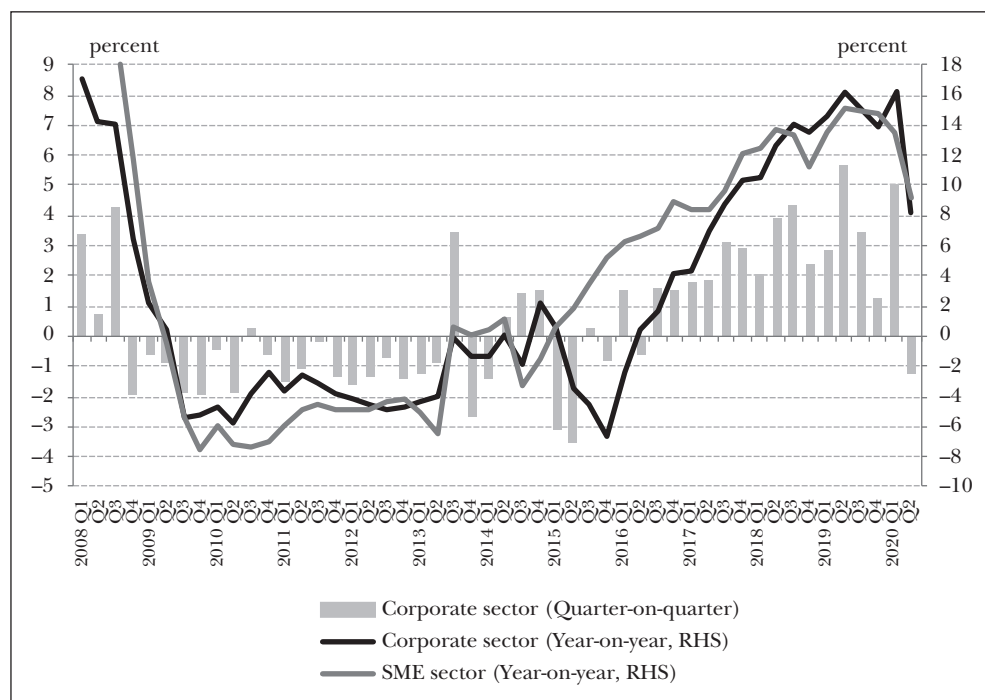
The broadening of the central bank's instruments was planned in a targeted approach. Experience from the previous crisis has shown that reaching the lower limit of the base rate and using short-term assets do not effectively shape long-term yields, so influencing monetary conditions in a targeted way requires attention to shaping the entire yield curve.

In recent years, the MNB has made considerable efforts to clean up the retail credit market and make the structure of the loan portfolio healthier, so in the current crisis situation households face a significantly lower risk than during the 2008–2009 crisis. The macrofinancial risks caused by household foreign currency borrowing have virtually disappeared with the forint conversion, markedly reducing Hungary's external vulnerability. The fixing of lending rates instead of short-term, variable interest rates, the encouraging of the extension of interest periods and the introducing of consumer-friendly financial products have helped to make the retail credit market healthier and reduce risks overall (Matolcsy, 2019).

Adequate funding of companies, provided by the central bank through targeted, innovative programmes, plays a key role in sustainable convergence. After the crisis of 2008–2009, Hungary was hit by credit crunch: the shrinking corporate loan portfolio particularly affected micro-, small and medium-sized companies with limited access to other sources of finance. Therefore, in 2013, the central bank launched the *Funding for Growth Scheme (FGS)*, which aimed to alleviate persistent market disturbance in SME lending,

increase banks' willingness to lend, stimulate the economy and strengthen financial stability. Beyond improving conditions for access to credit for SMEs, the first three phases of the Funding for Growth Scheme have had a significant impact by restoring a previously dysfunctional credit market (Figure 1), which has made a further lasting contribution to economic expansion (Matolcsy, 2020a). All in all, in the first three phases of the FGS, nearly 40,000 domestic enterprises received funding in the amount of about HUF 2,800 billion (Magyar Nemzeti Bank, 2019a). In 2019, another phase of the FGS was launched under the name of FGS *fix*, aimed at creating a healthier credit structure and supporting the shift towards longer maturities.

Figure 1: Growth rate of total corporate and SME sector loan portfolio



Note: Transaction-based, with the SME sector estimated on the basis of banking system data before the fourth quarter of 2015.

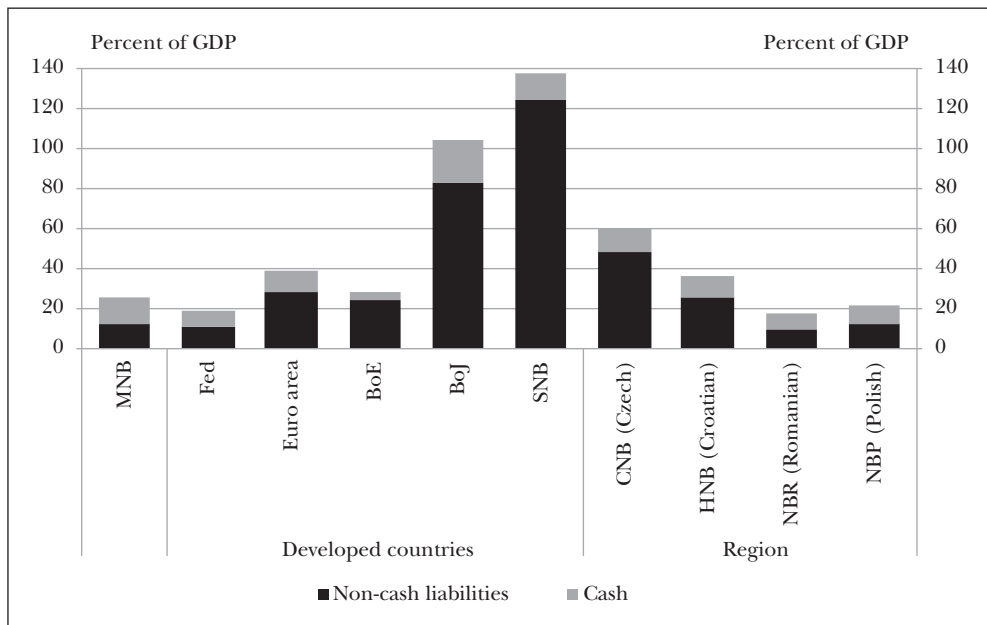
Source: MNB

Diversification of corporate fund-raising is beneficial to reduce risks, moderate fund-raising costs and strengthen competition as well. Therefore, in the summer of 2019, the central bank launched the *Bond Funding for Growth Scheme*, which allows domestic – primarily medium and large – companies to rely on other funding forms in addition to bank loans. This contributes to improving the efficiency of monetary policy transmission, this new market also supports more effective enforcement of interest rate decisions by the central bank (Magyar Nemzeti Bank, 2019b).

With its instruments, the central bank has shaped monetary conditions, firstly, to support investment, strengthen employment and thus economic growth, and secondly, to ensure a healthy, sustainable balance between consumption and saving. For investors, the Funding for Growth Scheme and the Bond Funding for Growth Scheme provide cheap, negative real interest rate funds that contribute to a healthy structured credit expansion.

The innovation of the new Hungarian economic model was that domestic monetary policy was able to substantially loosen monetary conditions, stimulate lending by targeted measures and reduce the vulnerability of the economy while the central bank balance was shrinking. Contrary to global trends, since 2013 the MNB has focused on the effective restructuring of the balance sheet rather than a general increase (Figure 2), so there is still considerable room for manoeuvre to overcome the challenges in the Covid-19 era (Csontos and Nagy-Kékesi, 2020).

Figure 2: International comparison of the liabilities side of central bank balance sheets



Note: The liability side of the central bank balance sheets are calculated from the end of 2019.

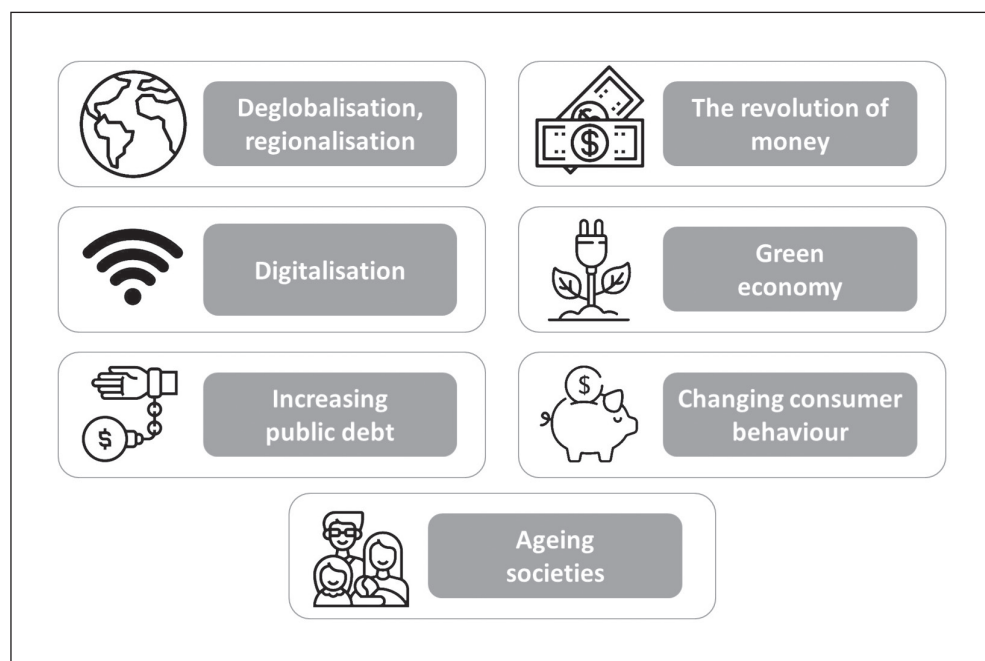
Source: Central bank websites, MNB

Monetary policy turnarounds in the last seven years, which helped to put the Hungarian economy on a sustainable convergence path, also strengthened the immune system of the economy. Due to this, Hungary has been able to face the crisis caused by the Covid-19 pandemic with a sound economy. The next seven years are expected to be more difficult, more uncertain, with stronger risks, greater challenges but at the same time, the opportunities will be big: whoever wins can win big compared to their competitors (Matolcsy, 2020b).

MEGATRENDS DEFINING THE 21ST CENTURY –
OPPORTUNITIES FOR OVERTAKING ON THE BEND

The 21st century has brought with it a powerful movement of the tectonic plates of the world economy and geopolitics, so if we step on a high plate with good strategy and a sense of pace, we can become the winner of the 21st century. The balance between competition and cooperation creates a new world order in which new norms will apply. The emergence of this world order based on new norms is accelerated by the social, economic, mindset-related, i.e. system-level effects of the global coronavirus crisis. And we need to create balance and growth in the new world, too. Seven major emerging megatrends can be identified in the 21st century from the current situation assessment (Figure 3).

Figure 3: The seven major megatrends characterizing the 21st century



Source: MNB

1. Deglobalisation, regionalisation

Super-globalisation, the age of economic value creation with the disappearance of national frameworks, is being replaced by a period of deglobalisation, local and regional production and provision of services. To reduce production costs and serve consumer needs at a massive scale, large companies have created long, cross-border global value chains in order to create value with the greatest possible profit. In a global production organisa-

tion, production and service activities are based on international outsourcing and low stockholding, which, however, involves significant risk. Therefore, during economic recovery, multinational companies can shorten global value chains, make them more regional, multicentre their supplier base and increase their security stocks in response to current problems. Hungary can improve its position in the world economy by attracting corporate activities relocated from distant countries to Europe and further strengthening its participation in regional cooperation.

We have seen that sovereign countries have been able to respond more effectively to the Covid-19 pandemic than the international community and multilateral organisations. Regional cooperation is also strengthening. We are already seeing some of the results of this in our narrower region in the form of the strengthening cooperation of the Visegrád Four, the successes of the Three Seas Initiative or the emerging Carpathian Basin Economic Cooperation. And in our wider Eurasian region, the Belt and Road Initiative can support the joint construction activity of countries in the region. All this is happening at a time when international trade conflicts and internal disputes in the euro area are intensifying along the fault lines between the northern and southern member states, but the Central and Eastern European region remains an area of stability and prosperity.

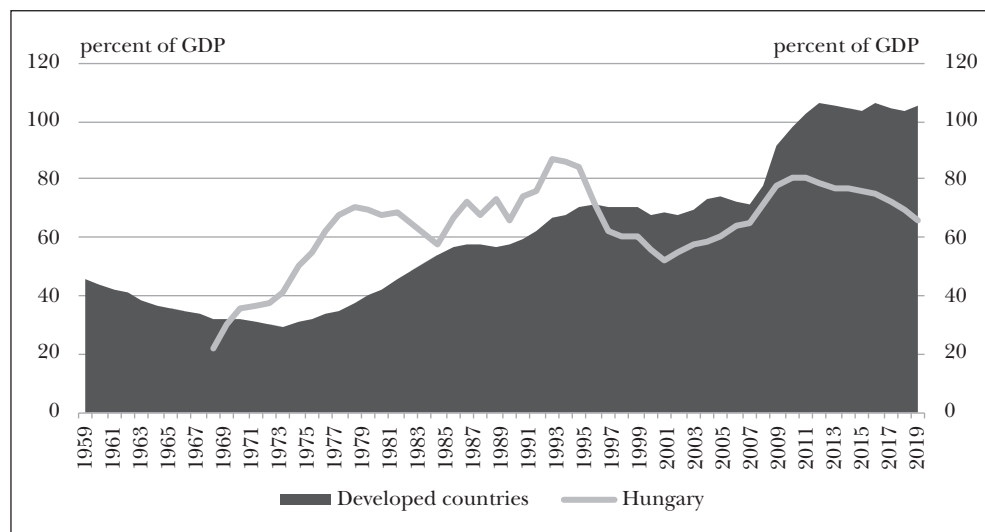
2. Digitalisation

Digitalisation is transforming our everyday life and our work as well. The future will be not only local and regional but also digital. Due to the coronavirus, the information economy has started to develop rapidly, which can not only help spread the achievements – cyberphysical systems, the internet of things, smart factories, big databases – of today's fourth industrial revolution throughout the economy and society but also contribute to the unfolding of the fifth industrial revolution which is based on artificial intelligence and which fundamentally changes the social structure. Digital economic activities – even in the narrow sense – accounted for 7 per cent of Hungary's GDP in 2018, which is at the forefront in the EU, and may continue to increase in the coming years. This process, while leading to the loss of low-complexity jobs, is creating many new, more complex jobs, similar to previous industrial and technological revolutions. A good example of this is the decline of labour in agriculture, as we no longer harvest and thresh by hand, or the fact that there is no need for call centre coordinators, but new occupations such as programmer or data expert are emerging. It is not the disappearing jobs but the workforce that need to be protected, so it is necessary to ensure their flexibility in the new world through skills- and practice-oriented vocational and further training, while increasing the number of tertiary education graduates is also a key to success. The consequence of mass digitalisation is that in the 21st century, instead of raw material, data is becoming the new central resource, the protection of which requires nationally-developed cyber defence systems and the expansion of IT knowledge capital.

3. Increasing debts

Mass digitalisation will require large-scale investment, which in turn will require the raising of a significant amount of new capital. However, the average gross public debt of developed countries already exceeds 100 per cent of their GDP (International Monetary Fund, 2020; Figure 4). Contrary to this international trend, Hungary's gross public debt ratio has declined every year since 2012 and has fallen to 65.4 per cent of GDP by 2019, due to the successful post-2010 crisis management and growth-enhancing reforms. In addition to the level of debt, its structure is also important. From both an economic policy and a national strategic point of view, it is important for public debt to be in domestic hands and domestic currency, as this reduces a country's external financial vulnerability. The effectiveness of the Hungarian debt strategy is shown by the fact that between 2011 and 2019, the share of foreign holdings of Hungarian public debt decreased from 65 to 34 per cent, and the foreign exchange ratio of central debt from about 49 to 17 per cent. The MNB's Self-financing Programme also made a significant contribution to this success. The achievement of a sustainable debt structure was also supported by the market launch of the Hungarian Government Securities Plus in 2019, which led to a further increase in the share of government securities held by households.

Figure 4: Gross public debt as a share of GDP in developed countries and in Hungary



Note: The average for developed countries is based on the government debt data of Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, Korea, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, Taiwan, the Netherlands, the United Kingdom and the United States.

Source: International Monetary Fund, 2018; 2020; Eurostat, MNB

A competitive tax system and a sufficiently diversified financing system can result in sustained high investment activity and sustainable convergence. In addition to sustainable debt management, the dynamic expansion of the economy also requires a growth-friendly tax system, for the development of which Hungary has taken significant steps over the past ten years. The philosophy of the employment and investment incentive tax system is to shift the focus of tax centralisation from taxes on labour and capital to consumption taxes, i.e. it taxes income not when it is generated but when it is spent (Matolcsy and Palotai, 2018). The next stage in the development of this competitive tax system could be the national taxation of cross-border digital services and the more active use of green taxes for polluting activities.

In addition to the development of a modern tax system, a new financial system is needed in Hungary, in which, besides the dominant bank financing, equity-, mortgage bond- and bond-based financial funding will be strengthened. To this end, the central bank took the strategically important stock exchange into domestic hands and launched the Bond Funding for Growth Scheme, which stimulates the issuance of corporate bonds. The listing of companies on the stock exchange and their participation in the bond programme can help them move up in size, which can also contribute to the improvement in their productivity and the emergence of domestically owned corporate champions.

4. The revolution of money

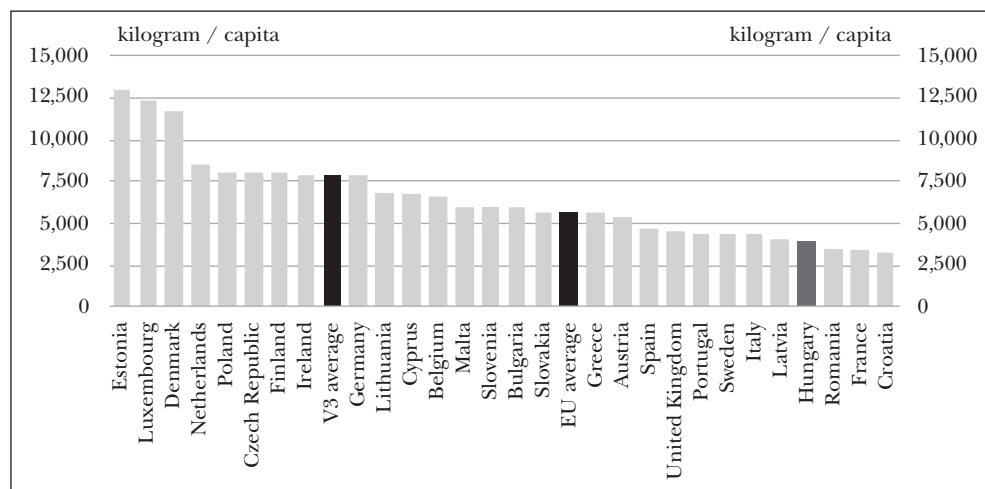
The 21st century is bringing the acceleration of financial innovations so far, which will further strengthen central banks. Financial digitalisation is reflected in the increase in the share of electronic payments, the introduction of instant transfer systems and the realisation of digital central bank money (see below). Due to the financial revolution, access to money will generally be fast, cheap and secure. It will be typical for countries opting for financial competitiveness that instead of aid or basic income, their citizens have a basic credit line calculated on the basis of the expected career income. In such countries, it is not fish (aid, basic income) but net (basic credit line) that is provided to everyone (Matolcsy, 2020c). Hungary is at the forefront among the EU member states in terms of the practical implementation of financial innovations.

5. Green economy

Green taxes and greening of financial products can help preserve the natural environment. “We haven’t inherited the Earth from our ancestors, we’re borrowing it from our children”, said David Brower, a famous environmental activist. At present, however, the population of the Earth uses more than one and a half times as many resources as our planet can still provide through its renewable capacity. Hungary has no reason to be ashamed in this area either. Our country has the fourth lowest per capita carbon dioxide emissions in the EU (Figure 5). For a greener economy, and in order for those concerned to pay for the costs of pollution, legal and financial regulatory instruments need to be introduced. One effective financial regulatory tool is to apply green taxes

to environmentally harmful activities. Through the development of green investment portfolios, the financial system can support natural resources and environmental services to be provided also for future generations. The Central Bank of Hungary, too, prioritises the issue of green future, as our institution has a comprehensive Green Programme based on three pillars and was among the first ones to create a separate green bond portfolio in its foreign exchange reserves.

Figure 5: Carbon dioxide emissions per capita in member states of the European Union (2018)



Note: EU and V3 values are averages weighted by the population of countries.

Source: Eurostat

6. Changing consumer habits

The competitiveness of the national economy will be determined by whether individual countries are able to react in time to changing consumption habits, to the accelerating expansion of services and to the transformation of household saving patterns. The rearrangement of the weight of the main production sectors of the economy in GDP is a well-documented phenomenon in the development path of economies, where the weight of the service sector shows a continuous increase. In the OECD countries, the average weight of services in gross national product is 70 per cent, whereas in Hungary this proportion is 55 per cent. It is therefore expected that in the coming decades, with the increasing digital transformation, the globalisation of services and the changes in consumer habits, their share in the creation of economic value will increase (Magyar Nemzeti Bank, 2017b). At the same time, within the service sector, a transformation is expected: the weight of traditional activities (e.g. transport, event organisation) may decrease and the share of modern electronic services (e.g. e-commerce, digital entertainment) may increase. The gaining ground of services also means an opportunity for Hungarian SMEs to find new entry points into international trade through exports of services.

However, the expansion of services is a challenge for the economics profession, too. Measuring value added and inflation of services – as opposed to the established quantification of industrial value creation – is still a serious professional task, and as the complexity of the sector increases, this task is expected to become even more difficult. Reforming the measurement of inflation and using “big data” technologies and artificial intelligence in statistical work can be of great help in solving this challenge (Matolcsy et al., 2019). The transformation of consumer habits will also be reflected in savings. While in the case of the so-called boomer (born between 1945–65) and X (born between 1965–80) generations, individuals started saving in their early 30s, the millennium (born between 1980–95) generation starts to set aside a portion of their income as early as at the age of 24. Smart states react quickly to this phenomenon.

7. Ageing societies

Population decline and ageing in Europe can be reversed by well-targeted family-friendly policy. According to UN projections, the number of people on Earth could be close to even 10 billion by 2050, but different trends are expected from continent to continent (United Nations, 2019). While the proportion of people living in Africa will increase from 16 per cent to 26 per cent, that of people living in Europe will fall from 10 per cent to 7 per cent between 2015 and 2050. One of the biggest challenges for the economies of the developed world could be the ageing of society over the next few decades, caused by an increase in life expectancy and a decline in fertility rate. The total fertility rate of 2.1 needed to maintain the population of the countries was not reached by any EU member state in 2018. The old-age dependency ratio – i.e. the ratio of the number of people over 65 to the number of those of working age – could double between 2015 and 2050, both globally and in Europe. As a result, by 2050, instead of the current 4 or so, only 2 working-age adults will have to provide care for 1 elderly person on our continent. Unfavourable demographic conditions and changes can have strong economic consequences in both developed and underdeveloped regions: they can transform the labour market and pose serious challenges to pension and health care systems (Kreiszné Hudák and Rippel, 2019). Therefore, it is to be welcomed that from 2010, the Hungarian government started to pursue a family policy, the first fruits of which are already visible in our country. The fertility rate increased from 1.2 to 1.5 between 2010 and 2019, and the number of marriages doubled. Achieving a complete demographic turnaround requires the continuation of this family policy and, depending on economic opportunities, ever-expanding family-friendly measures are needed.

The new norms of the 21st century are still young and can be shaped, so every country – including Hungary – has a similar chance to become a frontrunner in the megatrends presented. The sooner a country acts, the sooner it gains a competitive advantage. Let us not be afraid to take advantage of the new megatrends – i.e. key factors for future competitiveness – intensifying due to the coronavirus, and let us dare to overtake even on the bend while complying with the rules! To quote Lao Tzu: “A journey of a thousand

miles begins with a single step.” It is worth taking this single step in all areas as soon as possible, so that Hungary can be among the most competitive countries of the 21st century.

NEW TRENDS EMERGING WITH THE CORONACRISIS –
THE WORLD IS CHANGING, LET US TAKE THE LEAD!

Today, no one can yet tell us how long the disease that is causing the current pandemic will remain with us, but it cannot be ruled out that it may affect our lives in the long run. However, it is important to be open to these changes and to make flexible use of the opportunities they create to implement our old plans or even our new ideas. Let us take the lead in the processes so that when the world gets straightened out again, we should be the ones whose backs the field is looking at. What are the areas where we need to prepare for considerable changes?

My house, my castle – our home is transforming

During the period of confinement, we had to realise that our home needed to serve a lot more functions than before. Home is no longer just a place to live but a place to relax, work, cook, play sports, train ourselves and help our children learn, garden in the garden or on the terrace. Achieving this is not easy even in a family house, while in the case of smaller apartments all the creativity of the Hungarian people was needed to harmoniously coordinate the various functions. We have won this battle, but we must be prepared for the further challenges.

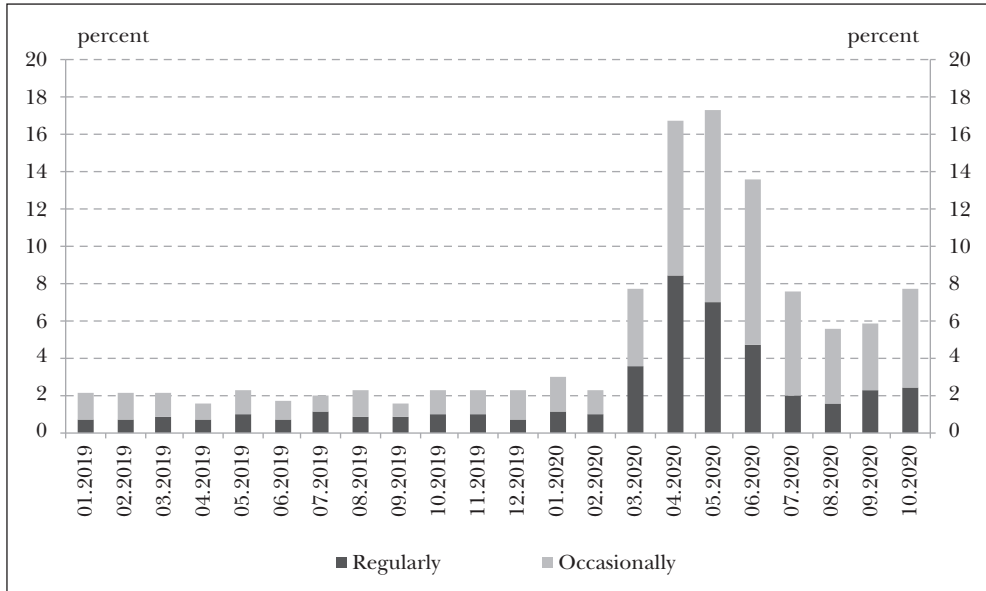
In this preparation, it is extremely important that the economic management pursues an appropriate, long-term sustainable housing policy. Housing policy is one of the largest reserves in Hungary, but its exploitation is only possible along a strategy based on a clear vision (Matolcsy, 2020d). In the early 2000s, we were able to build 30–40 thousand homes a year. Why not achieve this again? To support this, the Housing and Real Estate Market Advisory Board (HREMAB) was established in 2019 on the initiative of the MNB, with the aim of providing a professional forum for relevant participants of the real estate market. It is a big step forward that for new homes built in rusted zones, renting and selling will be taxed at a rate of 5 per cent instead of 27 per cent in the future. Additionally, the value-added tax for new homes will be reduced for 5 percent for the next two years, and families with children are eligible for further allowances. All of these may help to increase housing activity in the coming years, but we also have to develop the construction capacity in order to maintain higher activity over the long term without a hike in housing prices.

Flexibility and competition – our workplace is transforming

The combined implementation of successful pandemic control and maintenance of economic momentum has become feasible with the sharp growth of teleworking. The MNB’s own surveys

showed that Hungarian small and medium-sized enterprises were not really prepared in advance to home office work, but they nevertheless successfully overcame the obstacles. A significant part of the Hungarian economy was able to switch their processes to remote work (Figure 6), making it possible to minimise the economic loss caused by the restrictions. The expansion of these yet unfamiliar forms of employment is essential for the continuation of the Hungarian economy's convergence in recent years.

Figure 6: Evolution of the share of teleworkers or home office workers in Hungary



Source: KSH Heti Monitor (CSO Weekly Monitor)

The task is to take advantage of the opportunities offered by the newly built infrastructure and to implement the digital transition of the Hungarian economy. An experiment conducted by a Chinese company in 2010–2011 shows that teleworking increased employee productivity by a third, halving the number of employees leaving, while the company saved thousands of dollars per employee per year during the period under review (Bloom, 2014). Today, everything is in place to take permanent advantage of the benefits of teleworking. Let us not miss this opportunity. The expansion of atypical forms of employment, such as teleworking or part-time employment, holds a significant reserve, which is essential for achieving the economic growth needed for sustainable convergence. Countries with a high share of atypical jobs have the highest employment rates. So far, Hungary has lagged behind the Western European countries in this regard (Magyar Nemzeti Bank, 2019c), but now it has received a new impetus in this area as well. This is indeed necessary, since, for demographic reasons, a stronger improvement in the employment rate is needed to increase the number of employees.

What will this mean for employees and employers in everyday life? Both the shape and atmosphere of workplaces will change. Workplaces may focus more and more on the non-contact design of premises, regular disinfection and the provision of social distance. There will be a lower personal presence in the offices. In the future, it will no longer be the default for all employees to be in the office every working day. All this will mean a more flexible relationship between workers and workplaces, which, at the same time, will be able to take better account of individual needs. The demand for this among today's young people has already emerged, which has posed significant challenges for employers in recent years. Another change will be that, from now on, work will be more easily accessible from home or even any other place, which will amplify the spread of digital nomad lifestyle. An increasing number of employees will be freelancers living on occasional assignments ("gig economy"), which will make it easier for companies to carry out project-type tasks, but will make it more difficult to fill jobs that require performing regular tasks. Although Budapest ranks high (8th) in the global ranking of cities for digital nomads, there is still room for development in many areas, where those more successful than us can serve as good examples.

In new ways – the society around us is transforming

The curfew restrictions due to the pandemic is that they have broken the routine of everyday life and created an opportunity for us to stop a little while with our family and think about our lives. Let us not be afraid to change our previous lifestyle or even our workplace if we feel that we can do better than that. Let us dare to embark on the search for new ways, as on the untrodden roads we can find great treasures. During this period, the task of economic policy is to open up these new roads and to facilitate the exploitation of opportunities. Let us defend the results we have achieved through many years of work, let us continue to strive for full employment. Let us think about how we can create at least as many, but even more productive jobs that generate more value.

In a crisis situation, it really becomes clear whom you can truly count on. Fortunately, Hungarian families did well in this field, too, as, for example, the transition of the education system to a digital curriculum or the public health care system to a pandemic control mode has been successfully implemented, and elderly family members have not been left without help either. This last one is extremely important, as international research shows that the impact of social relations on life prospects is greater than, for example, that of smoking or even obesity (Holt-Lundstad et al., 2010). However, the social relations of the elderly have decreased remarkably over the past few months due to their vulnerability. So the task is clear: we must pay attention to our elderly family members and the elderly living in our neighbourhood, talking to them and helping them adapt to the new situation. Engaging them in the digital world is now truly possible: let us provide them with digital tools and teach them how to use them. The Hungarian Government has recognised it right that in the current situation, not only those losing their jobs but also the elderly need help, so the gradual re-introducing of the 13th-month pension and the following message is to be welcomed: "No Hungarian is alone."

Digitalisation, digitalisation, digitalisation – the health care and education system are transforming

The Hungarian economic policy is facing one of its biggest challenges in history: in order to achieve a successful convergence, we need to implement a turnaround in competitiveness that will help us break out of the middle income trap. The pandemic crisis has now provided an excellent opportunity for this. Economic-historical experience shows that rapidly developing economies run out of steam before they could reach the level of developed economies. In the last one hundred years, only barely a dozen countries (e.g. South Korea, Singapore and Finland) have been able to break out of this trap (Magyar Nemzeti Bank, 2019c). In order for Hungary to join these nations, we need to further develop our economic model and switch to a predominantly knowledge- and innovation-driven economic model as soon as possible.

The current pandemic situation has shown that digitalisation is also a key issue in ensuring a healthy and highly trained workforce. Both education and health care systems have switched overnight to digital operations worldwide. The only question is whether Hungary will succeed in exploiting the potential of this and, based on current experience, setting these systems up for a more successful and efficient operation.

It is possible to speed up health care reforms. We need to rethink the structure of health care system, whether we really need such long hospitalisations, or we can move towards the more efficient, lower-risk same-day care. We need to set up an infrastructural background for telemedicine to enable doctor-patient appointments to be conducted online. Furthermore, the relationship between public and private care systems should also be reconsidered. The MNB sees the resolution of this issue possible through the establishment of Supplementary Welfare Funds, which we have presented in detail in our Competitiveness Programme in 2019 (Magyar Nemzeti Bank, 2019c).

A key issue for the long-term success of digital education is that the challenges of the modern age can only be met through continuous self-improvement. In the digital curriculum, the way of accountability is changing, so the improvement of classical methods (questioning, school test) is necessary. We should note, however, that this creates an opportunity to transform the approach of our education system and to provide young people with knowledge that can be applied in everyday life. The results of international educational tests (TIMSS, PIRLS, PISA) show that Hungarian students duly acquire the specified curriculum but they are unable to use it appropriately in real life situations (Magyar Nemzeti Bank, 2019c). Of course, acquiring the knowledge that connects Hungarians and strengthens our identity, is still necessary, but in addition, more attention should be paid to the ability of students to recognise correlations and find the information they need. These are the skills that will make them successful in the future labour market. Today, the learning process does not stop at the school gate, neither in time nor in space. Digitalisation makes continuous self-improvement and lifelong learning much easier, since nowadays, we can take courses even from home, from our own couch at the world's best universities.

This also means that global competition is intensifying in adult education, in which the Hungarian tertiary education system can only be successful if the transformations that have just begun take place.

Accelerating digitalisation and investing in it can become even more important in this situation. Economic policy can best help to accelerate the necessary investment with targeted subsidies and preferential loans, and loan guarantees. However, the increase in government involvement cannot stop at these two systems. The efficiency of the governance needs to be further increased through the digitalisation of public services, and companies need to be helped to respond successfully to the challenges posed by the economic structure transforming due to the pandemic. An increasing share of trade and services will move to the cyberspace in the future, which requires different knowledge and skills. The pandemic has now pushed everyone into the deep water, but the goal is for Hungarian enterprises to be as successful in the field of technological change too as Hungarian swimmers at the Olympics.

WHAT ARE THE OPPORTUNITIES IN THE DEVELOPMENT OF MONETARY SYSTEM?

It was already shown in the previous crises, but it has now become really clear that states need to renegotiate the conditions for money creation with participants of the financial system (Matolcsy, 2020c). There could be two likely outcomes of this process: one is the so-called *Japanese way* that entails the monetisation of debts, and the other is a new way that involves *digital money and targeted central bank money creation*. At the same time, a third way is also conceivable, which can be realised as a combination of the two, resulting in a kind of *hybrid solution*.

Continuous monetisation of debts – The Japanese way

The Japanese way means to continuously monetise debts, i.e. to take government and private debts into the central bank's balance sheet and to greatly increase the amount of money in the economy. In Japan, the stock-market and real-estate bubble that burst in the early 1990s caused the economy to shrink for several quarters and created a deflationary environment. In response, there were a number of attempts to boost the economy, including fiscal stimulus, recapitalisation of banks, reduction of the policy rate to 0 per cent, but the measures proved to be ineffective. This was exacerbated by the 2001 dotcom crisis, which led the central bank to start buying government bonds and treasury bills, monetising the government debt and thus increasing its balance sheet total and the amount of money in the economy. Following the 2008–2009 global economic crisis, this technique took an even more spectacular form, and became dominant after 2013. The Japanese way, therefore, means that central banks will retain the framework they have already established, while more extensive use of instruments will become typical. By following this way, central banks will continue their current practices and use their existing instruments aggressively and to a large extent.

However, Japanese practice may have significant limitations in the future, so it is more worthwhile to use existing assets in a targeted way. Although the monetisation of debts has proved to be successful in addressing money market imbalances and liquidity problems in the banking system, the extent of the impact on the real economy has been disputed. Thus, continued aggressive and high use of instruments does not necessarily pay off when considering the costs of the programmes.

The new way – Digital money and targeted central bank money creation

In the 21st century, like all areas of life, the financial system has undergone significant transformations. With the spread of digitalisation, financial innovations have also accelerated, which have only intensified in recent years with the emergence of newer and newer methods.

In addition to the development of existing technological solutions, with the spread of the Covid-19 pandemic, de-cashing has become even more important than before, which could create the need for the economy to have access to central bank money electronically. All this foreshadows that states will renegotiate the basics and conditions for money creation, thus central banks can have more direct contact with real economy. Cash is currently the only risk-free money-holding option available to economic agents. In the event of the exclusion of cash, households and companies would be left without having any option to hold risk-free central bank money. Without innovative central bank solutions, money creation and monetary transmission could, in extreme cases, get out of the control of central banks.

As part of the financial evolution, the era of digital money and targeted central bank money creation can come. In this revolution, digital central bank money can take over the role of cash. Digital central bank money is a legal means of payment issued by the central bank. It is electronic, widely accessible (to consumers and non-financial corporations), and available continuously, every day of the year and every hour of the day (Meaning et al., 2017). In addition, the central bank can decide whether to allow anonymity to be granted, so this aspect depends largely on the attitude of the central bank. Contrary to the current financial system, in the concept of digital central bank money, the central bank would provide account management services to non-financial corporations and households as well. These new types of money can fundamentally rewrite the way financial systems are operating and the process of money creation. Therefore, many central banks are researching the topic of digital central bank money. The Covid-19 pandemic has brought the examination of the concept even more to the forefront, and countries that previously did not allow any discussion about it have also become open to the topic. At the same time, there are still many open questions about digital central bank money, and its widespread use still needs to be realised.

With the help of central bank innovations, including digital central bank money, central banks will have a more direct contact with real economic agents. This also means that central banks can more easily influence the saving and investment decisions of economic agents, thereby directly controlling the amount of money circulating in the economy.

All this is of particular importance in the event of a crisis, since in such cases financial assistance can be provided directly even to the households and corporations, without the involvement of the commercial banks. New digital solutions will improve the effectiveness of monetary transmission. Due to the changed regulation and money creation conditions, states will have an even stronger presence in the private financial system.

A hybrid financial system can also be developed

In connection with the new equilibrium of money creation, a third type of system can also be developed, which could be realised as a combination of the Japanese way being transformed in the current framework and a completely new financial system characterised by digital central bank money. This type of regime can be equated to a one-and-a-half-tier banking system, where commercial banks can still play an important role, but as a kind of complement, central banks can also directly finance the expenditures of economic agents. The implementation of this system can have several desirable effects, mainly due to its flexibility. First, it captures and takes advantage of the wide and extensive set of instruments offered by the Japanese way. Second, the creation of digital central bank money can improve the effectiveness of monetary transmission. In this way, monetary policy can have an even more targeted and effective impact in the economic segments where the need for intervention arises.

CRISIS MANAGEMENT STRATEGY OF THE MAGYAR NEMZETI BANK

A new world and new norms await us

After a decade of great success also in terms of economic history, Hungary faced an unexpected global health emergency in early 2020. The Covid-19 pandemic and the ensuing economic crisis have posed and continue to pose extraordinary challenges today for both societies and all economic agents. The crisis has been and is being addressed effectively in those countries where state decision-making is fast, public confidence is strong, the economy is successful and public services are functioning properly (Matolcsy, 2020e). For the first time in the last one hundred years, Hungary was able to tackle a crisis in such a way that its economy had strong foundations and its economic policy had sufficient room for manoeuvre. With successful health care protection and coordinated economic policy responses, the convergence status of the Hungarian economy can be maintained despite the pandemic.

In addition to addressing the short-term consequences, a longer-term perspective must be kept in mind as well. Countries that are rapidly adapting to the new norms of the new – post-Covid-19 pandemic – world too, will be able to win the next decade. The role of the state providing protection – state institutions will be the key actors –, fast decision-making and effective cooperation between economic policies and economic agents will become even more valuable (Matolcsy, 2020b). The pandemic is also accelerating

a number of existing megatrends of the 21st century, and new ones can be born as well. In this international competition, we need to find Hungary's place and identify what factors can give us a competitive advantage. We need to further strengthen the outstanding features of today's Hungarian economy, and we will continue to need the bold, innovative economic policy we have seen over the last decade. The first test of this is to successfully address the current crisis.

Competitiveness factors need to be strengthened further

In the future, we need to further develop the Hungarian growth model: to preserve our strengths and our achievements so far and to make inventive use of our reserves in order to be the winners of the new megatrends. By strengthening the factors of competitiveness, Hungary can become a very attractive economy in terms of capital, technology, trade and finance.

We need to make sure that we maintain the successful growth formula of recent years through targeted economic protection measures. In other words, *we need to maintain dynamic investment, expanding consumption – supported by wage increases, family benefits and an efficient tax system – and the 2–3 per cent growth surplus – based on advanced technology, high capital intensity and double-digit credit expansion – compared to the European Union average* (Matolcsy, 2020a). Balance and growth are needed at the same time for sustainable convergence.

In the current situation and in the near future, we must strive to accelerate all investment, primarily in the public sector but, with the encouragement of the state, everywhere. Protecting companies, preserving jobs and rebuilding jobs lost during the coronavirus crisis are key to protect the economy. We must take action, speeding up everything, where the pace we are accustomed to in favourable conditions is no longer enough. These rapid steps can be supported by targeted job protection and investment promotion programmes covered by budgetary resources.

Early access to funds on favourable terms for companies and households should be supported by new central bank programmes and by the acceleration of cash flow (Matolcsy, 2020a). With the launch of the *Instant Payment System* in March, it has become possible to transfer money to anyone within seconds at any time of the day. As a result, transactions can be completed quickly, either at the point of payment or without a personal presence. This programme further increases the efficiency of domestic cash flow, the competitiveness of the payment market and the Hungarian economy, and is an important milestone in reducing more expensive use of cash.

Monetary policy must play an active role in crisis management

Following the turnaround in monetary policy in 2013, the MNB – in addition to its primary goal of achieving and maintaining price stability – made a significant contribution to financial stability and the strengthening of the real economy through targeted, innovative new instruments by boosting lending and reducing external financial vulnerability.

In a considerably more uncertain, rapidly changing macroeconomic environment caused by the Covid-19 pandemic, the inflation target remains a priority for the central bank, but to achieve this it is necessary to protect the Hungarian economy, the financial system and society. The economic downturn jeopardises the achievement of the inflation target, while the instability of the financial system threatens the effectiveness of monetary policy, so in order to maintain price stability, monetary policy must provide the necessary financial liquidity for all economic agents through its measures, thereby supporting financial stability and rapid economic recovery in line with its mandate. In the current situation, the effective crisis management of the Magyar Nemzeti Bank requires the recognition of the specificities of the main economic policy challenges caused by the Covid-19 pandemic and, on this basis, the use of targeted tools adapted to the needs of the actors.

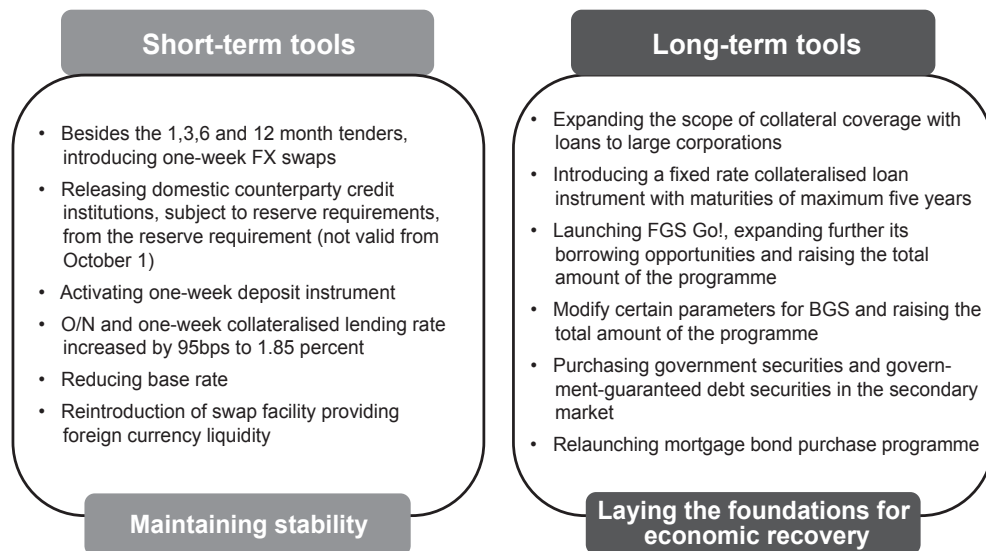
Due to the spread of Covid-19 pandemic, monetary policy has faced *money market challenges*, such as deteriorating liquidity conditions in financial markets, risk aversion to emerging markets – including Hungary –, the lack of cheap and stable financing options available to the corporate sector or the weakening of monetary policy transmission. Because of the crisis, liquidity in dominant domestic financial markets typically decreased and long-term government securities yields rose markedly.

In this environment, domestic monetary policy must simultaneously maintain the balance of the economic and financial systems and make a significant contribution to the restart of the economy. To this end, monetary policy must achieve stability in short-term yields, moderation in long-term yields – which can ensure favourable financial conditions on a permanent basis – and, most importantly, the availability of sufficient liquidity for all sectors.

The MNB has taken a number of measures to alleviate money market tensions caused by the Covid-19 pandemic (Figure 7). The measures in the crisis management of domestic monetary policy focus on both the short and long sections of the yield curve. Short-term assets serve basically to maintain balance and stability. In addition, during the summer 2020, the Monetary Council reduced the base rate in two steps by 30 base points overall, of which level of 0.60 percent supports in a sustainable manner the price stability, the preservation of financial stability and the recovery of economic growth. The role of long-term yields in monetary policy decision-making has become more pronounced in recent years as the interest period of household loans has increasingly shifted to the long side, and longer-term assets have become dominant in savings, too. Accordingly, in order to increase the efficiency of monetary policy and to lay the foundations for economic recovery, the central bank has also decided to introduce and use longer-term assets.

In order to kick-start economic growth, it is essential to prevent credit market disturbances, so the MNB has launched the latest phase of the Funding for Growth Scheme (FGS), which aims to provide micro-, small and medium-sized enterprises with widely usable, favourable funding. Loans taken up under the FGS Go! can be used by companies for investment purposes, current asset financing, replacement of existing loans and even for wage payments. There has been significant interest by companies in the

Figure 7: Monetary policy measures introduced to deal with the crisis caused by the Covid-19 pandemic



Source: MNB

programme since it was launched in April.. Due to the high utilization of the programme, at its November meeting the Monetary Council raised the total amount of the FGS Go! by HUF 1,000 billion. The central bank helps to increase liquidity in the corporate bond market by modifying certain parameters of its corporate bond purchase programme, the Bond Funding for Growth Scheme (BFGS) and by raising the total amount of the programme.

In order to improve the effectiveness of monetary policy, the MNB has also launched an asset purchase programme, whereby it makes government securities purchases on the secondary market under a flexible framework. The programme successfully contributed to maintaining a stable liquidity position in the government securities market, strengthened the effectiveness of monetary policy transmission, and supported the extension of the maturity structure of government debt. The MNB continues its asset purchase programme with a lasting market presence and will use the purchases to the extent and to the time necessary. In addition, in early October the central bank changed the strategic parameters of the government securities purchase programme and extended the range of assets available for purchase to government-guaranteed debt securities issued. The central bank has provided the banking system with additional long-term liquidity by having relaunched its mortgage debenture purchase programme. The programme has previously successfully developed the mortgage bond market, increasing mortgage bond issuance, reducing the premium on mortgage bonds relative to government securities and reducing the premium on fixed mortgages (Magyar Nemzeti Bank, 2018).

Overall, Magyar Nemzeti Bank provided around HUF 5,000 billion additional financial resource to the economy in 2020 which accounts for more than 10 percent of GDP.

There is still room for manoeuvre

Contrary to global trends, the MNB's balance sheet has shrunk markedly in recent years in a way that, at the same time, the central bank has implemented significant, targeted monetary easing. *The strategy of keeping the domestic central bank balance sheet at a low level is really appreciated in these difficult times*, because it allowed the MNB to respond to the negative economic effects of the coronavirus pandemic with a significant expansion in its balance sheet, and thereby supporting the recovery of economic growth. The MNB's balance sheet can still be considered of average size in regional comparison, despite a significant expansion this year.

Economic policy decision-makers need to keep in mind that at present – as opposed to the situation caused by the outbreak of the 2008 crisis – we are not dealing with a crisis of the system or a system of crises but with difficulties that need to be resolved in a targeted way (Matolcsy, 2020e). *This solution is served by the MNB's instruments consisting of expanded and targeted measures as well as the size and structure of the central bank's balance sheet, which provide substantial room for manoeuvre in terms of responses to future challenges later on.* Domestic monetary policy has adequate firepower and, if necessary, can use all the weapons at its disposal.

SUMMARY

Since 2013 the Hungarian central bank's monetary policy turnaround has been a basis for economic growth and, at the same time, it has promoted a sustainable balance, so Hungary faced the Covid-19 pandemic and its economic effects with a strong immune system. However, this new type of crisis is accelerating the emergence of new norms and new megatrends. The world is rapidly changing around us, thus economies that become the frontrunners in existing and emerging new megatrends can win the next decade. Deglobalisation, digitalisation, green transformation and changing consumer behaviour are global trends that no one can remove themselves from. By recognising and benefiting from these megatrends and strengthening factors of competitiveness like efficient governance and digital education, Hungary can rise and be among these economies. Central banks must play an active and innovative role in making effective use of these trends and the Magyar Nemzeti Bank is ready to take part in this process.

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László Domokos

Assisting the Sustainability of a Well-managed State in Times of Pandemic Crisis



Summary

As a consequence of the epidemiological situation a number of unfavorable economic and social effects has emerged already that need to be mitigated. The State Audit Office of Hungary seeks to address this precarious and difficult situation by continuing to ensure the sustainability of a well-managed state when carrying out its activities; nevertheless tackling it from a slightly different approach. The virus claimed a set of new methods, and other activities became more important, such as advisory activities, monitoring audits, which could not have been done without change and crisis management, as well as the relevant digitization tools. The article presents the work and performance of the State Audit Office of Hungary, which aims to improve the harmful economic and social repercussions of the current virus.

Journal of Economic Literature (JEL) codes: H10, P43, P48

Keywords: well-managed state, monitoring, consulting, analysis

INTRODUCTION

The epidemiological situation has caused a number of changes at both social and economic levels. More self-discipline is required than ever before and the population shall adapt to changes in everyday life. The economy is also fraught with excessive uncertainty due to the unexpected expenditures as well as the negative effects of the

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pandemic it has to deal with in a way that makes it almost impossible to guess when the current economic pressures will ease. These negative effects have already been addressed in several articles, for example by Lentner and Cseh (2020) who have examined state-owned enterprises in the context of a global health care epidemic during which continuous and adequate public services are essential.

Even after the declaration of the state of emergency, the State Audit Office of Hungary performed its tasks set out by law in accordance with the rules of the constitutional state, thus auditing the 2019 final accounts and assisting in the preparation of the 2021 budget by giving its opinion, the compilation of which required more significant performance of tasks this year than ever before due to an ever-changing environment. However, the SAO not only focused on organizations that must be audited in accordance with the law, but also tried to implement its audit, analysis and advisory activity as widely as possible in order to help the work of beneficiary organizations using public funds and public assets as efficiently as possible, and support quality spending, the basic principle of responsible management, transparent operation and enforced financial management, thus strengthening the trust of society in public institutions and other state-owned organizations.

Of course, in the current situation full of challenges, the SAO recognized that it shall provide organizations with its statutory advisory activity and analysis arising from its legislative authorisation, and that a significant part of audits should take place as efficiently as possible, in order to shed lights on the irregularities arising from the financial management and operation of the audited entities, while at the same time sought to reduce the burden on them as much as possible. These changes have also brought about serious methodological changes for the SAO, the significance of digitisation has become even more emphasized, and the advisory role has become more valuable than ever before.

In this article, we intend to show how advisory models are structured and how the SAO is related to them. The SAO's new audit method will also be described, in other words the monitoring-based audit, which focuses on efficiency and prevention. In addition, we present recent tailor-made analyses, given that they are significantly related to the virus epidemic and to everyday life, so they are unquestionably in the spotlight. It should not be forgotten that the SAO, just as well as all organizations have experienced changes in the recent period necessitating tools such as change management and/or crisis management. If we do not take advantage of these, we will not be able to adapt to the current environment causing considerable harm not only to the organisation, but also directly or at least indirectly to society. In direct connection with its activities and role in the economy, one of the privileged roles of the SAO is to participate to a well-managed state contributing to its sustainability. And a well-governed state helps to achieve a high degree of social value added.

MAINTAINING A WELL-MANAGED STATE AND THE COUNSELLING MODELS

Transparency and accountability of public funds have long been a general criterion, but at the same time it raises many difficulties for individual organisations, especially

the task to create an assurance based documentation (Domokos, 2019). In order to meet this criterion, there are three lines of defence at disposal: the first is the management's internal control system, the second is the control performed by the operator and the owner, and the third is represented by the external, independent audit.

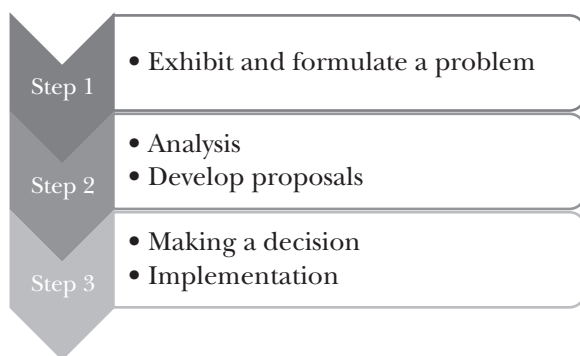
The present article addresses the third line of defence in more depth and with a slightly broader approach. Namely, the task of the third line of defence, in this case the task of the SAO, extends not only to auditing, but also to the performance of duties such as consulting and analysis. These activities are becoming more and more important in the current pandemic, and László Domokos (President of the SAO) declared in the Magyar Nemzet daily newspaper that "we are providing the auditing to the Hungarian National Assembly to identify problems as an audit institution, moreover, our analysis and advice may lead to finding a solution to these issues. In other words, with our cooperation, not only the situation of the individual audited entities can improve, but also the use of public funds shall become more efficient at the level of the national economy" (Jakubász, 2020).

Because consulting plays a significant role in the activities of the SAO, it seems worthwhile reviewing the advisory models and approaches in general. By an advisory model we shall mean the structured, interconnected steps and phases that determine the process of the advisory activity. Different models have been developed for different types of advisory activity (e.g. career counselling, IT and quality consultancy, management consulting activities), but there is a general counselling model that describes a problem-solving, decision-making process that can be applied to all, regardless of the type, problem and goal.

General Counselling Model

The general advisory model outlines a process that must be followed throughout counselling, regardless of the theoretical framework and any methodology (Ivey and Simek-Downing, 1980).

Figure 1: General Counselling Model



As shown in the figure, the Ivey-Dowing model divides the counselling process into 3 steps. The first step is to explore the problem, during which it becomes unambiguous what the counselling is aimed at, in other words to shed light on the problem. Counselling will therefore focus on this. In the next step, the problem is analysed and recommendations are made to solve it, alternatives are finally decided, solution is brought into focus, and is implemented (Pecze, n. d.).

General model(s) of management consulting

One type of consulting is the general model of management consulting developed by *Milan Kubr* in his book entitled *Management consulting: A guide to the profession*. Compared to the previous model, this model divides the counselling process into 5 phases including sub-steps. In the present model, the steps are not fixed, they depend on the specific counselling case. It is possible to omit or add phases, sub-phases, or to combine individual phases during the counselling process due to overlapping. It is also common to leap between phases.

A model very similar to that described by Kubr is described by *Linda K. Stroh and Homer Johnson* in *The Basic Principles of Effective Consulting*. The process presented in the book, which divides the counselling activity into 7 steps (Figure 3).

Figure 2: General model of management consulting

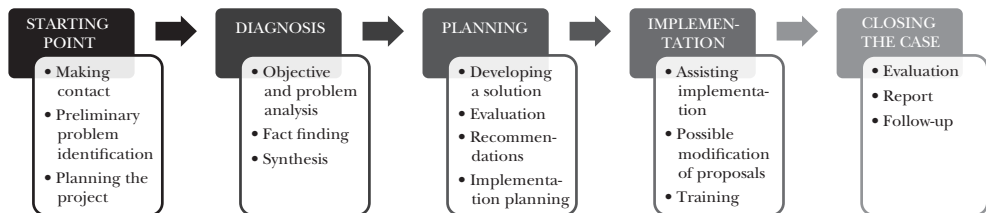


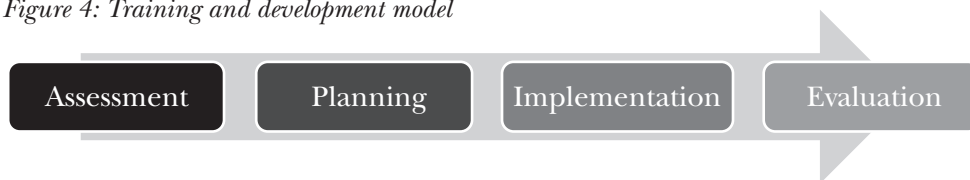
Figure 3: Model of Stroh and Johnson



Training and development model

In consulting it is custom practice to organize development trainings when facing with issues that are of general nature, having at our disposal appropriate knowledge about it or even a ready-made process. Thus, during the training, we transfer to the client all the important knowledge that will enable it to solve the presented issue. Such trainings are expedient if they anticipate the client's given problems, hence acquired knowledge can prevent them to arise (Poór et al., 2018).

Figure 4: Training and development model

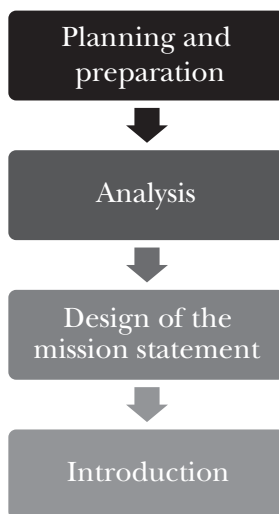


First, surveys should be conducted at the level of individuals or groups; strategies shall be analysed, interviews be held or even focus groups defined. After evaluating the survey, the problem or need, as well as the goal to be achieved are identified, as the second step in the process would be to design the adequate program. During planning, it is important to define the target audience and/or participants, the form of intervention, methods, structure, duration and costs. The third phase is about implementation, which covers the given training. It is followed by the evaluation as the last step, during which we assess the usefulness of the training and draw conclusions based on new interviews.

Process management consulting model

As a first phase, the program will be specified and any professional, methodological training will be provided for the client. The next phase is about identifying the problem based on systematic and analytical work. In the third phase, in addition to dealing with the problem, new solutions are identified, and the existing processes are optimized and developed. In the last phase, the developed program is initiated and implemented (Poór, 2010).

Figure 5: Process management consulting model



Organisational development model

The process starts with an analysis: the external and internal factors that determine the organization must be assessed, then the internal processes of the organization must be analysed. Based on this, the problems can be pinpointed at a later stage. Once the problems have been identified, the specific objectives will be defined and a set of criteria will be developed, which will be able to evaluate and monitor the success of the implementation of the program at a later stage. One of the last steps is to work out the exact action plan, and the plan must be determined according to what processes we want to modify and exactly what methods we want to use to do so. Finally, it is time to implement the developed action plan and to evaluate the results based on the previously established system of criteria (Poór, 2010).

Figure 6: Organisational development model



The SAO and the advisory activity

Each of the presented advisory models includes processes and/or steps that are also present in the advisory activity of the SAO. The initial concern of the SAO in connection with its activities is also to promote the efficient and effective use of public funds and public assets, and the first step to reach this goal is to insure the right functioning and responsible management of organizations. At present, this is not ensured

everywhere, the problems still exist, consequently risks and irregularities need to be identified. Previous audits and analysis all serve as references for assessing problem areas on which counselling can focus to become even more efficient. Using past experience, counselling can efficiently promote the development of forward-looking positive behaviours, without, of course, taking over responsibility from decision-makers, thus ensuring the subsequent objective audits with regard to these areas. Broadly speaking, the SAO's advice can also be seen as an activity that shall provide a kind of professional balance to unsubstantiated decision-making practices. As far as the performance of the control function of the SAO is concerned, it can be considered as part of the optimization process for good governance when the international requirements primarily INTOSAI, EU and UN recommendations in terms of appropriate domestic conditions are met (Domokos, 2019).

ADVISORY ACTIVITY AS A VALUE ADDED FOR SOCIETY

The advisory role is present at many levels in the daily activities of the supreme financial and economic audit institution, especially at the scientific level, which was confirmed by the Decision No. 35/2009 of the National Assembly, moreover, in the development of ethical leadership, which was supported by the Decision No. 34/2015 of the National Assembly. In addition to training and the journal of the SAO, the "good practice" seminar and a system of self-tests play an important role in counselling, which will be described in detail later in this article.

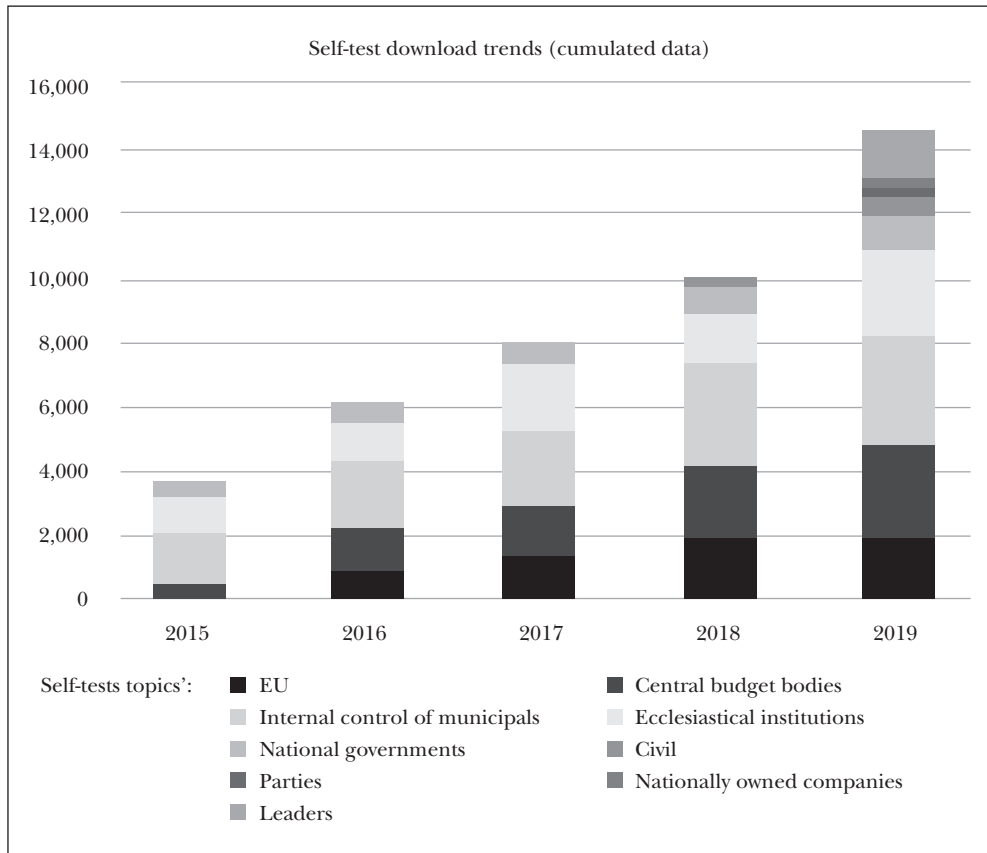
The SAO is present in the daily activities of the institutions not only with its audits, but also with its advisory activities. The self-tests developed by the SAO have been important advisory tools since 2014¹, which are based on its audit experiences. This self-assessment tool developed for several target groups such as local governments, churches institutions, political parties, etc., which is continuously renewed in line with changes in the legislation, provides guidance to the organization performing the filling for continuous regular operation.²

The data concerning the download of self-tests in 2019 is shown in Figure 1. Interestingly, in the first quarter of 2020, self-test downloads increased exponentially, by about 66 percent compared to Q4 2019. During the state of emergency reporting period (March 2020), 900 downloads were made for self-tests, which shows that institutions have placed great emphasis on these self-training tools, which are exemplary in helping to improve public finances and respect the principles of responsible financial management.³

Although the role of self-tests is significant as statistics of downloads show an increasing number of fillings by each group of institutions, it should not be forgotten that self-testing is voluntary based making it necessary to introduce an advisory tool to encourage managers to act promptly.

Due to the pandemic the SAO attempted to support the work of one of the most burdened audited groups in 2020 by contacting them in separate letters in addition to offering them the opportunity to realise self-tests. The State Audit Office of Hungary

Figure 7: Downloading trends for self-tests by group of institutions (2015–2019)



Source: State Audit Office of Hungary, 2020, p. 65

has performed the audit of central budgetary institutions entitled the Audit based on risk assessment of Central Budgetary Institutions (hospitals), the results of which were sent to hospital managers in supportive letters for raising their awareness given the pressure exerted on hospitals by the pandemic. In order for hospital managers to be able to focus all their attention on their responsibilities regarding health care, it was now more important than ever for hospitals to act quickly.

The State Audit Office considered it a priority to ensure that institutions operate and be managed transparently even in these difficult times, as according to the SAO's analysis, the state of emergency poses an increased risk of integrity or violations of rules, when the whole country need these "vital organisms" the most.⁴ It should not be forgotten that integrity at the organisation level can be an effective tool to prevent corruption (Pulay, 2017), so managing risks of integrity is essential.

The SAO issued letters to a total of 41 hospital managers, in which it drew the attention of the heads of the audited entities to the irregularities found and asked them

to assess the contents of the warning letters within 15 days and to take appropriate measures subject to notification of the President of the SAO. Among the detected irregularities, a representative infringement was that the value of the balance sheet items was not supported by an inventory pursuant to Sections 5 (1) and 22 (1) – (2) of the Government Decree No. 4/2013 (I. 11.) on Accounting of Public Finances (Áhsz.), and to Section 69 (1) of Act on Accounting, moreover, the records of the commitments did not comply with the requirements of Section 39 (3) and Paragraph II. 4. (h) of Annex 14. of the Áhsz., and an integrated risk management system has not been initiated.

But why is it important to flawlessly meet the requirements of these statutory elements? Articles dedicated to these issues were also published on the SAO News Portal presenting the risks in connection with the lack of documents and related social impact. A commitment is, for example, a duly executed legal declaration of a payment obligation which gives rise to a payment obligation against the appropriations of the budgetary institution. If the budgetary institution does not have records of the commitments or is inadequate:

“1. the budgetary institution does not know how much is at disposal of the expenditure appropriation for the remainder of the fiscal year; 2. does not know how much payment obligation he can make; 3. is not aware of how (contrary to the provisions of Section 37 (1) of the Act on Public Finances) its payment obligations debit the amount of the expenditure appropriation; 4. (contrary to the provisions of Section 37 (1) of the Act on Public Finances) the power of financial countersigning prior to the commitment may not be exercised, regarding its content; 5. the financial management of public funds may remain out of control and an unsecured payment obligation may arise, and finally; 6. the principles of transparent and accountable management of public funds enshrined in the Fundamental Law may not be applied.”⁵

This means that the organization does not have a record of commitments or does not have the reliable information to make its financial decisions as required by legal regulations, so it can make decisions that are unsubstantiated and for which it does not have financial coverage.

It is clear from the data of the self-tests however, that the public sector institutions also need and rely on the advisory tools of the SAO. At the same time, it is undeniable that the letters to the heads of the hospitals also purposefully supported their work.

ANALYSIS TO ASSIST SOCIAL UTILIZATION

In addition to audits, the SAO is keen to put an increased emphasis on analysis within the scope of its advisory activities to contribute to the operation of a well-managed state. In its analysis, the SAO does not make findings, but sheds light on connections and effects, and draws attention to the dilemmas and risks that occur in the given field.

The SAO's analysis also focused on current topics in the crisis situation, thus helping to identify possible regulatory deficiencies and/or gaps, presenting current eco-

nomic trends, e.g. in the context of e-commerce or digital taxation, they assessed the social and/or demographic situation and/or risks, but also focused on measuring the performance of institutions, so that the definition of performance and its indicators was an important aspect during the epidemic, and they presented budget sustainability. These analysis are presented in this chapter.

Shopping patterns in Hungary are undergoing a transformation just like in the rest of the world, resulting in intensified online commerce exacerbated by the current epidemic situation. This is presented in the analysis entitled “The Aspects of the expansion of e-commerce in connection with public finances”, which describes the effects and risks of the development and growth in volume of e-commerce, and draws attention to the fact that the renewal and modernization of the regulatory environment of e-commerce in the EU is badly needed. Closely related to the latter, another analysis entitled “Taxation of the Digital Economy” was prepared within the framework of the SAO’s advisory activities in order to provide a comprehensive picture of the possibilities and difficulties of taxation of the digital economy to the stakeholders in the preparation of the relevant Hungarian legal regulations and to the public. The topic is becoming relevant indeed as digital economy and digital services sector are booming as a result of the coronavirus epidemic, making it more urgent to address tax regulatory issues. The analysis briefly presents the digital economy and the conceptual scope for its interpretation, as well as the possible variants of taxation of the digital economy in a comparative form, with a special focus on the audit activity required for the practical implementation of each variant.

In the current situation, it is particularly important to examine and test the financial vulnerability of the population, as the economic effects caused by the coronavirus epidemic can pose significant risks to households. The analysis entitled “Financial Vulnerability of the Population” published by the SAO in May 2020 reveals how the level of household indebtedness and vulnerability changed after the economic crisis of 2008, and what measures helped reducing vulnerability. Following the 2008 crisis, various measures were introduced by the Government and the Hungarian Central Bank (MNB) to reduce the vulnerability of household indebtedness, including: the creditworthiness test, a definition for the average loan fee indicator calculation, introduction of the income-related installment ratio, etc. In addition to these measures, raising the financial awareness of the population was also initiated, in which the SAO’s Financial Awareness Project also plays a major role. As a result of the measures, significant changes took place, the net financial assets of households as a share of GDP increased, and the level of indebtedness decreased.

The analysis points out that despite the improvement, there are still more risks that need to be dealt with, especially for low-income households. Within new loans, the share of free-to-use personal loans is increasing, which entails a high repayment risk in the case of low-income households. The impact of the epidemic on the population is also a risk in the current situation, as a matter of fact declining incomes and job losses lead to repayment difficulties and increasing vulnerability. However, this can be mitigated through extraordinary measures taken by the government.

By virtue of its statutory task, the SAO gives its opinion on the central budget to the National Assembly, and also prepares several studies and analysis on the topic. The most recent of these is the “Budget Sustainability” analysis, which describes the evolution of central budget deficit-to-GDP ratios and public debt indicators, and thus their steady decline since 2011. This trend was broken in the first half of 2020 due to the coronavirus epidemic. The analysis identifies the value of public debt and the main risks affecting gross domestic product, and presents the factors used to reduce the identified risks. Being aware of the latter, plays a significant role in determining measures to curb the economic effects of the coronavirus epidemic.

The SAO regularly prepares analysis related to climate protection and environmental protection, to which special attention must now be paid, as in the current epidemiological situation these measures and/or goals are a bit neglected. However, measures to promote environmental protection are constantly present, as evidenced by the SAO’s analysis entitled „Analysis of Green Procurement”, a topic in vogue as shown by the Act No. XLIV of 2020 on Climate Protection adopted by the National Assembly on June 3, 2020. The aim of the analysis is to support the implementation of strategic goals with regard to the climate change adopted by the National Assembly, as well as to present the domestic achievements and international experiences in one important area of climate and environmental protection the so-called green public procurement, as well as to explore the possibilities and relevance of developing green public procurements.

The State Audit Office of Hungary, by controlling the use of public funds and thereby contributing to the promotion of transparency and accountability, fulfils its legal obligations. In order to optimize the audit processes and reduce the time of their implementation, the use of key documents was initiated, and an analysis concerning the application of these was prepared by the SAO. The existence of these documents are important for the proper financial management and basic operational processes of organizations using public funds. The key documents are audit evidence that determines the structure, operation, responsibilities and financial management of the audited entity, certifies the regular operation of the organisation, in the absence of which the proper performance and management of the audited entity cannot be ensured and supported. Based on the examination of 29 audit reports of the Court of Auditors, the working document entitled “Detailed evaluation of cases arising from the lack of key documents” proposed to formulate the definition of the key document, regulate the exact order of its application and establish its ranking for even more efficient applicability.

A well-performing state cannot avoid measuring, continuously monitoring, evaluating and controlling the performance and effectiveness of the performance of public tasks. The SAO considers it a priority to support the creation and operation of systems that are fostering a culture geared to performance and results and the objective measurement and evaluation of public sector performance. The SAO’s audits and analysis have in many cases affected the definition of the system of objectives and criteria for national and policy strategy-making, and the evaluation of the performance of the

public sector in recent years. Summarizing this experience, the analysis bearing the title “Measuring the Performance of the Public Sector” highlighted the key role of the systems of evaluation in strategy making and performance measurement, as well as the importance of setting precise objectives.

The effective, efficient and economical operation of health care systems that protect human health and safety have a prime role to play in a state of emergency caused by an epidemic. For this reason, in addition to the institutions performing public tasks, the central management bodies⁶ that manage, supervise and control the organizations concerned have an increased responsibility.

Taking into account the importance of the central government bodies, the SAO prepared its analysis on the basis of its audit experience, validating several points of view, which can contribute to the regular operation of the central government bodies and the more efficient and effective performance of their tasks.

The State Audit Office of Hungary is the supreme financial and economic audit organisation of the National Assembly, and as such, also supports the legislative work with its analysis. The SAO intends to provide a forecast and approach through its analysis entitled “Demographic risks, employment, pension system”, based on credible information for shaping policies of the Hungarian Government regarding demography, employment and pension. Based on demographic and employment trends, the analysis explores the risks to the domestic employment situation and the pension system until 2060. On this basis, it presents 7 contexts that are paramount in the development of employment and pension policies. Among other things, measures related to increase healthy life expectancy and building the culture of self-support have been highlighted in the current epidemic situation.

The epidemic is a blatant illustration of the fact that various processes of change are taking place more and more often and faster these days that can be a real challenge not only for businesses but also for public finances. The current situation, the global epidemic, poses an even greater challenge to economic actors and public finances. For this reason, it is important to use appropriate change management as a tool to control changes. The current analysis of the SAO draws attention to the need to apply change management. Its main finding is that the application of change management is necessary within the framework of public finances because it is possible to continuously ensure economic growth through change management. It also points out that the conscious assuming of responsibility for the uncertainty inherent in the change ensures both adaptation to changes and contributes to planned thinking and financial management.

A NEW TYPE OF CONTROL METHOD THAT SUPPORTS A WELL-MANAGED STATE

In addition to advices and analysis, there is, of course, a real need to strengthen transparency and integrity in the current situation, which we can achieve by carrying out audits, nevertheless, two important aspects must be borne in mind in an increasingly difficult economic and social situation: to cover the widest possible range of audits, as transpar-

ency is now the best way to strengthen trust, and to detect the operational and financial management risks of the auditees by putting the least possible burden on them.

The SAO created a new type of audit the so-called monitoring audit, which it first used based on the financial data of the Hungarian State Treasury. In 2020 the SAO has given a new aspect to the monitoring audits. Based on monitoring, the SAO gives evaluations but with a new method: requiring documents from the institution itself for the actual year. These types of audits present numerous benefits. On the one hand, the audit coverage can be significantly extended including previously unaudited segments, consequently the entire audited group will be scrutinized, on the other hand, it performs and evaluates targeted audits in a relatively small number and involving less required documents, but seeks to manage risks and irregularities and raising awareness of the efficient use of public funds and assets. This is an advantage not only for the SAO, but also for the audited entity, as it comes with less hassle due to the small number of documents, and also provides an opportunity to eliminate the risks and irregularities revealed under the monitoring type audit during an in-depth audit later.

The State Audit Office of Hungary run monitoring audits to test the integrity of local governments in 2020, thus helping to reduce the vulnerability of local governments. The timing of the topic is further strengthened by the fact that the protection against the virus and its negative social and economic effects also placed additional burdens on the shoulder of the local governments, and the maintenance of organizational integrity in the current situation requires more attention. It is indeed essential to establish and maintain an accountable regime for the performance of new tasks and a transparent internal regulation of extra resources that minimizes the potential for abuse and fraud. In this situation as well the State Audit Office of Hungary considers it its fundamental duty to be the guardian of public funds and to continue its audits among local governments, as the misuse of each tax forint deprives those most in need of support and makes it more difficult to perform the further necessary tasks.

To carry out the audits data was requested from 3197 local governments between March 20, 2020 and April 21, 2020. The results of the integrity survey conducted by the SAO between 2016-2018 showed that local governments are the most at risk groups among public representatives. Based on the findings of the survey, the local governments of smaller settlements are especially exposed to risks, as their control environment and integrity infrastructure are less structured.⁷

SUMMARY

Throughout the performance of its tasks during the coronavirus pandemic, the State Audit Office of Hungary has sought to reduce the negative social and economic impacts that require economic and social cohesion. This cooperation has become more important in the present situation emphasising on the advisory role and the launch of monitoring audits. The true demonstration of this cooperation at economic level is the activity of the SAO related to the budget, hence the continuous monitoring, persistent corrections and the ultimate accomplishment of know-how.

The SAO considers sustainability to be a priority, which manifests itself in the life of the organization not only at the environmental but also at the social level, as one of the prioritized tasks of the SAO is to contribute to a well-managed state and strive for sustainability. In its undertakings it seeks to use a number of tools presented in this article, such as analysis addressing current issues: the vulnerability of the population, demographic challenges, digitisation, education, finance and, of course, climate protection goals related to sustainable growth. Another tool to support the goal of a well-managed state at national level, is the assisting audit work, which, in view of the virus epidemic, is mostly carried out through monitoring audits involving high coverage but lower workload from the auditees. The third major area that provides value added to society on the part of the SAO is counselling related measures listed in this article as warning letters and self-tests.

In summary, although the pandemic situation involves a lot of uncertainty, it has also created an environment that further raises awareness of the importance of change and/or crisis management, moreover, accelerates development of digitisation by creating a new work environment. It is important to be able to meet these challenges and provide auditing, analysis and advisory work that are supportive of the sustainability of a well-managed state.

NOTES

- ¹ “The self-test is a set of questions supporting the assessment and evaluation of the task performance and the regularity of internal control system of organisations operating by using public funds, which was prepared taking into account the given operational and regulatory environment and the specificity of the tasks, and it can be filled in by the stakeholders on a voluntary basis, for their own utilisation” (State Audit Office of Hungary, 2020, p. 65).
- ² www.asz.hu/hu/sajtokozlemenyek/minden-alapitvany-tesztelheti-a-szabalyos-mukodeset.
- ³ www.aszhirportal.hu/hu/hirek/veszelyhelyzet-jelentosen-nott-az-asz-ontesztjeinek-letoltese.
- ⁴ www.asz.hu/hu/sajtokozlemenyek/tamogatja-az-asz-a-korhazparancsnokokat; www.aszhirportal.hu/hu/hirek/asz-elorelepes-a-korhazak-gazdalkodasaban.
- ⁵ www.aszhirportal.hu/hu/hirek/gazdalkodasi-szabalyzat-es-a-kotelezettsegvallalasi-nyilvantartas.
- ⁶ The Act No. CXCV of 2011 (hereinafter referred to as the Áht.) provides for the possibility of restricting management powers, delegating scope of competence to another body or person in the case of a budgetary institution under the direction or supervision of the Government, and the delegation of the scope of competence to a budgetary authority other than the central managing authority under the management of the managing authority. The transfer of the scope of competence to a central management body may be based on a decision of the management body according to a specific Act or a Government Decree. In Hungary, central government bodies currently operate in the fields of health care, social affairs, child protection, public education, vocational training, water management, law enforcement and national defence, penitentiary management, and disaster management.
- ⁷ www.aszhirportal.hu/hu/hirek/asz-ellenorzesek-az-onkormanyzati-integritasert.

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The Resilient Adaptation of Budgets to Small and Shock-like Changes



Summary

After the 2008–2009 global financial crisis it became even more important that the countries observed the budgetary rules, while also being flexible in adapting to the changes occurring during the year. This is called fiscal resilience. This article presents the possible means to create fiscal resilience. Taking into consideration the recommendations of international organisations, it emphasises that the measures ensuring the flexibility of the budget shall be realised in a transparent manner. Based on the relevant European Union legislation and the Hungarian regulation and practice the authors argue that the content of resilience changes in the event of external shocks. In that case the resilience of the budget shall be subordinated to the recovery of the entirety of the economy, i.e. its resilience. The primary goal is not to maintain the deficit target but to avoid a severe and permanent economic downturn and then to encourage the recovery.

Journal of Economic Literature (JEL) codes: H30, H61, H71, H72

Keywords: resilience, flexibility, central budget, reserves

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INTRODUCTION

The global financial crisis that erupted in 2008 directed the attention to the fact that not all countries were prepared for managing the economic shocks, and for this reason the sudden economic downturn led to disruption in the balance of their budgets and drastic increase in their government debt. All these put increasing the flexible reaction ability of the budget in the forefront, in other words, increasing the resilience of the budget.

The Hungarian economy suffered tremendous losses due to the global crisis, one of the very reasons behind which was that due to the severe indebtedness of the state the central budget was unable to react in a flexible manner to the effects of the world economy shock. The resilience of the budget is crucial for the other economic operators as well, since this softens the negative impacts of change in the external environment they suffer. The current epidemic is a good example for this, during which the budget helps the survival and the recovery of suffering enterprises by reducing the taxes and providing direct aids.

This study examines the flexibility of the implementation of the budget according to a resilience-based approach. In the general sense resilience means the ability of flexible resistance, i.e. the ability of a system to successfully adapt to powerful, repeated or even shock-like external effects. The flexibility of the implementation of the budget – as deduced from the conceptual framework established by international organisations – expresses the size of the room for manoeuvre of the entities responsible for the implementation of a country (in Hungary, the Government, the management bodies of each chapter of the budget, as well as the budgetary authorities and the managers of the appropriations and funds) have with regard to the development of the budget revenues different from the plan, and to react reasonably to the changes affecting the expenses, without going beyond the statutory frameworks. Resilience is designated to manage the country risks in case of external shocks.

THE RESILIENCE OF THE IMPLEMENTATION OF THE BUDGET – INTERNATIONAL APPROACH

The international organisations – especially the Organisation for Economic Cooperation and Development (OECD) and the International Monetary Fund (IMF) – also examine the topic of fiscal resilience. These organisations typically specify and interpret principles related to budget management. The concept of the flexibility of the implementation of the budget can be deduced from these principles as well.

The recommendations of the OECD Council on good budgetary governance (OECD, 2015) formulate those principles through the realisation of which the countries are able to prepare and implement more transparent, more effective and more reliable budgets. The following principles of the recommendation are related to the resilience of the implementation of the budget:

“7. Actively plan, manage and monitor the execution of the budget, through:

a) the full and faithful implementation by public bodies of the budget allocations, once authorised by parliament, with oversight throughout the year by the Central Budget Authority and line ministries as appropriate;

d) allowing some limited flexibility, within the scope of parliamentary authorisations, for ministries and agencies to reallocate funds throughout the year in the interests of effective management and value-for-money, consistent with the broad purpose of the allocation;

e) streamlining of very detailed line items, or devolved authorisation for managing reallocations among line items (virement), in the interests of facilitating such flexibility; noting that more significant reallocations, e.g. involving large sums or new purposes, should require new parliamentary authorisation;

f) the preparation and scrutiny of budget execution reports, including in-year and audited year-end reports, which are fundamental to accountability and which, if well-planned and -designed, can yield useful messages on performance and value-for-money to inform future budget allocations.

8. Ensure that performance, evaluation and value for money are integral to the budget process, in particular through: a) helping parliament and citizens to understand not just what is being spent, but what is being bought on behalf of citizens – i.e. what public services are actually being delivered, to what standards of quality and with what levels of efficiency;

b) routinely presenting performance information in a way which informs, and provides useful context for, the financial allocations in the budget report; noting that such information should clarify, and not obscure or impede, accountability and oversight; d) evaluating and reviewing expenditure programmes (including associated staffing resources as well as tax expenditures) in a manner that is objective, routine and regular, to inform resource allocation and re-prioritisation both within line ministries and across Government as a whole;

e) ensuring the availability of high-quality (i.e. relevant, consistent, comprehensive and comparable) performance and evaluation information to facilitate an evidence-based review;

f) conducting routine and open ex ante evaluations of all substantive new policy proposals to assess coherence with national priorities, clarity of objectives, and anticipated costs and benefits;

9. Identify, assess and manage prudently longer-term sustainability and other fiscal risks, through:

a) applying mechanisms to promote the resilience of budgetary plans and to mitigate the potential impact of fiscal risks, and thereby promoting a stable development of public finances;

b) clearly identifying, classifying by type, explaining and, as far as possible, quantifying fiscal risks, including contingent liabilities, so as to inform consideration and debate about the appropriate fiscal policy course adopted in the budget;

c) making explicit the mechanisms for managing these risks and reporting in the context of the annual budget;

d) publishing a report on long-term sustainability of the public finances, regularly enough to make an effective contribution to public and political discussion on this subject, with the presentation and consideration of its policy messages – both near-term and longer-term – in the budgetary context.”

It follows from the principles cited above that with regard to the flexibility of the budget's implementation it is crucial that the Government monitors the implementation of the budget continuously and corrects the possible differences through the means of budgeting created for this purpose. It is important that the toolkit is prepared in advance; and the appropriate combination of the toolkit can be used in case of both favourable and unfavourable changes.

It can be deduced from the OECD principles that the flexibility of the implementation of the budget is a protective force in the event the economic and business conditions change unexpectedly. The goal is to ensure that the organisations responsible for the implementation of the central budget are able to adapt adaptively, while not going beyond the original budgetary deficit target and avoiding the increase of the governmental debt in excess of the planned amount.

The OECD recommendation uses the word “resilience” in two aspects. Firstly it specifies resilience as a criterion for stable fiscal policy. Secondly, it recommends the use of planning mechanisms which build those elements in the budget which are necessary to manage the risks arising in course of the implementation of the budget. Later, in consideration of the Hungarian regulation we will present the possible elements.

The IMF understands the concept of fiscal flexibility as the ability to manage risks. The code published by IMF in 2014 (*Fiscal Transparency Code*) orders the principles of transparency of the budget in groups around three pillars. These pillars and the principles belonging to those are presented in Figure 1.

One of the tools of resilience is risk management within the pillar for fiscal risk analysis and management. In the framework of this the IMF deems it is necessary to use fiscal instruments which are suitable for monitoring, discovering and managing the occurrence of risks. By this the IMF emphasises the justification and the importance of the flexibility of the implementation of the budget.

The Fiscal Transparency Handbook published by the IMF in 2018 – which was intended to facilitate the implementation of the code – contains a flexibility definition which has a unique aspect. According to the interpretation of the Fiscal Transparency Handbook, flexibility in fiscal policy is important mostly with respect to the management of economic shocks. For this reason, in case of economic growth and stability this is ensure room for manoeuvring in the budget and prepare for the possible, less controllable economic shocks. According to the recommendation of the IMF, the application of such unambiguously defined fiscal rules is justified which ensure flexibility, in addition to the balance of the budget.

The OECD and rather the IMF recommendations reason why the two cases of resilience should be separated. In the first case the organisations responsible for the

Figure 1: The three-pillar system of the IMF' transparency approach

Fiscal reporting	Fiscal forecasting and budgeting	Fiscal risk analysis and management
• Coverage • Frequency and timeliness • Quality • Integrity	• Comprehensiveness • Orderliness • Policy orientation, objectives • Credibility	• Risk analysis and disclosure • Risk management • Fiscal coordination

Source: Edited by SAO (Pulay et al., 2019, p. 10), based on IMF, 2014, pp. 1–4

implementation of the budget have to adapt to the unexpected, significant, but not shock-like changes of the environment, while keeping the fulfilment of the deficit target in mind. In the other case, the external environments suffers a shock, and the main task is to soften this shock and facilitate recovery after it.

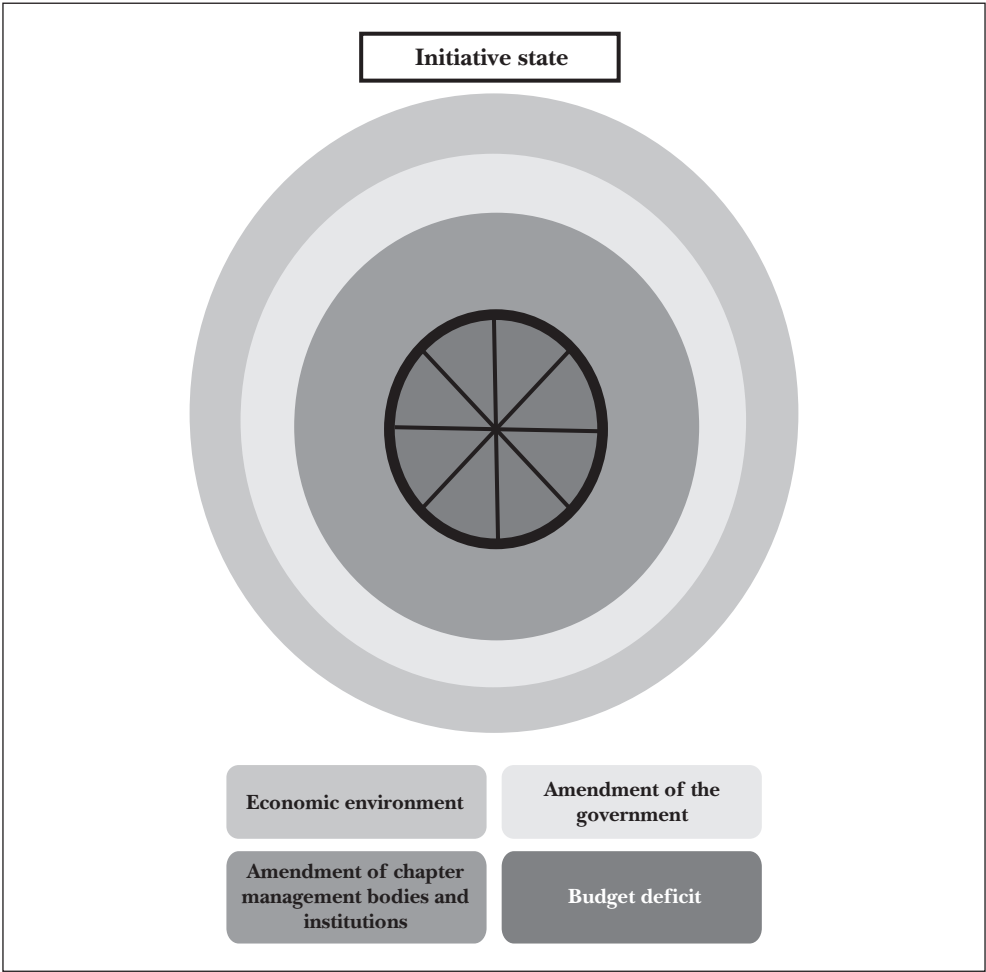
WHAT IS THE CONTENT OF THE RESILIENCE OF THE BUDGET IN CASE OF NON-SHOCK-LIKE EXTERNAL CHANGE?

Taking into consideration the international literature presented above, the flexibility of the implementation of the budget is understood as resilience by this article as well. In a general sense resilience means the quality of being able to return quickly to a previous good condition after problems. Resilience is often illustrated by the comparison of an egg and a rubber ball. The rigid and hard shell of an egg is able to withstand small pressure, however, in case of great pressure, the egg will break and will never regain its shape. In contrast, a rubber ball inflated by air will be indented if subjected even to small pressure, however, once the pressure ceases, it will bounce back to its original shape. Naturally, certain force will completely destroy the rubber ball as well. Thus, the resistance of an egg is rigid, while the rubber ball's is flexible, consequently, the resilience of an egg is minimal, while a rubber ball has high resilience.

We compare the resilience of the budget not to the resilience of ball but a bicycle wheel. In case of a bicycle wheel, the stable structure is ensured by the metal rim and the stokes, while the rubber tire ensures flexibility, which on the one hand is springiness, and on the other hand is resilience. Springiness, which softens the constant vibration due to the small bumps in the road, and resilience, which protects the rigid frame from collapsing in case of bigger bumps. In case of the implementation of the

budget, the flexibility helping the daily implementation and the resilience enabling flexible adapting to the larger changes in the environment are both necessary. The better flexibility of the budget may be ensured if all organisational levels responsible for the implementation of the budget (Government, the management bodies of each chapter, budgetary authorities) have tools promoting flexibility, and if such tools protect the budget as a flexible layer from constant shakes and larger changes. This connection is illustrated by Figure 2.

Figure 2: *The layers ensuring the resilience of the implementation of the budget*

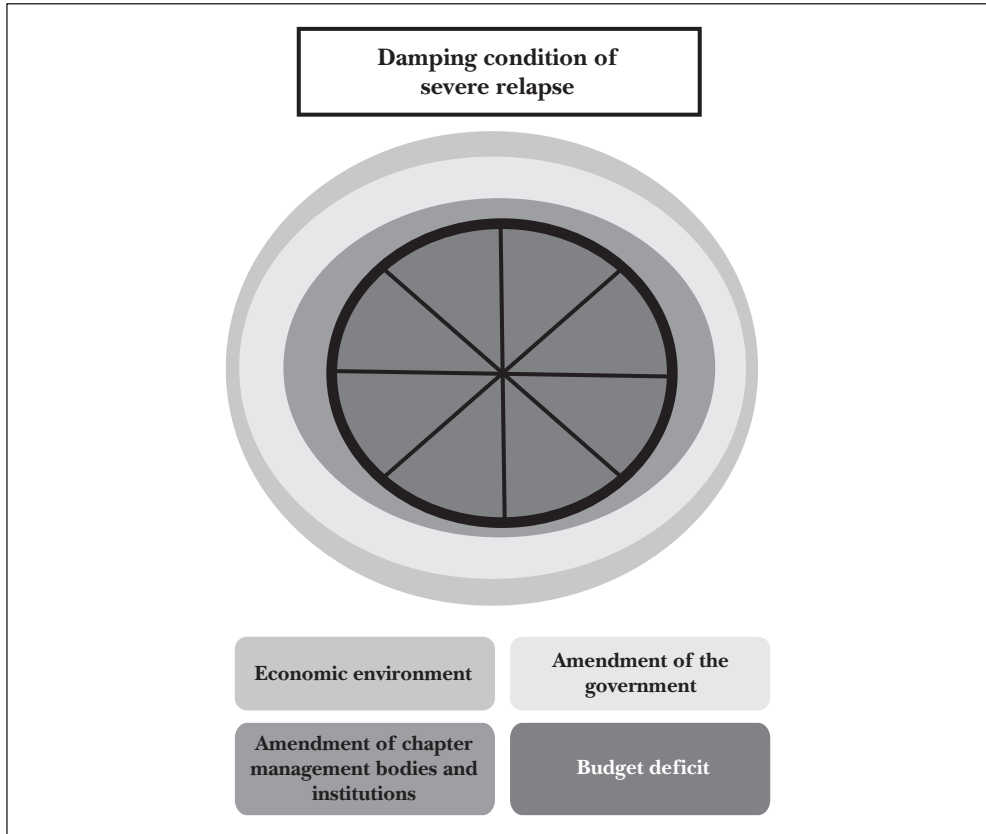


Source: Edited by the authors

Figure 3 shows how we interpret the resilience of the budget and therefore consider it feasible. The key point of this is that in case of a bigger shock the levels responsible for the implementation of the budget deploy their own tools, empty their

reserves if necessary, however, the solidity of the internal core remains, i.e. the fiscal rules specified by law and the most important fiscal objectives are fulfilled.

Figure 3: The resilience of the budget in case of shocks



Source: Edited by the authors

From the perspective of the implementation of the budget, flexibility is made necessary essentially by two factors. On the one hand, less or more revenue than the planned amount may be realised during the year. On the other hand, in course of the implementation of the budget, the fulfilment of the expense appropriations may change compared to the original appropriations (e.g. an investment progresses slower, or more people become eligible for an aid). The fulfilment of the revenue and expense appropriations may differ from the original appropriations for multiple reasons, accordingly, over- or underperformance may occur during or at the end of the fiscal year. The reasons for the difference include changes in the content or extent of the public duty, changes in the scope of users, the appearance of a new public duty, changes in the economic circumstances (e.g. realising higher tax revenues than planned as a result of economic growth higher than planned), or the occurrence of a natural disaster.

The content of the flexibility of the central budget is fundamentally influenced by the balance of the over- and underperformance of the appropriations. If the balance is better than planned, then the flexibility can be measured in the room for manoeuvring the entity responsible for the implementation of the budget – i.e. the Government – has for paying the extra costs in order to facilitate or expedite the realisation of the economic policy and other objectives. If the balance is worse than planned, then the flexibility of the budget means that there are tools available with the help of which the deficit target can be achieved without detriment to the fulfilment of public duties.

Why is the resilience of the budget important? From the perspective of exclusively the budget sector, resilience has two significant consequences. The first is that despite environmental changes, the main objectives of the budget are fulfilled. The second is that the budgetary authorities are able to fulfil their public duties in a slightly changed environment as well, and their appropriations designated for this purpose will be reduced during the year only if absolutely necessary. At the same time, the resilience of the budget increases predictability, and therefore in the broader sense, it provides greater security for the other operators of the economy. For example, they do not have to be afraid that the tax rates will be increased during the year, or that the budgetary authorities will not pay their invoices since the funds for those are blocked. Compliance with the government debt is a factor increasing stability of the enterprises, since in this way the state does not create additional demand for money, i.e. it does not force the enterprises and the households out of the money markets. Consequently, the resilience of the budget is not a technical issue of fiscal nature but it has serious economic policy relevance.

THE RESILIENCE OF THE IMPLEMENTATION OF THE BUDGET IN PRACTICE

The flexibility of the implementation of the budget can be analysed at the different elements of the budget process:

- In case of regulation the question is whether the statutory and decree regulations related to the implementation of the budget established the flexible protection system ensuring the resilience of the implementation of the budget, and whether the elements of these align with one another harmoniously.

- In the analysis of the role of planning, two questions should be answered. The first is whether the planning is well-founded, i.e. whether it contains mistakes (e.g. the unrealistic over-planning of certain revenue appropriations or the under-planning of expense needs) which will severe problems in course of the implementation. The second question to be answered is whether enough reserves had been planned for managing the foreseeable budget risks.

- With respect to the monitoring of the implementation the main question is whether a system had been established which is able to track the deviations from the plan up-to-date, moreover, the expected deviations.

– The points of intervention can also be analysed, i.e. whether those who are responsible for the decision have proper competence and information for the making the necessary decision in due time.

– Does the budgetary reporting system ensure the transparency and accountability of the flexible (i.e. different from the appropriation specified in the budget act) use of the budgetary appropriations.

In consideration of the above it is important to emphasise that the budget flexibility requirement should be taken into account as a crucial aspect as early as during the planning. The use of budget tools supporting flexibility assumes the existence and operation of a budget planning system of appropriate quality, by assessing the risks involved in the management and forecasting the fulfilment of each appropriation and the circumstances defining it (Pulay, 2013).

THE FLEXIBILITY OF THE IMPLEMENTATION OF THE HUNGARIAN CENTRAL BUDGET

The basis of the interpretation opportunity of resilience is Article 37 (1) of the Fundamental Law of Hungary, which stipulates that “the Government shall be obliged to implement the central budget in a lawful and expedient manner, with efficient management of public funds and by ensuring transparency”. Considering this provision of the Fundamental Law of Hungary, in addition to the flexible reaction ability, the transparency of the fiscal processes shall be ensured as well. This means that – on the one hand – in the interest of resilience it has to be guaranteed that the bodies responsible for the implementation of the budget can deviate from the appropriations specified in the budget act to the extent justified and permitted by law. On the other hand, these bodied should make the reasons for the deviations transparent not only for the National Assembly but for the taxpayers as well.

Keeping the implementation of the budget within the legal frameworks expresses three things:

- the budget rules – i.e. the rules applicable to the balance and the government debt as well – are observed,
- the implementation bodies do not go beyond their scopes of competence, and
- the adoption of the measure does not require the separate decision of the National Assembly. (This latter is a necessary condition because if the decision of the National Assembly, i.e. the amendment of the original budget is required, then it is already the flexibility of not only the implementation but the entire budgeting process.)

At the same time, the flexibility of the implementation of the budget affects the room for manoeuvring of the implementation levels. The room for manoeuvring of the government, management body and institutional implementation levels can be extended only to the detriment of the other levels (or any one of the levels). From this perspective, the room for manoeuvring of the Government can be considered the primary one, since according to the Fundamental Law of Hungary, the general responsibility of the implementation is borne by the Government. According to the

Hungarian regulations, the room for manoeuvring of budgetary authorities and chapter managing bodies is rather broad. This may represent a limitation for the Government, since it restricts the opportunities of the Government to react reasonably to unexpected events while keeping in mind the effectiveness of the use of public funds.

The room for manoeuvring of the implementation of the budget of any given year may be expanded to the detriment of the budgeting room for manoeuvring of the next year (years). This is favourable, moreover, essential from the perspective of the year concerned. At the same time, if the sum of the residual amounts to be carried forward to the year following the fiscal year and the amount of the obligations reaches a certain amount, then this narrows the budgeting room for manoeuvring of the year concerned significantly (including the room for manoeuvring of not only the bodies responsible for the implementation but that of the National Assembly, which enacted the budget act).

The ratio of budget appropriation amendments realised in course of the implementation of the Hungarian central budget between 2017 and 2019 to the original appropriations is summarised by Table 1. It can be established that the appropriations of the central budget changed significantly in all three years as a result of the decisions of the three levels of implementation (Government, budget chapter management bodies, the budgetary authorities themselves), which decisions amended the appropriations. At the same time, the two most important objectives – i.e. maintaining the deficit calculate according to the EU methodology under 3.0% and the reduction of the government debt indicator – were fulfilled in all three years.

Table 1: Budget appropriation amendments expressed in the percentage of the expense appropriations of the central budget (2017–2019)

Description	2017	2018	2019
Legislative amendment	2.4	0.0	0.0
Amendment within the competence of the Government	1.3	2.2	1.9
Amendment within the competence of the chapter management bodies	11.5	8.0	5.3
Amendment within the competence of budget institutions	11.7	12.0	10.4
Amended budget appropriation	126.9	122.2	117.6

Source: 2017, 2018 and 2019 acts on the final balance and the reasoning thereof

The Hungarian laws specify numerous fiscal instruments which influence the flexibility of the implementation of the budget. The instruments created by the laws and ensuring flexibility include:

- the creation and use of reserves,
- amendment and transfer of appropriations,
- the use of residual appropriations,
- the use of appropriations which can exceeded unconditionally or subject to authorisation,
- blocking or deleting of appropriations.

The common characteristic of these instruments is that by using them in course of the implementation of the budget the unexpected effects, as well as the consequences of the changes occurred in the conditions of the implementation of the budget become manageable. However, in course of this it is an important requirement that the measures executed in the interest of flexibility should not reduce, or should reduce only to the absolutely necessary extent the effectiveness of the implementation of the budget, for example, they should not lead to the failure of public duties, wasteful over-spending, or the liquidity issues of the suppliers of budgetary authorities.

The use of budgetary instruments supporting resilience can be considered regular in course of the implementation of the budget. In the following two of the instruments will be highlighted, the reason behind which is that these are the ones that determine the rate of the resilience.

The creation and utilization of reserves

In recent years a multiple-element system of provisioning has developed in the Hungarian central budget, which increased the resilience of the implementation of the budget significantly (Domokos, 2019).

In recent years the budget act has always included reserve appropriations. These appropriations were used in full during the years between 2017 and 2019.

The role of reserves are different in case of unplanned budget expenses and in case of less than planned budget revenues. Namely, the fulfilment of unexpected expense needs is accompanied by the use of reserves, and as a result, the composition of the expense side of the budget will change, but the expense total will not. In case of unexpected loss of revenue however, in the amount of the loss or revenue the appropriation of the revenue concerned and the reserve as appropriation – and simultaneously the revenue and the expense totals as well – will decrease. Thus, if the revenues develop as planned or in excess thereof, then the reserves can be used for covering the unplanned expenses. In this case however, it shall be taken into consideration that the majority of the extra expense appropriations permitted to the debit of the reserves released on the fourth quarter – in the absence of preliminary preparations – cannot be used until the end of the year. Consequently, a significant part thereof will burden not the year concerned but the next fiscal year as actual expense. In order to avoid this and not well-thought-out uses it is advisable to specify in advance those expense appropriations which are reasonable to be increased in case the reserves are released, since the effective use of the appropriations within the year concerned can be ensured in this way. This is a typical case for when the constitutional principle of the effective use of public funds is taken into consideration by the resilience of the implementation of the budget.

Amendment and transfer of appropriations

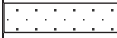
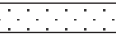
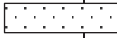
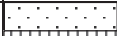
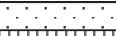
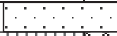
Appropriation amendment is the increase or decrease of the revenue appropriation or the expense appropriation. Appropriation transfer is an amendment executed so

that the total of the aggregated expense appropriations of the budget of the entity executing the transfer remain unchanged, while the expense appropriations are decreased and increased simultaneously.

Appropriation transfers affect the flexibility of the central budget only if any reserve-like appropriation is concerned by the transfer, as well as if any extra revenue or expense savings is transferred within the budget. The flexibility of the central budget is improved by the increase in the value of the reserves, while it is decreased by the use of the reserves. The use of the reserves affect the flexibility of the central budget adversely because the room for manoeuvring of the Government becomes narrower to the same extent with regard to effects that may occur.

The possibility of transfer between the appropriations and between the years increases the flexibility of the implementation of the budget significantly. This is illustrated by Figure 4.

Figure 4: *The effect of the possibility of transfer between the budget appropriations and the years on the flexibility of the budget*

Expense appropriations	Plan		Actual without transfer		Actual with transfer	
	1st year	2nd year	1st year	2nd year	1st year	2nd year
A						
B						
C						
D						
Total						
						
						
						

Source: Edited by SAO (Pulay et al., 2019, p. 30)

The figure shows that the implementation of the public duties and the related appropriations included in the budget may take place in different way.

In case of appropriation “A”, the obligation was undertaken, however, the actual financial use for a part of the appropriation will take place in the next year. As a result, the in the first year the expense will be lower that the appropriation, while in the future year the next year’s expense will be increased by the value transferred.

Appropriation “B” developed as planned. In case of this appropriation the use did not affect the flexibility of the budget.

Appropriation “C” was not used in full, however, as a result the program would have to be continued in the next year, although it was not planned.

In case of appropriation “D”, the plan is that the use of the appropriation will start only in the 2nd year, however, the launch of the project concerned became necessary before due to some circumstances. Such circumstances may be the faster than planned progress of the preparatory tasks of the investment concerned.

If there is no possibility to transfer funds within the budget, then savings will be accumulated in the first year, however, extra expenses can be expected in the second year. The imbalances occurring as a result can be balanced through transfers. The way to do this is transferring the savings of appropriation “C” to appropriation “D”, while the savings of appropriation “A” are transferred in order to fulfil the next year’s duties.

FLEXIBILITY AND TRANSPARENCY

Due to the use of the budgetary instruments supporting flexibility which were presented in course of the implementation of the budget, it is especially important to present that the appropriations that changed in course of the implementation of the budget compared to the budget act passed by the National Assembly, as well as the reasons behind the changes. Based on the presentation of these data and correlations can the National Assembly assess whether the Government had fulfilled the tasks set out properly, and the members of the society may get information about the processes of budgetary management and the key events of the implementation. For all these reasons, ensuring the transparency of the budget is appreciated more and more on the international level. All these show well that the transparency of budget processes is considered as a priority by international organisation as well.

The OECD published its summary on the means increasing the transparency of the budget in 2017. According to the document, the realisation of the budget’s transparency has numerous advantages, including accountability, integrity, as well as the strengthening of the citizens’ trust and the improvement of the quality of the budget. The OECD summary study formulates the following aspects – among others – as recommendations:

- “Fiscal reports should provide a comprehensive, relevant, timely, and reliable overview of the government’s financial position and performance.
- allow for early identification of budgetary overruns/underspends and other risks
- to the extent possible, provide an indicative quantification or measure of fiscal risks
- use internationally-comparable indicators of long-term sustainability.”

In the dimension of publicity the most important element is that budget data should be accessible to the citizens. In the framework of this it is a fundamental condition that there are documents available which contain the developments of the budget processes and the related detailed data in a comprehensible manner.

The third pillar of the code published by the IMF in 2014 includes the principle of risk analysis and disclosure. According to this principle, once identified, the risks occurring in course of the implementation of the budget, as well as the method of

managing these risks should be presented in the budget report on the fiscal year concerned.

The IMF published its handbook on budget transparency in 2018, which explains the principles of the code published in 2014 and the practices presented therein, as well as it provides detailed guidance for the implementation of these.

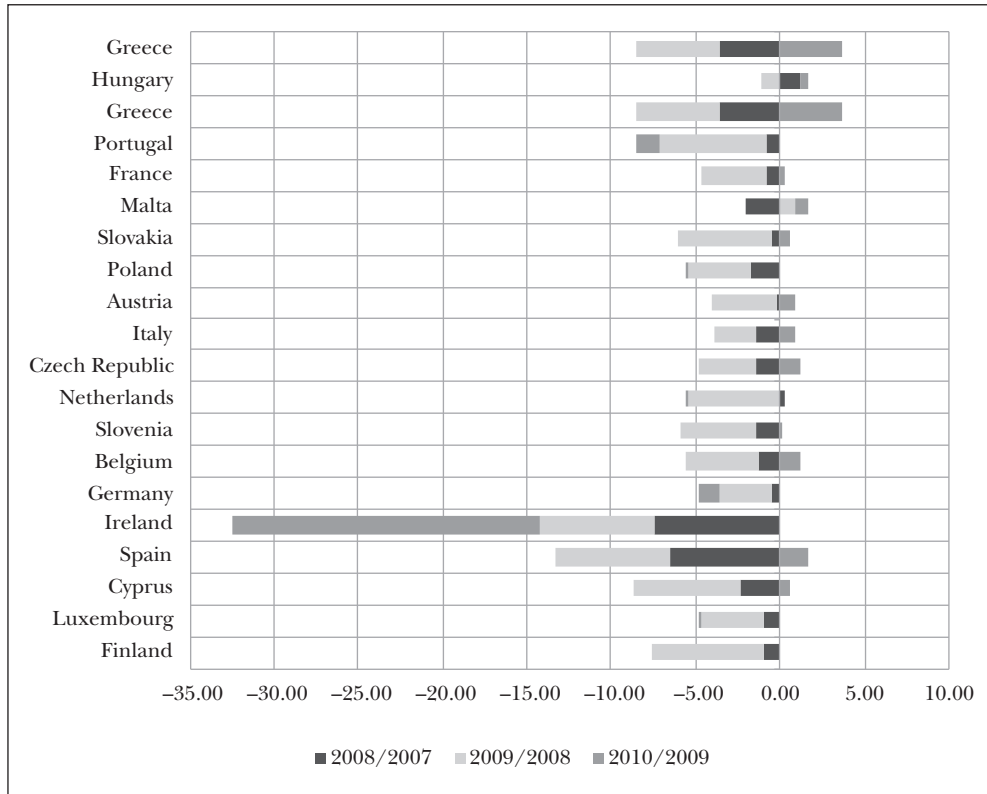
CHANGES IN THE CONTENT OF FISCAL RESILIENCE IN CASE OF SHOCK-LIKE CHANGES

In the previous chapter we elaborated that the resilience of the budget means better predictability and stability for the economic operators, since the organisations responsible for the implementation of the budget are able to react to smaller environmental changes in a flexible manner, i.e. there is no need for mid-year tax increased which shake up the economy, or restrictive measures which cause the failure of tenders and delays in the payment of contracts. However, the 2008–2009 global financial crisis, or the current epidemic caused shock-like hit of such magnitude that “wounded” part of the economic operators or made their situations impossible. As a result of the severe economic downturn, the revenues of the budget may decrease drastically as well, a direct consequence of which is budget deficit, and through that an increase in the government debt. In this difficult situation the flexibility of the budget does however not mean that the budget deficit is decreased to the planned amount by freezing the reserves and through other instruments mentioned above. If a country is compelled to do so – as was Hungary in 2009 – then this is a sign of inflexibility, i.e. a sign that the budget is unable to undertake supplementary debts. This however leads to the further loss of purchasing power, and consequently to even more severe economic downturn. In this case fiscal policy shall serve the resilience of the entirety of the national economy, i.e. softening the hit of the shock, and once the reason for the shock is eliminated, restarting economic growth again. Naturally, in such case one should not forget about the importance of fiscal resilience in the narrower sense, i.e. another measure of budget flexibility is the time when the budget deficit and the government debt return to a sustainable course after a temporary increase.

Ensuring the resilience of a national economy that had suffered a shock requires that the loss of purchasing power is contained by the state, as well as that the state protects the economic operators from collapsing through targeted aids and helps their recovery. All interventions are accompanied by increase in the budget expenses, meaning that the interventions increase the budget deficit and the government debt even further. Figure 5 provides a good illustration for the situation that occurred in the then-euro area and in the V4 countries as a result of the 2008–2009 global crisis.

The figure is a good illustration of the basic tendency that the budget deficit increased in most countries in 2008 and 2009, and it was typically higher than the budget deficit of 2007 by 4 to 8 percentage points. However, in two countries – in Ireland and Spain – the increase of the deficit exceeded 10 percentage points, while in another two countries – in Malta and Hungary – the deficit of the budget increased only mini-

*Figure 5: Changes in the budget deficit-to-GDP ratio in percentage points (%)
in the member states of the euro area and in the V4 countries (2007–2010)*



Source: Eurostat, 2020

mally compared to 2017. Figure 6 includes the countries in ascending order based on their 2007 budget deficits. This illustration highlights the correlation according to which during the two years of the crisis those countries were the most able to mitigate the negative effects of the crisis through increasing the budget expenses which had positive or near-balanced budget balances before the crisis (Finland, Cyprus, Spain). Meanwhile, the budget deficit of the countries which increased the budget deficit the least between 2007 and 2009 was relatively high in 2017 already: 2.1 percent in Malta and 5.1 percent in Hungary. The latter was the second highest deficit in the European Union. However, the correlation is not deterministic. There were countries with favourable budget positions (Luxembourg and Germany) where the balance of the budget dropped by less than 5 percentage points, while Portugal and especially Greece – which had had substantial deficits in 2007 – were unable to avoid significant drops in their budget positions. We used this language on purpose, since the increase of the budget deficit can rise as a result of not only the conscious economy boosting fiscal measures but also because due to the crisis the revenues of the budget decrease

significantly, while certain expenses of the budget (e.g. unemployment and social care services) increase substantially.

The figure also shows that in 2010 the majority of the countries tried to reduce their budget deficits which jumped during the years of the crisis, and apart from Portugal, only Luxembourg, Germany and the Netherlands – which had favourable budget situations in 2007 – allowed themselves to loosen the budget further in order to boost the economy. We do not include Ireland in this list because in Ireland the budget expenses increased primarily due to a very severe bank crisis.

All these point out that the central budget of a state can contribute to resilience in the national economy sense the best if the central budget is in a near-balanced condition during the soaring periods of the economic upturn, and therefore if it does not accumulate further government debt. This conclusion was drawn by the decision-makers of the European Union as well, since in 2011 they (except for the United Kingdom, Czech Republic and Croatia) signed the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union, which is also known as the “fiscal compact”. This is an intergovernmental agreement, the objective of which is to strengthen fiscal discipline, mainly in the countries of the euro area, but countries with national currencies could also join the contract. The treaty prescribes additional obligations compared to the criteria which have been valid since the Maastricht Treaty, namely

- the national budget deficit shall not exceed 3.0% of the gross domestic product (GDP);
- the government debt-to-GDP ratio shall not exceed 60%.

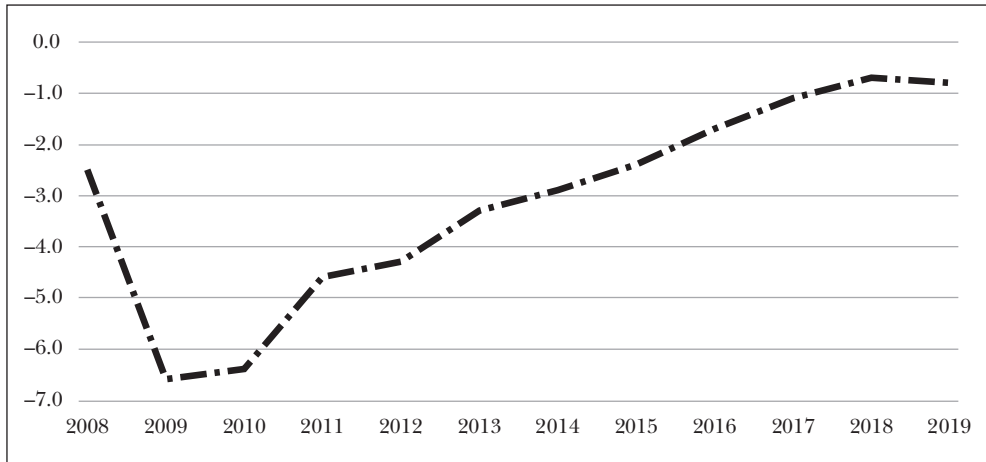
The objective set by the intergovernmental agreement is that the national budgets of the member states shall be balanced or have surplus under normal circumstances. In order to comply with this “balanced budget rule”, the countries must keep their annual structural deficit on a level equal to 0.5% of the GDP or lower. (Structural deficit is the public finances deficit minus the effect of the economic cycle on government expenses and revenues.)

At the same time, the treaty already included the case where exceptional circumstances – for example severe economic downturn – occur. In that case the member states are granted temporary exemption from the balanced budget rules. (The compact contains several other rules as well, but those do not related directly to the subject of this article.) It follows from the above that these rules of the fiscal compact serve fiscal resilience in the broader sense, by establishing the legal (suspension of the balanced budget rules under exceptional circumstances) and financial (near-balanced budget balance) opportunity of the budget intervention.

At the same time, the member states can make use of this opportunity only if they actually keep their budget balances nearly balanced during periods of economic growth. It is reasonable to examine whether this objective of the budget treaty was achieved. The answer to this question can be deduced from Figure 6.

The figure illustrates well that after the low points of the budget deficit in 2009 and 2010, the European average of the budget deficit-to-GDP ratio increased dramatically from 2012, and by 2019, the ratio was less than one percent. Consequently, the overall

Figure 6: The development of the debt-to-GDP ratio of the government sector in the EU-28 (2008–2019)



Source: Eurostat, <https://ec.europa.eu/eurostat/databrowser/view/tec00127/default/line?lang=en>

budget situation of the EU Member States was suitable for improving the resilience of the economies through increasing the budget expenses in this extraordinary situation. (Unfortunately, the same is not true for the budget positions of all Member States: the budget deficit-to-GDP ratio was 4.3 percent in Romania in 2019, 3.0 percent in France and 2.9 percent in Spain. At the same time, the budgets of 16 EU Member States were in surplus in 2019.) Consequently, the majority of the EU Member States had sufficient foundation for the fiscal overspending increasing the resilience of the economy.

The legal decision enabling the overspending was adopted very quickly as well. The Council of the European Union suspended the application of the budget rules already in March. The Council – which adopted the decision unanimously – is made up of the ministers of finance of the Member States, therefore there was a consensus that the requirement related to the budget deficit restrictions should be suspended in order to increase the resilience of the economy.

The fiscal decisions made in order to mitigate the shock caused by COVID-19 show that the EU Member State governments and the EU agencies had learned the lesson of the 2008–2009 crisis, namely, they switched from the narrower concept of fiscal flexibility – which is aimed at observing the budgetary rules – to the concept which aims at increasing the resilience of the entirety of the economy in time, and in the interest of this the governments gave up the effort to keep the budget deficit and the government debt under strict restrictions.

The concept of resilience itself was added to the dictionary of the management of the crisis caused by the epidemic. The key element of the recovery plan developed by the European Commission (hereinafter referred to as Commission) is called “Recovery and Resilience Facility”.

IS THE HUNGARIAN BUDGET RESILIENT IN CASE OF SHOCK-LIKE CHANGES?

It was already shown above that Hungary was one of the two countries where the budget deficit did not increase or increased only slightly during the 2008–2009 crisis. The background of this is explained by the data of Table 2.

Table 2: The development of the most important indicators of the Hungarian budget and the development of the GDP (2005–2011)

Name of indicator	2005	2006	2007	2008	2009	2010	2011
Balance of the government sector (GDP %)	–7.7	–9.2	–5.0	–3.7	–4.7	–4.4	–5.2
Government debt-to-GDP ratio (GDP %)	60.0	64.1	65.0	71.8	78.2	80.6	80.8
Economic growth (%)	4.2	4.0	0.2	1.1	–6.7	0.7	1.8

Source: HCSO, www.ksh.hu/docs/hun/xstadat/xstadat_eves/i_qpt001.html; HCSO EDP notifications, www.ksh.hu/edp_notification

The table shows that in 2005 and 2006 – i.e. during the years of dynamic economic growth – the budget deficit was rather high and the government debt ratio increased. As a result, in 2009 the budget had only minimal room for manoeuvring left to take measures in order to increase the resilience of the economy. Indeed, although the deficit exceeded four percent of the GDP in 2009, but it was still lower than the deficit of 2007 and was higher than the 2008 deficit by merely 1 percentage point. Consequently, an increase in the deficit reflects the decrease of the revenues only, and not the increase of the economy boosting expenses. This too contributed to that Hungary became one of the countries where the global financial crisis caused the worst recession.

The Hungarian legislation reacted to this. Namely, the Fundamental Law of Hungary passed in 2011 stipulates the so-called government debt rule, according to which

- “The National Assembly may not adopt an Act on the central budget as a result of which the government debt would exceed half of the total gross domestic product.

- As long as the government debt exceeds half of the total gross domestic product, the National Assembly may only adopt an Act on the central budget which provides for a reduction of the ratio of government debt to the total gross domestic product.”

At the time of the adoption of the Fundamental Law of Hungary the government debt exceeded 80 percent of the GDP, therefore the second rule had to be followed. This rule was realised in practice, and the ratio of the government debt between 2013 and 2019 to the total gross domestic product – the so-called government debt indicator – decreased continuously. In addition, the deficit of the government sector stayed below 3 percent of the GDP as well, however, it did not reach the near-balanced state.

At the time of the eruption of the COVID-19 epidemic the Hungarian budget was in a much better shape than in 2008, which means that it had the financial conditions of the fiscal resilience in the broader sense. Are the legal conditions of fiscal resilience available? Yes, they are. The Fundamental Law stipulates basic provisions for the fiscal management of extraordinary situations. The Fundamental Law allows the National Assembly and the Government to deviate from the rules cited above during periods of special legal order, to the extent necessary to mitigate the circumstances inducing such legal order, or in case of the permanent and substantial downturn of the economy, to the extent necessary to restore the national economy balance.

The Fundamental Law of Hungary also has comprehensive rules applicable for states of danger. It stipulates that in the event of a natural disaster or industrial accident endangering the life and property, or in order to mitigate its consequences, the Government shall declare a state of danger, and may introduce extraordinary measures laid down in a cardinal Act. The cardinal Act stipulates that in case of state of danger provisions different from the rules applicable for public finances may be specified in decrees. The Government used this legislative authorisation and adopted several measures which support fiscal resilience in the broader sense: the Government ordered loan repayment moratorium, granted exemption from paying taxes and contributions in certain branches of the national economy for the months of March – June 2020, and specified more flexible reserve use rules.

On the one hand, the measures of the Government are aimed at ensuring that sufficient funds are available for preventing and managing the epidemic. On the other hand, based on the fiscal and monetary decisions the goal is to ensure that enterprises and private persons keep as much funds as possible, in order to boost demand. The Government had been making decisions about the funding of investments steadily, which are considered to have anticyclical, economy boosting effect during the downturn caused by the crisis.

The state of danger ended on 18th June 2020, however, the state of danger had to be declared again due to the second wave of the epidemic in November. The decrease of the budget revenues and the increase in the expenses affects the entire 2020 budget. Consequently, the 2020 deficit of the government sector will be significantly higher than 3 percent of the GDP, and the government debt indicator will increase significantly.

Due to the prolonged and two-wave crisis, in 2021 the main task of the fiscal policy will be mitigating the negative consequences of the economic shock again. After the establishment of the resilience of the entirety of the economy, the narrower interpretation of fiscal policy will be in the forefront again. Compliance with the government debt rule is already set by the 2021 budget act as an objective. If the majority of the economy returns to the previous path of growth, then it would be reasonable for the budget to retreat back to the limits set previously again.

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On the Economic Impacts of the Coronavirus



Summary

The year 2020 saw a new economic crisis shake the world more deeply than the 2008 one. This downturn differs from the previous ones: instead of the internal patterns of the individual economies, the predominant factors to determine the pace of fall are the constraints related to the pandemic. Although most of the currently used anti-crisis tools had already developed as a result of the 2008 crisis, new elements include increased harmonisation between the monetary and fiscal policies and the speed of their application. The various economies will recover from the economic low point fundamentally by economic factors, supported by fiscal and monetary policy instruments, but pandemic obstacles may emerge and compel them to halt. Another problem is that it may take several years to achieve pre-crisis output levels. This is due to population ageing, the cascaded deployment of the anti-crisis tools, the future compulsion to reduce indebtedness, the side-effects of the applied anti-crisis remedies, the time required by the reorganisation of global supply chains, slowdown in China's growth, the expected slow recovery of the US economy and the too high propensity to save on behalf of the consumers of certain European countries.

Journal of Economic Literature (JEL) codes: E52, E62, H12

Keywords: economic crisis, Coronavirus, crisis management, monetary policy, fiscal policy

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INTRODUCTION

The worldwide spread of the coronavirus has significantly reshaped the lives of most countries in the first half of this year. Measures taken to curb the pandemic have profoundly affected not only life and societies but also the functioning of the economies and the world economy as a whole. This paper describes these economic effects, the nature of the crisis, the downturn caused by the pandemic, and the possible methods of recovery. The current crisis may well exceed the 2008–2009 recession, and the question arises as to how long and at what pace GDP will reach pre-crisis levels, and what factors will determine it. The aim of this paper is to give an overview of the characteristics of the crisis and of the measures taken so far, mainly with an international focus, although responses to the crisis will be more or less country-specific. Not only because the economies of the individual countries show significant differences, but also because they were in different macroeconomic situations when they were hit by the crisis, and the combination of fiscal and monetary policy measures was also unique. In addition, the epidemiological measures taken and the diagrams showing the number of people affected by the pandemic also differ, and as a result, the effects of the pandemic on the economy, including all measures and social reactions, are likely to be different.

ON EPIDEMIOLOGICAL MEASURES AND THEIR ECONOMIC IMPACT

A pandemic can be divided into stages in several ways: according to the number of people involved in the pandemic, such as those infected or hospitalised, or the epidemiological measures taken. Without giving a detailed analysis of the interrelationship between the two, it is worth noting that the introduction of restrictions was also influenced by a number of political, economic, and psychological factors, including the subjective ability of a country's political leadership to assess the situation.

The beginning of the pandemic was mainly accompanied by a few local restrictive measures, but no really strict general epidemiological restriction was imposed. The spread could not be stopped, at most only slowed down. The economic effects mainly included by the impact of the pandemic risk on consumer behaviour and were mainly manifest in the fact that demand for tourism, hospitality, event organisation, or transport services decreased due to the caution taken by individuals.

In the next phase, the risk of mass illnesses emerged, and so epidemiological measures were also aimed at preventing its unfolding. However, the restrictions imposed at that time already had serious economic effects and led to a decline in the performance of economies: limited demand triggered downward cumulative economic processes. Restrictive measures resulted in shrinking production, and in some cases downtimes, supply difficulties, and damage to global value chains.

In addition to the direct economic effects of restrictions, the psychological element is also important. An unprecedented social and economic situation emerged: the end of the pandemic is unpredictable, and this has created uncertainty for con-

sumers and businesses, thus damaging both demand and supply. Consumption and demand for investment faltered due to deterioration in business confidence and to barriers to supply, both for producers and consumers. The former generated temporary overpurchase, in the case of “pandemic goods”, such as disinfectants, masks, hygiene products, durable foods, medicines, etc., a temporary overdemand appeared, causing a disruption in supply. Production disruptions and weak economic activity challenged the stability of corporate finances, productivity growth stalled, and the missed revenues threatened companies with insolvency.

In some countries, such as Italy or Spain, which entered a phase of mass illness in the first wave, non-basic economic activities also came to a halt, predicting a greater economic downturn compared to other countries. It soon became clear that in the short run, the correlation between increasing anti-pandemic measures and declining economic activity was inevitable. It seems that this problem can only be solved by the appearance of the vaccine.

In the period of tightening up anti-pandemic measures, economies are experiencing downward cumulative processes, resources are depleting, the financial system is shaken, capital is shrinking, labour is being eliminated, and global value chains are being damaged. Once anti-pandemic measures come to a halt, there is a chance that the economy may stabilise in a short time. However, without further intervention, this will merely “anchor” economic activity at a level characterising the end of the downturn. The only way up from there – still assuming there is no other intervention, such as state intervention – is to relax the epidemiological measures. This, in turn, may increase the risk of a repeated outbreak of the pandemic, increase individual health exposure, and broad social consensus and sufficient political leadership is essential for relaxation.

CHARACTERISTICS OF THE CORONAVIRUS CRISIS

In relation to the economic crisis generated by the coronavirus pandemic, soon opinions were voiced that this recession is different from the previous ones considered “customary” (Tan, 2020), which raised the question of the need for a different management. Not only is aggregate demand insufficient to maintain the output level, but supply and individual psychological shocks also hit the economic agents. The human factor of production is partially “hindered”: the minority, i.e. those infected, because of their health condition or because of being a potential source of health hazards, and also the majority, due to the need to protect health at a personal and social level.

The current crisis is also unique in terms of its outbreak: because the sectors that were shocked by social distancing were its main starting points. The areas first and the hardest hit by the crisis were not “selected” by economic factors, as happened with the financial sector in 2008, but by non-economic measures.

However, a decrease in the output sooner or later leads to a decrease in the aggregate demand. And so it did. The rate of GDP decline in Q2 2020 was 13.9 per cent on an annual basis for the EU and 14.7 per cent for the euro area. During the

2008-2009 crisis, the fastest decline was recorded in Q1 2009, at 5.5 and 5.6 per cent, respectively. In the U.S., the aforementioned figure fell 9 per cent, which is also 2.25 times the 2009 low point.

The pandemic has clearly caused a very rapid restructuring in demand: for some services – offered by tourism, hospitality and event organisation – demand has essentially disappeared. Although, temporarily, some products – such as durable foods, detergents, medicines – demand increased sharply due to early purchases and a change in the consumption patterns, this was basically due to psychological and “perceived” coercive factors. Thus, these processes do not reflect an increase in the aggregate demand, but rather conceal a decrease, as incomes are already declining, and so they can be understood as consumers’ “emergency reaction”.

Domestic and international economic circulation has also slowed significantly. Under such economic conditions, if entities are to avoid financial difficulties, protecting their liquidity is essential, which implies cuts in non-critical expenditures, such as investment. The demand and supply shock is also exacerbated by the extra uncertainty surrounding expectations about the health outlooks. Another specific element is the time factor. The drastic speed of decline in the active factors of production is also a unique feature of this crisis, as it has not been determined by the economy’s rhythm in contrast to previous crises, but by the extent and speed of “shutdown measures”. As a result, the economic fall is sudden and simultaneous to the output level allowed by the epidemiological measures in force. Consequently, due to the different contents and extents of anti-pandemic measures, the rate of decline also varies significantly in the various countries.

In terms of output, there is a perception that economies have temporarily lost the labour and capital that could not be used under the given epidemiological regulations. Fortunately, this was not the case, which is why many thought that the rebound after the pandemic may be as rapid as the fall had been. However, the situation is not that simple. Aggregate labour and capital stocks may also have been damaged during downtime, and some businesses cannot survive this period. An important question is how long it takes for each economy to reach the pre-pandemic output level. The above is a description of the economic downturn caused by epidemiological measures as a “free fall” without external intervention, but fortunately, this downturn has not been a free fall – the governments have stretched the safety net as much as they could.

LESSONS LEARNED FROM THE ADOPTED MEASURES

The toolbox of anti-crisis measures

Without going into details on the measures taken by governments and central banks in each country to help recovery¹, there is a high degree of overlap in the anti-crisis measures, which is, of course, understandable. The following table summarizes the typical measures.

Table 1: Fiscal and monetary policy measures used during the coronavirus pandemic

Fiscal policy measures	Monetary policy measures
Direct grant scheme	Government bond purchases
Tax exemption, tax deferral	Purchase of listed securities
Contribution exemption or deferral	Corporate bond purchase scheme
Credit guarantee	Overdraft to government
Interest subsidy	Liquidity-providing, low-interest bank loan programme
Export credit support	Corporate loan scheme to boost investment
Export credit insurance	Central bank plan for the partial redemption of corporate loans by commercial banks
Investment support	Mortgage bond purchase scheme
Capital Assistance Plan, capital injection	Entrepreneurial quick loan scheme
Employment aid scheme (Kurzarbeit)	Facilitation of capital formation
Helicopter money	Interest rate cut
Sector-specific support – health, tourism, and other areas	
Municipal support	
Leasing cost support (freight transport)	
Increasing unemployment benefits, extending entitlement	
Discounted loss write-down (businesses can carry their deferred negative tax base with them to write it down in their next positive tax year)	
Childcare allowance for epidemiological reasons	
Cash compensation for those not entitled to social security	
Increased childcare allowance	
State loan repayment moratorium	
Mortgage Purchase Program (through a state mortgage institution)	

Source: Author's own elaboration

For the time being, it may be said that most of the elements in the toolbox were established as a result of the 2008 crisis, and only two new aspects have emerged. On the one hand, specific elements have been adopted due to the pandemic: in almost all countries, priority support has been given to healthcare and to sectors severely affected by the crisis (tourism, hospitality, hotel industry, transport, etc.); and measures

have been taken to compensate for the loss of jobs or income caused by the pandemic. On the other hand, a new element is an increase in the coordination of monetary and fiscal policies, which has not been the case during previous crises. In some countries, central banks have also resorted to the previously taboo instrument of buying government securities, and the idea of central bank government debt financing has also emerged.

The monetary toolbox used by the Bank of Japan (BoJ) is unique and also regarded as a model (Bank of Japan, 2020a; 2020b; 2020c). To stabilise financial markets, the BoJ says it is necessary to stem the rise in risk premiums by buying Exchange Trade Funds (ETFs). In the current economic and financial environment, the primary goal of the central bank is to provide extremely flexible access to liquidity for economic agents. As for the future conduct of monetary policy, the BoJ will continue to buy Japanese government bonds at any rate, as long as it does not reach the designated amount of JPY 80 trillion (about USD 753 billion). In addition, in view of the economic downturn, the central bank strongly supports anti-crisis state economic programmes, in close cooperation with the government. The bank has declared an “aggressive” purchase of ETFs worth about JPY 12 trillion a year (about USD 113 billion), which is twice the amount earmarked for this before the crisis. The BoJ, as a large equity fund buyer, had a total share of approximately USD 256 billion at the end of Q4 2019, representing 80 per cent of the total market. The bank is also doubling the rate of purchases of Japanese real estate funds (J-REIT), with plans to spend JPY 180 billion (about USD 1.7 billion) a year on this. In an effort to prevent the credit markets from freezing, the bank set aside JPY 2 trillion (about USD 19 billion) to buy additional commercial papers and corporate bonds. Experts estimate that the balance sheet of the Bank of Japan could have reached 105 per cent of the GDP by the end of March this year. By comparison, in the case of the Federal Reserve System (FED), this ratio stood at 20 per cent at the end of the last year.

As a result of the measures taken due to the crisis, the assets of the FED also grew rapidly (Federal Reserve System, 2020c; Cox, 2020; Bartash, 2020). Its total balance-sheet growth of more than USD 500 billion in a single week is roughly double the highest weekly growth ever measured, which was recorded in October 2008. Purchases of government securities played a large role in the increase in the balance-sheet total: net stock growth was about USD 360 billion, and stock levels reached USD 3340 billion in the last week of March 2020. The FED continued to buy assets: it bought government bonds, mortgage-backed securities, and provided large amounts of secured loans to financial corporations. Experts advised, and the FED itself declared, that if the above measures were insufficient to effectively manage the situation, the purchase of assets riskier than corporate bonds may also be on the agenda. This actually took place subsequently, in several stages, partly through the USD 3.6 trillion market for ETFs, and partly through the secondary market, using a USD 750 billion budget set aside for this purpose (Federal Reserve System, 2020b).

Thus, in many countries, government and the central bank started to closely cooperate in a previously unseen way, which allows for complex solutions not been ap-

plied during the usual operation of the economy. If expertly used, these solutions, consider by many as unconventional, may be of great help in combatting the crisis, but at the same time they require thorough theoretical and practical preparation, as unless they are adapted to the national features they become a double-edged sword. Their application should include building confidence in the specific measures in the money market, in the capital market, and in economic actors in general, so that their “deployment” does not cause swings in confidence and in the climate.

Timing the anti-crisis measures

In general, with regard to economic crises, economic policy measures should aim at slowing downturn. It is important to emphasise that the steps taken in the fall phase should not be confused with the “stimulus” to be given after recession. However, the two cannot completely be separated, as crisis mitigation should focus on the future driving forces. In other words, already the damping phase should focus on future boosting, and the two packages should be considered in combination (and implemented as a single programme in at least two modules).

Anomalies in fiscal policies

When a country carries out fiscal expansion on its own, increase in domestic demand may feed through to foreign producers: it might worsen the terms of trade through imports or rising prices. Feed-through may be particularly high in small and medium-sized, open economies, and can undermine the effectiveness of their fiscal measures. Theoretically, the international coordination of fiscal expansion should solve this problem. When a country increases its aggregate demand, exchange rate fluctuations are more moderate than in the case of asynchrony between the measures taken by individual countries. In such cases, the country is less likely to suffer significant deterioration in the terms of trade due to strongly different price movements.

It is already clear that government indebtedness will inevitably increase in the next period. This also happened as a result of the previous crisis. As the current crisis has hit some highly indebted states – e.g. Greece, Spain and Italy, the fact that these countries have not been able to stabilise their levels of indebtedness in more than a decade since the last crisis means that they will either be able to achieve some kind of global debt settlement or have a substantial narrowing of their fiscal room for manoeuvre. The problem is at least as acute as it was during the previous crisis, and as the current crisis may be deeper than the previous one, the situation has worsened. If these countries, due to their current high levels of indebtedness, are unable to make further large-scale spending, they will hardly be able to mitigate the downturn and establish recovery. Inevitably, the question will arise for Italy, Spain, Greece, or Portugal on how to deal with the expected surge in debt, which may pose a serious threat to the euro area, to the EU, but to the world economy itself. Many (e.g. Blanchard, Alesina, or Giavazzi) believe that the emergency situation requires extraordinary solutions,

so maintaining the euro area requires the “special” management of debts incurred during the pandemic in the future (Baldwin and Weder di Mauro, 2020, pp. 49–55). Financing should not be left to the market, the current near-zero interest rates may subsequently rise, mainly as a result of market pricing of risks due to higher debt.

In view of the above, a new EU approach to tackling the crisis and to high debt has emerged. By the end of May 2020, at the initiative of France and Germany, the European Commission had drawn up a proposal for a EUR 750 billion recovery fund (European Commission, 2020d). The concept of the fund also suggests that due to the joint issuance of bonds, a new generation version of the EU (“Next Generation EU”) will replace the former cooperation. Two-thirds of the fund is provided as grant and the remainder as loans. The aim is that the usage will be realised in accordance with the priorities set by the Commission (green and digital economy, and increasing competitiveness and resilience), which will promote sustainable and balanced growth after the crisis. All Member States can benefit from it, but as they have been hardest hit by the pandemic and the crisis, their debt does not rise during the restructuring. The proposal, therefore, seeks to stabilise the situation of the most indebted Member States – mainly Italy, Spain, and Greece – in a single settlement, while preventing the recurrence of their indebtedness. A bond to be issued by the Commission, guaranteed by the Member States, would mean that Member States less affected by the coronavirus would indirectly help the – primarily southern – Member States that have been put to disadvantage by the crisis and by high debt levels. Loan repayment is expected in the post-2027 budget cycle(s). All this, of course, is only a proposal for the time being, and serious discussions are expected before finalisation. This may be conceived as an attempt at curbing indebtedness, one of the most threatening internal problems of the EU and the euro area, and at a simultaneous step towards a more coherent fiscal policy.

METHODS OF RECOVERY FROM THE CURRENT CRISIS

At least four main types of recovery curves (V, U, W, or L) are mentioned in the literature. In addition to the trajectory of recovery, the timing of changes is also important. The most favourable scenario would be a V-shaped GDP trajectory with the low point followed by a bounce of practically the same speed as the fall. The U-shaped trajectory has a prolonged low point, with the bounce occurring later than in the case of a V-shaped trajectory, but it also takes the economies back to pre-crisis levels. In a W-shaped trajectory, bounces and relapses are expected to follow one another due to several pandemic waves. The most pessimistic expectation is an L-shaped curve for GDP, i.e. the level of economic activity never returning to the pre-crisis trend but only rise to a lower level.

The different versions of theoretically possible recovery scenarios outline economic trajectories depending on how the pandemic is addressed and how effective the fiscal and monetary measures taken will be (e.g. McKinsey & Company, 2020, p. 20). If the favourable V-curve is followed, the virus is curbed in 2-3 months and then life

is fully restored to pre-epidemiological levels, and policy measures prevent structural damage to the economy. In this case, a country's economy can quickly return to its pre-pandemic growth trajectory.

In the case of a U-curve recovery, successful epidemiological measures, economic protection and stimulus are only partially effective, and thus the economy returns to pre-crisis output levels at a slower pace. In an extreme case, the pandemic is eliminated, but the policy measures are unable to prevent lasting damage to the economic actors, and a debt crisis develops through corporate bankruptcies, which also puts the banking sector in a difficult position. This would be a variation of the L-curve. Output levels in this version are expected to remain permanently below pre-pandemic levels after the recovery.

In a less successful epidemiological case, after the initial, effective epidemiological measures, the virus cannot be completely eliminated, and certain restrictions need to be maintained for a longer time in order to avoid future emerging pandemic risks. Then, in the case of effective government measures, a version of a U-shaped trajectory is worked out, as it is only possible to resume production after several months, but this happens in a quick bounce, so that output can return to pre-pandemic trends over time. This epidemiological trend, combined with less effective public economic measures, would result in a slow recovery, and the economy's output level may approach pre-pandemic levels but not be able to reach them in the short term (L-curve).

In addition to the theoretical methods discussed above, of course, many epidemiological trajectories are possible, if only because each country's measures are unique, and everywhere there is a number of local peculiarities characterising the attitude of the population, which in turn, affects the evolution of the epidemiological situation. However, epidemiological constraints also affect the state of the economy: they determine the depth of downturn and the sectors most exposed to it. In addition to the content, the effects of government measures also depend on timing. A package may have a different effect at the time of the outbreak and in the period after the lifting of epidemiological restrictions. In other words, even under the most optimistic epidemiological scenario, the economic trajectory will be different in the various countries because, due to different epidemiological measures and to the behaviour of the population, the output will "freeze" at different levels and structures. It is also important to clarify that the rate of fall does not predestine a similarly rapid rebound. Instead of a regular V shape, the two stalks of the curve of GDP will certainly be at different angles: the first stalk will be steeper and the second will be flatter. This is unavoidable because the pace of fall is not determined by the laws of the adverse cumulative processes determined by the internal characteristics of economies, but by exogenous elements, mainly epidemiological constraints. During the post-crisis upward cycle, economies move in a manner determined by economic factors, and experience from post-crisis booms has shown that they are unable to produce growth in the pace of the fall, as we have seen after the 2008 crisis (Posgay et al., 2019)

In general, an economic downturn during a crisis does not guarantee rebound at a similar pace, as by that time, the economy has undergone significant changes.

This is especially true in the case of this crisis, as the restrictive measures have cut off factors of production by physically limiting their interconnectivity. In addition to the supply shock, a demand shock appeared almost simultaneously, through an increasingly significant drop in demand. Under such conditions, the output can only grow if its level is not determined by regulatory limits, but by economic – mainly demand-related – constraints, so that the output can reach the maximum level determined by the epidemiological restrictions.

However, the above is also true in the downward slope: a given level of output determined by restrictions is in vain if the current level of demand does not make it available or sustainable. In this case, in the absence of external assistance, such as state aid, the output starts to fall, according to the classic negative cumulative process rules of a crisis, and only stops when it has reached the level determined by demand. In this partially “hibernated” state of the economy, firms map their supply and demand relationships, constraints, redesign revenues and expenditures, developments, and all other factors that may be essential to survival in the short term. The question rightly arises how flexible this reduced-level system is, how it can adapt to another shock that might come.

Businesses are likely to adapt quickly to the new situation. With levels of epidemiological constraints unchanged, time is an important factor as the longer the restrictions are in place, the greater the chance of serious damage to the economy. The timing of government action is vital. Reduced-income businesses need a source of liquidity to survive, while households that have lost income need revenue. To cushion downturn, businesses need help in preventing damage that requires significant downsizing or results in bankruptcy. State aid granted to stabilise employment can also slow reduction in household consumption. It is expedient to schedule measures for cutting the financial burdens of companies (taxes and contributions), to maintaining liquidity, and to protect jobs during the downward and in the stagnation phases. Particular care should be taken in the case of direct measures taken to stabilise household incomes. This tool may have a more limited effect in the current case than in “usual” demand-driven recessions if it is used for supply-limited products and services. In the event of a supply constraint, additional demand results in price increase. While this increases the nominal income of the entrepreneurs concerned, it does not increase the real economic performance or the real wealth of households. The same measure may have a greater incentive after lifting the epidemiological restrictions, when companies are able to respond to the excess demand by increasing production.

It has become clear that the development and application of government measures may also be perceived as a learning process. It is usually typical – see, for example, Germany, the U.S., Japan, and also Hungary – that economic support measures have been taken in several stages. However, time definitely works against a rapid rebound: if governments want to avoid “re-tightening”, after an easing it is reasonable to check whether or not the number of new cases increase to such an extent that the pandemic returns. A possible “re-tightening” would cause significant social,

political and economic damage, and in terms of economic impact, a new tightening would lead to a repeated downturn. This is not only a problem due to declining output levels and demand, as it may repeatedly cut some of the domestic and international production and supply chains that had already been partially rebuilt after the previous downturn, and it might lead to a new structural disruption of the output structure. In this case, the question arises whether micro-economic and macro-economic rescue packages should be repeatedly used, as the effects of any previous packages might partially or even completely be eliminated by new epidemiological restrictions.

Meanwhile, rise in the output requires increase in demand, otherwise companies are unable to take full advantage of the opportunities offered by the elimination of capacity constraints. In this period, businesses and the economic policy will also face a similar “learning process” they undergo during stagnation period immediately before and after the low point. This, however, requires adaptation to completely different economic conditions, as the micro-economic and macro-economic environments already differ from what they were before the crisis, during downturn, or at the time of the low point stagnation. From the perspective of growth, the level of an economy before the pandemic has no primary relevance, it is rather the volume and efficiency of the specific combination of the surviving, refurbished and newly built production factors that matter. Large-scale public capital expenditure projects and investment support programmes for the private sector, scheduled for the time of lifting of epidemiological restrictions, may provide a basis for recovery. It is advisable to supplement them with state programmes in support of corporate and public training courses.

Obviously, not only the timing and content of government measures are important, but also their perception by the public to steer expectations to the positive range.

CONCLUSIONS

In terms of the expected outcome of the crisis, it has been demonstrated that a slower and more gradual economic upturn is expected than downturn was, and thus it may take a longer time to reach pre-crisis output levels. Without claiming to be exhaustive, below is a description of the factors that may influence slowdown in recovery, divided into two groups: exogenous and endogenous factors.

Exogenous factors

Epidemiological restrictions

The downturn that has caused the crisis is not due to endogenous economic reasons, but to epidemiological constraints that cut off a significant number of production factors. These measures determined the main sectors that drove downturn. The speed of recovery is determined by the extent and pace of the lifting of epidemiological restric-

tions and the economic growth opportunities given by them. Thus, there has been a quasi “free fall” downwards, and the economy will be “back on its feet” – supported by fiscal and monetary policy instruments –, but there may also be epidemiological obstacles forcing several halts. These alone make it inevitable that the pace of recovery will be slower than the downturn was.

Thus, in contrast to previous crises, epidemiological factors appear in both downward and upward movements as external conditions which may impose limits on growth.

Rising political tensions, China’s controversial situation

Budget expenditures, which increased during the crisis, should be curbed after the crisis, and the deficit should be reduced. Such actions are taken to the detriment of some participants, who express their dissatisfaction and may further enhance social tensions. The geopolitical tensions seen before the crisis have been partly exacerbated by the pandemic, and so at times the political and economic tensions between the US and China intensify, and do not seem to be over.

Demographic characteristics

In developed countries population aging has become a prevailing factor, but this phenomenon is also becoming more pronounced in emerging economies (Fitch Solutions, 2020). Aging counteracts productivity increase on a social level, as the ratio of the working-age and employed population decreases while that of the economically inactive increases. The increasing number of pensioners and their increasing pensions need to be financed by a decreasing number of economically active people. This budgetary burden is increasingly apparent in a period of consolidation.

Endogenous factors

The efficiency of fiscal and monetary interventions

Naturally, there is no universally ideal fiscal or monetary package to dampen downturn and to help stimulate the economy. There cannot be one because the epidemiological situation and the structure of the economy are different in each country, so the extent and structure of the damage to the economy are necessarily different. However, the design and application of government measures, as a learning process, can be improved. It is therefore realistic to assume that the initial measures will be followed by further adjustments, to make them more effective. Thus, the anti-crisis “treatment” of economies is not based on a single intervention, but on multiple “dosing” of “medicines” – the fiscal and monetary tools – in different “doses”. Thus, the speed of approaching the efficiency typical of an ideal case may result in a relatively slower post-crisis growth.

Need for the reduction of indebtedness in the future

As a result of the 2008 economic crisis and of the ongoing coronavirus crisis, a system of crisis management tools has become the practice, and has led to a swelling of budget deficits and a surge in private debt due to central banks' money printing. Leverage needs to be phased out after the crisis, budgets need to be consolidated and central bank balance sheets need to be downsized so that financial imbalances do not lead to macroeconomic shocks. This, in turn, requires a reduction in budget expenditures and an increase in revenues, which will inevitably slow down growth. The withdrawal of funds from the private sector, which accompanies the downsizing of central bank balance sheets, also works in this direction. Indebtedness had already been high before the crisis broke out both by state level and in the private sector. In some countries, the necessary rebuilding of leverage did not take place even after the previous crisis, but neither did the required financial consolidation in the case of households and many private companies. More resources should therefore be withdrawn from the economy than the amount pumped in to alleviate the current crisis, which is why slower growth is likely in the coming period.

Market side-effects of using extended crisis management tools

Fiscal spending in support of demand and the central banks' "money pump" can have harmful side-effects in addition to short-term positive stimuli by disrupting market balancing mechanisms. These fiscal and monetary measures are intended to dampen natural market selection during the crisis by compensating for lost income and liquidity. This means that beneficiary households, whose members do not currently work but consume, receive additional income. This is provided by the government, in most cases in the form of newly created money, which – if spent by the household and settled by the state through debt repayment – does not, in principle, upset the balance of money and goods and services.

The situation is similar for companies when the state provides the money for wages or investment support. Problems may arise with subsequent effects. If, as a result of the public cash benefit, increase in the wage results from the employee choosing to work instead of using state aid and leisure time, a global wage increase can take place. This, in turn, makes the output more expensive, as the labour of the same quality will become more expensive, making the labour market itself "sticky" and less flexible. The Fed also indicated in late May 2020 (Federal Reserve System, 2020a, p. 1) that an increasing number of employers were concerned that some of their employees would not want to return to work. In addition to health risks, the loss of childcare allowances is a factor, but so is the more favourable unemployment benefits introduced as a result of the crisis. There may also be problems in the longer term due to business support. Cheap money can keep less profitable businesses afloat for longer, and they can drain resources from more competitive businesses, leading to macro-economic productivity losses. Moreover, intervention in credit and equity

markets can distort price signals, making it difficult for investors to allocate capital efficiently and effectively. The state should therefore carefully consider the criteria of support to enterprises. If the only goal is to retain the workforce, and no other expectation is related to the benefit, then less efficient firms will survive, which will reduce productivity and competitiveness in the economy at a macro-economic level. In the case of investment aids, the risk of outcomes detrimental to economic efficiency is lower, but only if productivity criteria guaranteeing the productivity-enhancing effect of the investments are required.

Thus, whether we are talking about labour or capital, the post-crisis impact of using the anti-crisis toolbox may result in a decline in the productivity and competitiveness of the economy. In other words, some of the workers will be “overpaid” relative to their performance, businesses that are no longer viable and competitive under given economic conditions will survive, and more efficient businesses will not have access to adequate resources compared to their performance if the state gives money to businesses across-the-board and not subject to productivity and its increase.

The effect of changes in the global value chains

The outbreak of the pandemic in China triggered damage to global supply chains, as China is the leading power in world trade in goods.² As the pandemic spread to the rest of the world, global supply-chain disruptions, slowdowns, and in some places, disintegrations were on the agenda. Supply chains cut through epidemiological constraints can only be partially rebuilt during the crisis, because although stagnation in production and slowdown in international trade shift the focus on local solutions, there are large disparities in capabilities and opportunities. At the same time, the security of supply has become a political issue and has led to a shift towards domestic solutions for many multinational companies – remember the Trump administration’s paradigm to “relocate American multinational companies home”, the which seems to be further justified by the crisis.

There is a danger that countries with policies similar to the United States will increasingly introduce cross-border restrictions on technology transfer, and this may lead to fragmented markets. The world may split into markets that adopt American/European/Korean/Japanese technology and standards, and markets that adopt Chinese technology (suffice it to think of the anomalies observed with 5G). This, in turn, would adversely affect productivity, investment, and growth opportunities globally.

Internationally optimized production processes are thus moving towards localisation, with the consequent loss of efficiency and increase in cost. Globally, productivity, trade efficiency and optimisation are all declining. We are still at the beginning of the process and it is not known whether or not a substantial reorganisation will begin, but as long as the current de-globalisation lasts, development in the world economy will slow down as the potential for comparative advantage is reduced. This element has begun as an exogenous factor, but has become endogenous due to the role of global supply chains, although it retained its exogenous character through politics.

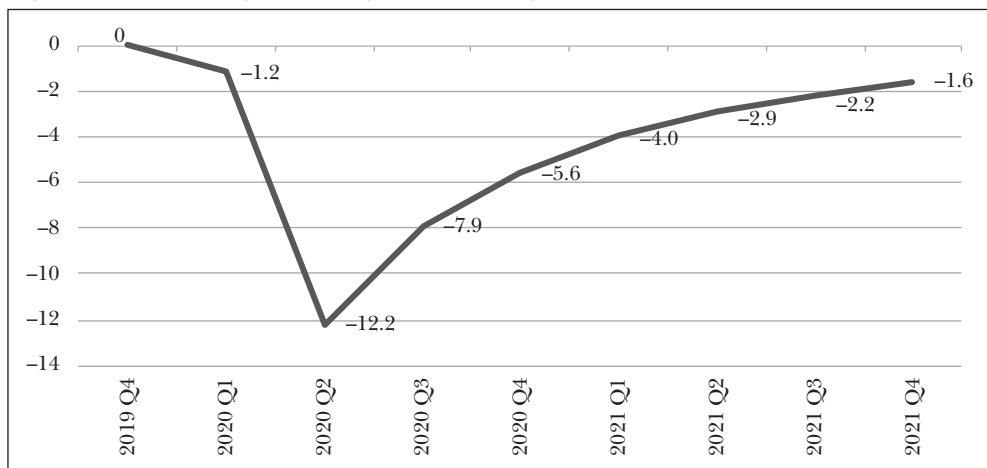
Slower growth target in China causes lower global growth prospects

It is expected that in the next few years the Chinese political leadership will focus on qualitative rather than quantitative growth (real GDP growth rate) compared to the previous decades (Fitch Solutions, 2020). It is likely that after the economic crisis triggered by the coronavirus, China will abandon its “growth at all costs” model and seek to reduce its recently growing indebtedness³ and high leverage. Based on the above, China’s annual growth rate may fall to between 4 and 5.5 per cent over the next five years (Fitch Solutions, 2020). Considering that China accounts for about 17 per cent of global GDP and about 40 per cent of emerging countries’ GDP, its slowdown will have a significant and direct impact on global growth. Moreover, China has contributed an average of 1.2 per centage points a year to world nominal GDP growth over the past decade. If, in the next decade, China’s growth falls to an annual average of 5.5 per cent or even below, the world’s global economic expansion will slow by at least 0.2 per centage points annually. In fact, this rate can even go above 0.2 per centage points because the above calculation is based only on the direct effect, not taking into account the negative impact of China’s slowdown on growth in other countries (Fitch Solutions, 2020).

Chances of slower recovery in the United States

Due to its weight in world politics and in the global economy, recovery in the U.S. will have a significant impact on the development of the global economy and on the post-crisis growth opportunities of the rest of the world. Based on currently available data, the Congressional Budget Office (CBO) expects that reaching pre-crisis GDP levels in the U.S. may be a longer process, and might only happen after 2021.

Figure 1: Real GDP, Q4 2019 – Q4 2021 (on a Q4 2019 base, %)



Source: Congressional Budget Office, 2020b

The reasons behind the slower recovery are outlined at several points (Congressional Budget Office, 2020a):

- Epidemiological restrictions are expected to be phased out only gradually and a new wave of pandemics cannot be ruled out, thus the CBO expects that restrictions will only be lifted completely at the end of 2021;
- Due to the timing of the economic support measures, the positive effects will appear only gradually and their impact will decrease in 2021;
- Experience from the last three economic expansion periods in the U.S. economy also points to a slow recovery path;
- Employment growth may start after Q3 2020, but those who have returned to work are likely to choose a more cautious spending strategy for some time, and so these households will make only a small contribution to expanding consumer demand.

Household savings in the European Union

The recovery of the European Union might be hampered by the higher savings rate of households, while so far they do not seem to be planning to spend the surplus, partly due to the risk of unemployment, and partly to fears of a second coronavirus wave (European Central Bank, 2020b; European Commission, 2020e, p. 190). The ECB also anticipates that households may set aside more than usual in the upcoming period, so the Central Bank forecasts that household consumption may start to increase in the second half of the year, but the pre-crisis level is only expected to be reached by 2022, and thus caution has a dampening effect on demand (European Central Bank, 2020a, p. 7).

SUMMARY

In the history of the economy, the 2020 coronavirus crisis is among those that were triggered by an external factor. In addition, the course of the recession, and the path of recovery will depend on the evolution of this external factor, namely the coronavirus pandemic. The downturn has opened considerable scope for the use of the monetary and fiscal anti-crisis measures applied since the 2008 crisis, and offers the opportunity to fine-tune them to the specificities of individual economies, which will have a significant impact on country-specific recovery. At the same time, a new element of the crisis is the loosening and occasional disintegration of international supply chains due to epidemiological restrictions, which may call into question the further continuation of the previously uninterrupted expansion in the trend of the global division of labour. The crisis is also a serious test of the former regime and institutional system of international economic cooperation and integration, and may bring significant changes in the world economy.

NOTES

- ¹ For a more comprehensive picture of the topic, see: International Monetary Fund, 2020; Nagy, 2020, pp. 16–21; European Commission, 2020a; 2020b; 2020c; 2020f; Leyen, 2020; France24, 2020.
- ² According to 2018 data, China is the world's leading exporter of goods and the second largest importer, with shares of 12.8 and 10.8 per cent, respectively (World Trade Organisation, 2019, p. 100).
- ³ China's external debt, according to Trading Economics, nearly doubled between 2013 and 2019, reaching USD 2,057 billion, while its government debt-to-GDP ratio rose from 37 per cent to 50.5 per cent over the same period.

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Tamás Várhelyi, László Árva

Toward Complex and Sustainable Tourism in Hungary



Summary

In the late 20th and early 21st century, social and economic sustainability and the mitigation of environmental destruction have been issues of key concern. Tourism is intensely affected, as this sector is among the most polluting and least sustainable activities. Repeated pandemics, including the Ebola, AIDS, SARS, MERS, and then COVID-19, have been destroying the economy all over the world and, not surprisingly, they hit tourism the hardest of all sectors, as mass travels accelerate the spread of contagious diseases. But tourism already encountered problems long before the pandemic. As excessive tourism and the resultant pollution had already increased in the past few decades, anti-tourism attitudes spread rapidly. The current health hazards could be used to transform the unsustainable, polluting tourism into an ecologically and socially sustainable activity. This article analyzes the options we have.

Journal of Economic Literature (JEL) codes: Z30, Z32, Z38

Keywords: sustainable tourism, globalisation, COVID-19 pandemics, air transportation, marketing generated demand, geographical spreading of tourism, new types of tourism

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WHAT IS SUSTAINABILITY IN TOURISM?

According to the UN World Tourism Organisation, sustainable tourism should

1. make optimal use of environmental resources that constitute a key element in tourism development, maintaining essential ecological processes and helping to conserve natural heritage and biodiversity;
2. respect the socio-cultural authenticity of host communities, conserve their built and living cultural heritage and traditional values, and contribute to inter-cultural understanding and tolerance;
3. ensure viable, long-term economic operations, providing socio-economic benefits to all stakeholders that are fairly distributed, including stable employment and income-earning opportunities and social services to host communities, and contributing to poverty alleviation (UN WTO, 2020c).

It is important to note that “overtourism”, i.e. excessive tourism, when too many tourists arrive at a limited place, is one of the major causes of pollution.

MARKETING GENERATED DEMAND AS A MAJOR CAUSE OF UNSUSTAINABLE ECONOMIC DEVELOPMENT

During the 1960's and 1970's, resource scarcity was thought to menace economic development, as it was presented by the Report of the Club of Rome (Meadows et al., 1972). However, today it is rather the unsustainability of economic growth and the pollution caused by it that seem to threaten mankind. Such a polluting economic growth has largely been caused by the “marketing generated demand” underlying our economy. Since the early 20th century, instead of people's natural needs, demand has been generated rather according to the needs of producers, seeking increase in production and profits, and using a wide range of marketing tools to incite increasing demand. Such a “marketing generated artificial demand” is practically endless, as it has no natural limits. The economic development emerging from artificial demand is not a natural process, and consequently, the slogan that the consumer is king becomes empty and meaningless. Moreover, the tools available for an information society provide far wider opportunities for influencing consumers (Várhelyi, 2007).

Not surprisingly, “artificial demand” is also present in tourism: a destination is often made fashionable by suggesting that those who have not yet visited it are less valuable. Certain places are considered a “must” that should be visited at any cost, and the more expensive they are the better it is. This is reminiscent of former religious pilgrimages: a believer had the moral obligation to visit certain holy places (Jerusalem, Mecca, the River Ganges or the El Camino de Compostela). This has given rise to “overtourism”: when a given destination is flooded by too many visitors, who destroy its environment and make life unbearable for the local people – and sometimes also for the tourists themselves.

There are numerous examples of overtourism from party tourism in the Mediterranean (Ibiza, etc.) through cities like Venice to the small Pacific islands and even to Mount Everest.

MARKETING AS A PART OF THE SOLUTION TO OVERTOURISM

In addition to being part of the problem, marketing may also be part of the solution. Methods of reducing overtourism may include the geographic dispersion of tourists: in the most crowded destinations the number of tourists can be reduced, while elsewhere (by proper attractions) it can be increased, and thus the total revenue of the service providers need not be reduced.

THE DANGERS OF THE COVID-19 FOR THE ECONOMIC ACTIVITY AND SOME POSSIBLE SOLUTIONS

By the end of the summer in 2020, the number of people infected by COVID-19 had exceeded 20 million worldwide and the number of deaths had reached nearly 1 million.¹ As some experts believe that this virus may never completely disappear but live with mankind for a very long time, it might radically change our behaviour, the economy, globalisation and, above all, tourism.

In terms of the effects of the pandemic on the economy, and increasing number of articles suggest that the panic could be used to introduce improved and more sustainable forms of economic development, also in tourism.

Economists define recession as two consecutive quarters of falling gross domestic product (GDP), the broadest indicator of economic prosperity. Consequently, the United Kingdom has fallen into recession, as after a 2.2% fall in Q1 2020 and a historic 20.4% plunge in Q2, the COVID-19 recession is the deepest one in the modern age. Other countries have also followed it. As the World Bank report announced in June, 2020: “COVID-19 has triggered a global crisis like no other – a global health crisis that, in addition to an enormous human toll, is leading to the deepest global recession since the second world war. While the ultimate growth outcome is still uncertain, and an even worse scenario is possible if it takes longer to bring the health crisis under control, the pandemic will result in output contractions across the vast majority of emerging market and developing economies (EMDEs). Moreover, the pandemic is likely to exert lasting damage to fundamental determinants of long-term growth prospects, further eroding living standards for years to come. The immediate policy priorities are to alleviate the ongoing health and human costs and attenuate the near-term economic losses, while addressing challenges such as informality and weak social safety nets that have heightened the impact on vulnerable populations. Once the crisis abates, it will be necessary to reaffirm credible commitment to sustainable policies – including medium-term fiscal frameworks in energy-exporting EMDEs suffering from the large plunge in oil prices –and undertake the necessary reforms to buttress long-term growth prospects” (World Bank, 2020b, pp. XV-XVI).

COVID-19 AND GLOBALISATION

In the last third of the 20th century, globalisation switched to a new form called neo-, or hyper-globalisation. It is characterized by the predominance of transnational companies (TNCs), which endeavour to geographically optimise their value chains: in order to reduce costs, different elements of their value chains are outsourced to places and to countries which provide important benefits. For example, assembling activities require unskilled workers, thus these activities are outsourced to underdeveloped countries, where labour is cheap, however, more sophisticated activities are kept in the rich countries, having more abundant supply of trained labour. Not surprisingly, countries having low value-added activities are often trapped in poverty, or at least at a medium income level. For such a middle-income trap see for example Árvai (2018) or Csath (2019).

But the COVID-19 pandemic is changing the picture: geographically too long value chains jeopardize TNC operation, as – due to the health hazards – it is not easy to buy component parts. If, for example, parts of a company's activities are outsourced from Western Europe or from the USA to China, Vietnam or other remote parts of the world, visiting these subsidiaries is unavoidable, and the risk of COVID infection increases with each travel.

It is highly probable that already in the near future TNCs may geographically shorten their value chains or bring back some activities to Western Europe or to the USA.

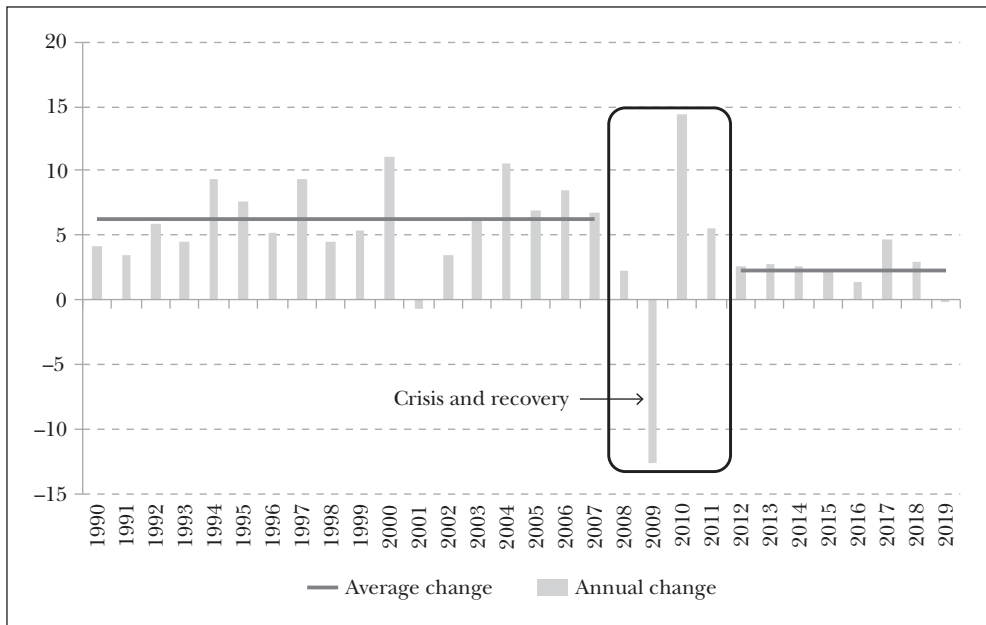
CEPAL, the regional economic committee of the UN for Latin America, has made a very interesting analysis on the effects of the COVID-19 pandemic on international trade and logistics (UN ECLAC, 2020): “The COVID-19 outbreak occurred in a context of sluggish global trade that has been dragging on since the 2008-2009 financial crisis. While the volume of trade in goods grew at an average rate of 6.2% per year between 1990 and 2007, it expanded by only 2.3% per year between 2012 and 2019. Likewise, the share of exports of goods and services in global GDP, which reached a historic height of 31% in 2008, has been around 28% since 2015.”

“In this situation, the volume of global trade in goods fell by 17.7% in May 2020 compared with the same month in 2019. The drop in the first five months of the year was widespread, although it particularly affected exports from the United States, Japan, and the European Union. The economic contraction in China was smaller than the global average, as that country controlled the outbreak and reopened its economy relatively quickly. Latin America and the Caribbean is the most affected developing region.”

The most alarming picture in 2020 is related to the year-on-year changes of the international trade (see Figure 2).

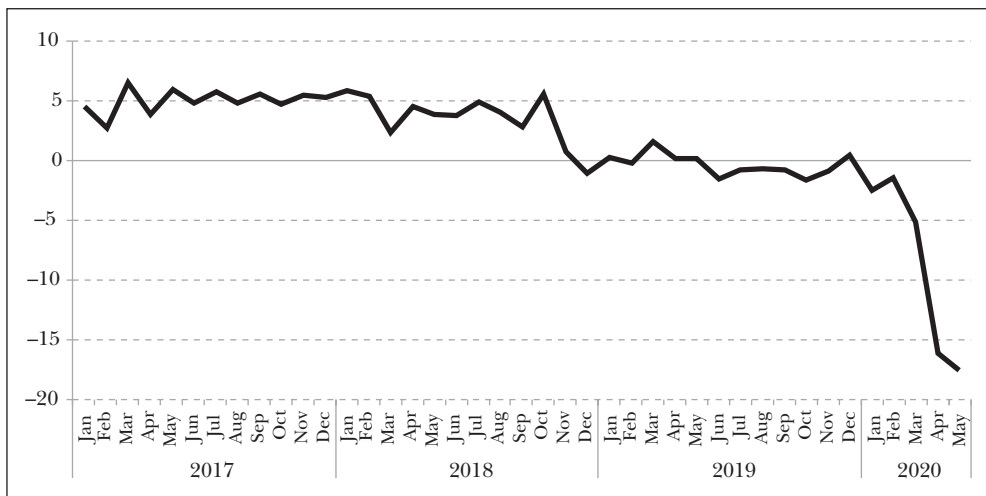
“Global value chains were the main channel for transmitting the effects of COVID-19 to global trade. The measures adopted by China in January (the temporary closure of Hubei Province and national borders) meant that exports of inputs for industries such as the automotive, electronics, pharmaceutical and medical supplies

Figure 1: Change in the volume of the global trade in goods, 1990–2019. (Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the World Trade Organization (WTO).

Figure 2: Year-on-year change in the volume of global trade in goods, January 2017–May 2020 (Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Netherlands Bureau of Economic Policy Analysis (CPB), World Trade Monitor [online database] <https://www.cpb.nl/en/worldtrademonitor>.

industries, were suspended. This forced factories in North America, Europe and the rest of Asia to shut down for several weeks because they had no alternative suppliers, as China is the world's leading exporter of parts and components, accounting for 15% of global shipments by 2018. The volume of global goods trade shrank by around 18.5% in the second quarter of 2020 compared to the same period in 2019 (UN WTO, 2020a). Thus, the drop during the first six months is expected to be around 11%. This suggests that the contraction in global trade in 2020 will be closer to the "optimistic" end of the projections that range from -13% (similar to the annual fall in 2009) to -32% forecast in April. These projections clearly depend on how the pandemic evolves during the second half of the year, particularly in the United States, where infection rates continue to rise. Trade in services has also been severely affected. The value of exports from a group of 37 countries, which in 2019 accounted for around two thirds of global exports of services, shrank by 10.4% in the first quarter of 2020 compared to the same period in 2019. Tourism, which accounted for 24% of global exports of services in 2019, has been hit particularly hard. Between January and April 2020, international tourist arrivals declined by 44% worldwide, compared to the same period in 2019. For 2020 as a whole, arrivals are expected to drop by between 58% and 78%, depending on how the pandemic evolves and how quickly travel restrictions are relaxed" (UN ECLAC, 2020).

EFFECTS OF COVID-19 ON TOURISM

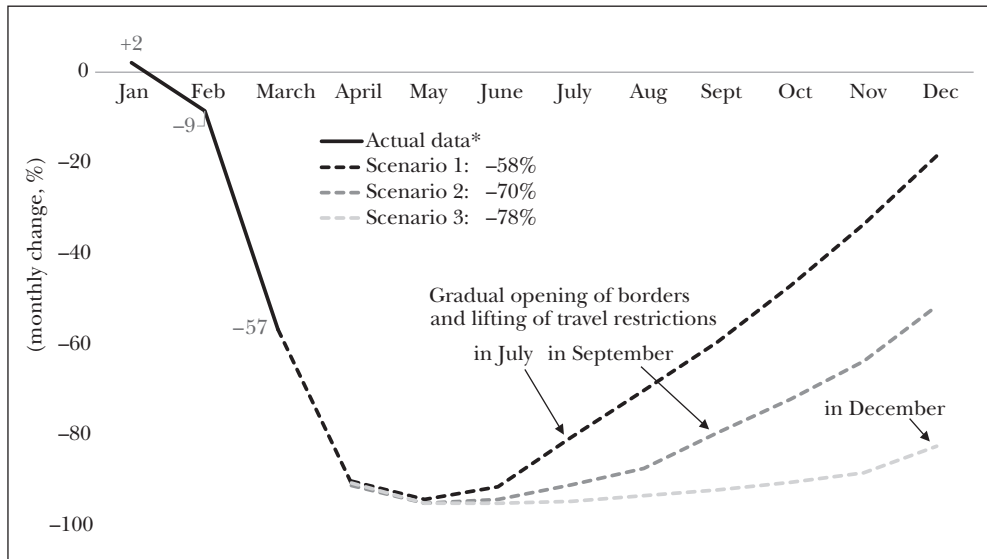
This pandemic has already had serious consequences, as economic activities have dropped by 10-30 per cent all over the world. The badly affected activities are those which necessitate close contacts between people. Tourism is one of those, as the risk of infection does not only arise at the destination, but also during travel, when a lot of people are locked up in narrow spaces (airplanes, trains etc.) with hundreds of other, potentially infected, persons.

In addition to postponing large events (festivals and other programmes), travels have also been reduced or completely stopped. Lots of tourism companies have been obliged to temporarily reduce their operation or have gone bankrupt.

At the same time new types of tourism might emerge soon: travelling by camp cars, caravan cars or by other means to efficiently separate visitors. If those solutions become more popular, tourism can be completely refashioned. While airlines and cruise ship operators might suffer further decline, camping and caravan car renting companies and especially, healthy camping facilities might flourish.

Currently, tourism highly relies on air transport, as the most popular destinations can mainly be reached by air. Before the outbreak of the COVID-19 pandemic, air transport increased twice as rapidly as the world population (Iacus et al., 2020a, p. 3). However, when the pandemic broke out in 2020, air transport collapsed. As a result of the 2020 crisis, the volume of air transport has fallen to 15-20 per cent of the previous data. Using the experiences of the former pandemic, recovery in the air industry has been predicted as follows.

Figure 3: International tourist arrivals in 2020: three scenarios (YoY monthly change, %)



*Note: * Actual data through March includes estimates for countries which have not yet reported data.*

Source: UN WTO, 2020b (International tourist arrivals in 2020: three scenarios (YoY monthly change, %))

Note: The scenarios presented in this graph are not forecasts. They represent alternative monthly change in arrivals based on the gradual opening of national borders and lifting of travel restrictions on different dates, still subject to high uncertainty.

Note that the fears generated by the COVID-19 pandemic and the nearly complete shutdown in air traffic might be a good opportunity to change transport-related habits. It is a well-known fact that air traffic is one of the most polluting means of reaching a destination, and as a result, tourism is responsible for approximately 25-40 per cent of all the pollution caused by economic activities.

Tourism-related pollution is caused by various sources, including:

- air traffic,
- cars and other land vehicles,
- cruise ships,
- other polluting activities related to accommodation (food shopping, staff travels to their working places, etc.).

SUSTAINABLE TOURISM AFTER THE COVID-19 PANDEMIC

As tourism had become one of the most important economic activities by the end of the 20th century, involving a large part of the population, it is essential to reduce tourism-related pollution and to make it sustainable. In addition to the traditional pollution due to emissions caused by travels, note the above-mentioned “overtourism”. The COVID-19 crisis can help reduce traditional tourism with a more sustainable, less polluting one.

REPLACING POLLUTING TOURISM BY A SOFTER AND MORE SUSTAINABLE FORM OF TOURISM

It is well-known that not all types of tourism are equally polluting, and there are forms of tourism which are more sustainable than the others. The most polluting tourism activity is cheap mass tourism, which does not usually generate sufficient revenues for the service providers at the destinations. A typical example includes trips by ocean cruisers, with food and accommodation provided on board. For the destinations the only “benefit” is that the travellers embark on and visit some places, but they do not spend much.

“Party tourism” is similar in its effects. In the past few years it has become trendy to fly (by low-cost airlines) to popular party destinations in the Mediterranean or to large cities.

Another similarly adverse form of tourism includes “autonomous” tourist villages (generally run by Club Mediterranean and similar organisations), where tourists are completely closed off from the local areas, and consequently they do not create jobs for locals as the staff is often recruited, and even food and drinks are transported from distant places.

Unfortunately, tourism service providers are lobbying for the quick reopening of the borders in order to be able to return to the former practices and earn revenues. But this approach is no useful solution to the crisis. Even if the borders open quickly,

- after a quick opening, the pandemic might soon return, and consequently the borders will have to be closed again, as it happened after World War I during the Spanish flu, which started in 1918, and had new waves in 1919, 1920, and even in 1922,

- additionally, due to global warming and to increasing population, after the COVID-19 pandemic new infectious diseases are likely to appear; and

- the destinations are unable to cope with the floods of tourists, and overtourism might force out new activities.

Taking all these factors into account, it is advisable for tour operators and destination managers to move towards less polluting and more environment friendly types of tourism.

THE LEAST POLLUTING TOURISM AND TRAVELLING INLAND

After the COVID pandemic, long-distance transport and travels should drop significantly – at least in the foreseeable future –, as people are not ready to spend days and weeks in quarantine, or to suffer from a disease instead of enjoying a pleasant holiday. Cruise hotel ship industry might be hit badly, as people have died in high numbers due to COVID-19 infection got on hotel ships.

All these discomforts may be avoided if tourists do not travel abroad, however, at the moment it is not clear if this shift in destinations will be a short- or long-term trend. In order to save the planet and tourism, it is essential that governments, tour

operators, destination managers and everyone with any influence on tourism should make efforts in order to maintain this trend over the long term. Currently, in Hungary the government makes considerable efforts at encouraging domestic tourism, but it is also important to maintain them over the longer term.

Development should be speeded up in some regions: lots of efforts are made to develop the most popular Hungarian tourism destinations by soft government credits and non-refundable grants.

Naturally, the efforts of the central government are not enough in themselves: the case of the town Eger shows that in order to increase the popularity of a destination, it is important to find a good name. The name of the town Eger, the centre of this destination, is much more known than the present name (Mátra-Bükk Destination), and the latter fails to represent the specificities of the destination, which are concentrated around Eger, including wellness facilities, gastronomical and wine tourism establishments. Perhaps, the “Eger Valley of Wellness Spas” would be a happy name for this destination, comprising the highly popular areas of Eger, Egerszalók, Demjén etc. (Várhelyi and Árva, 2020).

The importance of new developments in the Lake Tisza region should be highlighted, as the Hungarians who used to visit sea resorts might now target this destination, which is worth developing, as contrary to Lake Balaton, the use of motor boats is permitted there. Unfortunately, the right bank of the River Tisza does not have proper infrastructure yet.

Some of the government sources have already been allocated for programme and service development, and during the COVID-19 pandemic, there might be important demand for those programmes and services. For domestic tourism important impetus might be given by the Erzsébet Coupon, which can be used for paying Hungarian tourism attractions and accommodation.

OPPORTUNITIES IN DEVELOPING TOURISM IN BUDAPEST

During the past few years the (environmental or social) unsustainability of tourism has already caused lots of problems all over the world. Some destination managements are trying to limit the number of tourists. This is a strong trend in Venice of Italy, Barcelona of Spain, or in some parts of India and Latin America. Similar efforts are made in Budapest due to the discontent of the inhabitants.

In the past few years party tourism has increased in the city. Some parts of the town have become “party quarters”, and their visitors, being primarily not well-off young Hungarians and foreigners, behave accordingly. This type of party tourism generates important revenues only for a limited number of pub owners, but the external costs (pollution) are shifted to and very often covered by the municipalities, i.e. the inhabitants of the area. In certain parts of Budapest Airbnb services have become important and in spite of the large number of foreign party tourists, hotels working at only half capacity. On the other hand, as lots of flats were bought in Budapest for investment as Airbnb accommodation, property prices have increased to levels the local Hungar-

ians can hardly afford. Due to the inconveniences caused by parties, a high number of the locals, who had lived at such places for generations, decided to sell their flats and to move away to calmer parts. Fortunately, the municipalities and the central government have just decided to regulate Airbnb services to help mitigate the problems.

Durable, longer lasting solutions could only be reached if polluting party tourism is replaced by higher-quality, less polluting forms of tourism, but it is not easy to do so, as the image of the area should completely be transformed, and this is a major marketing task.

How can the party district of Budapest be re-positioned?

- First of all, cultural tourism should be increased by supplying proper programmes supported by adequate marketing;

- Health tourism should also be increased. As Budapest is rich in hot spas and wellness hotels, the number of health tourists can be increased, and consequently, capacity developments are needed (new wellness hotels should be built, the services of the existing ones should be increased and developed);

- Business tourism should also be increased after the COVID-19 pandemic;

- Educational tourism (i.e. foreign students at Hungarian higher educational institutions) can also be an interesting possibility in changing tourism in Budapest; and

- At last but not least, the regulation of Airbnb accommodation can also help change tourism in Budapest: short-term Airbnb facilities should be transformed into longer-term accommodations like students' dormitories or hotels.

“Soft” tourism is important not only because it is less polluting, but it also because it depends less on the economic conjunctures than “party tourism”. Tourists arriving to make business, study or participate in cultural events tend to spend more than party tourists..

THE SIGNIFICANCE OF THE EDUCATIONAL TOURISM IN HUNGARY

Although not widely known, educational tourism used to be an important segment of Hungarian tourism. At the turn of the 20th and 21st centuries, due to the demographic trends and to the increase in the opportunities of studying abroad, the number of young Hungarians applying for admission to the Hungarian higher education started to decline.

Decline in the number of university students is due to three causes:

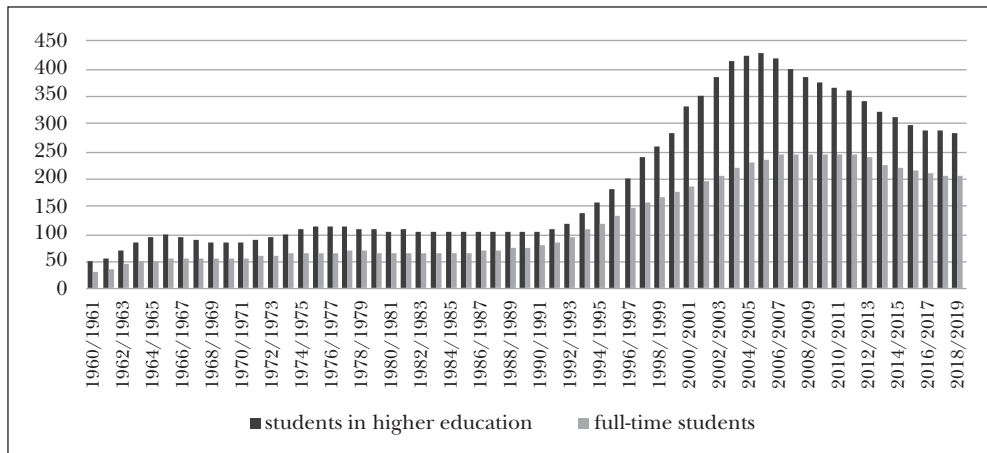
- Demographic causes: the number of young Hungarians has been declining in the past few decades;

- An increasing number of Hungarians opt for studies abroad. According to the “mirror statistics” of the Engame Institute, the number of the Hungarians studying abroad was 13,000 in 2018.²

- Admission to Hungarian higher educational institutions is increasingly difficult.

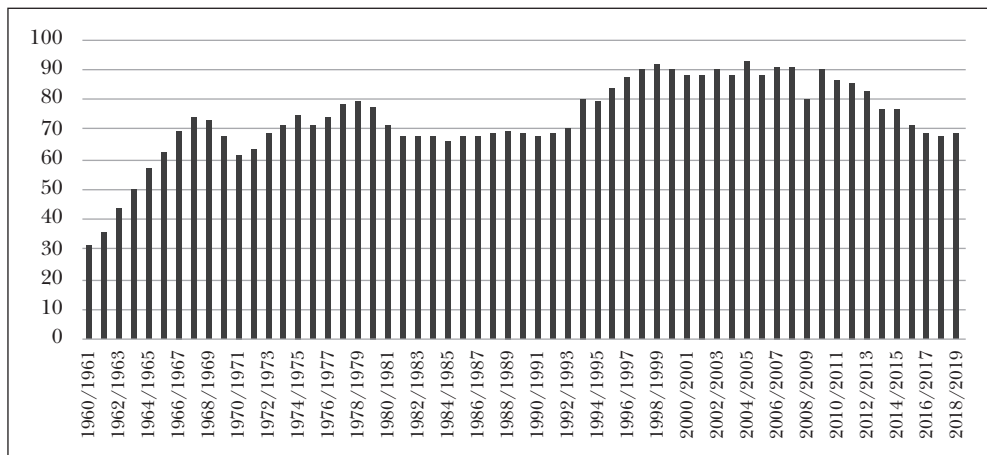
As a result, since 2000 an increasing number of more and more Hungarian higher educational institutions had to give up their independence, and they either closed down, reduced their capacities or merged with similar institutions, unless they managed to attract foreign students. The current tuition fee paid by foreign students is

Figure 4: Full-time students in Hungarian higher education (1000 persons)



Source: KSH

Figure 5: Persons with secondary qualifications (1000 persons)



Source: KSH, www.ksh.hu/docs/hun/xstadat/xstadat_hosszu/h_wdsi001a.html

around EUR 2,000 per term, 10 per cent of which is paid to student recruitment companies, and the rest is used by the university.

EDUCATIONAL TOURISM AND DEVELOPMENT IN HIGHER QUALITY TOURISM

While in Hungary the importance of cultural, wellness, health and business tourism has already been accepted, this is not the case with educational tourism, although foreign students do not only pay their studies, but also spend a lot of money in the cities

where they live. According to the latest surveys educational tourists spend more per capita and per year than business (MICE), wellness or health tourists.

According to research studies conducted among foreign students studying in Hungary³

- foreign students spend much more money than other tourists in Budapest;
- these students are considerably more likely to return to Hungary as tourists;
- spending by foreign students is more even than by other tourists;
- foreign students staying in Hungary for a longer time cause less pollution than party tourists, who stay here for a short term;
- educational tourism does not fluctuate as rapidly with economic cycles as the other forms of tourism.⁴

A steady increase in the number of foreign students in Budapest would be beneficial, but it is not an easy task, as it requires

- increase in higher educational capacities, and
- increase in the number of foreign students applying to higher educational institutes in Budapest.

Foreign students in Budapest might bring further benefits: they can help transform the currently rather expensive Airbnb accommodation places into student dormitories, and consequently reduce conflicts with the local residents. At the same time the proposed regulations on Airbnb can also be more easily implemented by longer-term renting of homes to foreign students, who are generally ready to pay higher rents. Also, the number of visitors at museums and exhibitions, and thus “cultural tourism” might also increase.

HIGH QUALITY ACCOMMODATION FOR FOREIGN STUDENTS IN HUNGARY

It is very important to encourage activities that might increase the arrival of foreign students to Hungary. At the moment in Hungary there are insufficient student dormitories acceptable for foreign students: note that the Hungarian higher educational system competes with the American, British, French, Austrian or German systems. Although there are a few good private dormitories for foreign students in Hungary, their capacities are insufficient. The Hungarian government and the municipalities should support the building of high-quality student dormitories, perhaps by providing preferential credit, or preferential mortgage schemes (Kovács and Pásztor, 2018).

IMPROVEMENT IN THE SUPPLY OF CULTURAL TOURISM FOR FOREIGN STUDENTS

Although a wide range of important cultural events were offered in Budapest and in other major cities (Debrecen, Szeged, Pécs and Győr), they were generally concentrated in time and there were huge gaps. Unfortunately, foreign students in Hungary generally do not have enough information about such programmes, only a few organ-

isations have special websites that provide relevant information to foreign students studying in Hungary.

Additional programmes that could be offered to foreign students staying in Hungary include, among others:

- guided walks to present Hungarian city and town architecture;
- presentation of Hungarian gastronomical traditions;
- Hungarian fashion designers, etc.

Obviously, such programmes in addition to foreign students, such programmes should also attract other foreigners, but foreign visitors who do not spend as long time in Hungary as foreign students have less free time to visit all these attractions. MOTE, the Hungarian Association of Educational Tourism, might help service providers to elaborate such programmes.

DESTINATION MANAGEMENT SOLUTIONS IN DEVELOPING COMPLEX AND SUSTAINABLE TOURISM OFFERS: EXAMPLES OF META DESTINATIONS

In order to develop sustainable tourism, it is important to find solutions which might help destinations offer more complex attractions to visitors. A single attraction is insufficient to engage visitors in additional activities after a medical treatment or a wellness programme, while cultural events or gastronomy might help. However, as it may be difficult to find extra attractions at a single destination, “meta destinations” need to be developed. In essence they bring different destinations together in order to be able to provide common, complementary marketing management activities.

Health tourism in the town Gyula is a good example. In the vicinity, Békéscsaba has significant cultural and gastronomical tourism and two towns on the other side of the border, in Romania, have active sports life. Jointly they may be regarded as a “meta destination” with different elements supported by a common marketing management. Consequently, tourists are offered more complex supplies within a few kilometres.

In the case of “meta destinations”, common brand building is an important element in tourism marketing management, especially in health and wellness tourism (Várhelyi and Soós, 2018). Also note that such common marketing activities should be used in relatively small destinations, as according to the latest experience, if a destination is too extended, it is unable to help tourists, who are generally unwilling to visit places situated farther than 10-15 km from each other. Also, meta destinations should attract visitors by different, supplementary activities.

A similar development has already taken place around Eger. In this destination some spa resorts (as in Egerszalók or Demjén) can be found, and additionally, Eger is famous for its cultural, gastronomical and wine tourism. Unfortunately, the rigid administrative borders between the destinations block efficient, common tourism marketing management.

The idea of cooperation was used in the feasibility study for the development of Egerszalók. Tourism managers realized that this project can only be successful if a

complex tourism development is implemented together with other villages in the micro-region. The concept was described as the “Egerszalók Model” (Várhelyi, 2019). In addition to Egerszalók another spa in Demjén was also developed to make this region one of the strongest meta-destinations in the country.

Currently, spa-based, traditional wellness attractions predominate tourism in Eger and are presented in its official tourism communication. Not surprisingly, the spa and wellness facilities of the town are crowded. Other attractions in the vicinity should also be advertised and reflected in the destination name to relieve the town (Várhelyi, 2011).

By broadening the offer, tourism could include meta destinations comprising various complementary attractions in order to reduce the number of visitors at a time in overcrowded parts and to increase it at places where formerly tourism was scarcely present or not at all. Reducing the density of tourists is very important in stopping the COVID-19 pandemic, to fight overtourism and to make tourism more sustainable.

Interesting cooperation is about to be established between the towns Békéscsaba, Gyula and some cross-border places in Romania under the name “Körös Valley Cooperation”.

UP-TO-DATE, POST-MODERN MARKETING TOOLS IN DEVELOPING HIGH-QUALITY, SUSTAINABLE TOURISM

By the end of the 20th century, post-modern marketing had emerged and successfully used all over the world. Some elements of post-modern marketing are very popular in Asia, in China and in Japan. Post-modern marketing, which is a part of the post-industrial society, has been deliberately defined against Kotler’s modern marketing of the industrial society. Post-modern marketing has given more place to fantasy, to tales and to a “look-alike” or a “retro” feeling. Good examples of these post-modern marketing are some retro-products or some retro attractions in the tourism. By the beginning of the 21st century post-modern marketing (together with the use of internet and other up-to-date methods) have become one of the very useful tools of the marketing of our time (Árva and Sipos, 2012).

The village Felsőtárkány near Eger is a good example of the application of post-modern marketing elements. It houses “Bambara Hotel and Mali Beach”, a complex excellently using fantasy and vintage elements in an attempt to offer a replica of an African sea resort, including a beach, made predominantly of items from Africa. While Mali does not have beaches at all, as it is a landlocked country, this “look alike” attraction relies on business success on the feeling of African beaches, which is rather popular in Europe. To attract visitors, meerkats are kept in the resort, although these cute animals only live in the southern part of Africa, not in Mali. The African hot climate is imitated with the help of the local thermal springs, abundant all over Hungary.

Similar post-modern “look-alike” attractions might have an important role in improving local tourism. They may help making tourism sustainable, as traveling to the north-east Hungary is less polluting than to fly to Africa or to the Indian Ocean.

Naturally, with the aim to increase sustainability in tourism, service providers should also use post-modern marketing methods elsewhere. Unfortunately, at the moment Hungary does not have enough similar post-modern resorts.

HISTORY OF HUNGARIAN THERMAL SPAS AND THEIR USE IN TURNING TOURISM SUSTAINABLE

The region is rich in hot spas: examples include Sovata and Băile Tușnad (Romania), at *Starý Smokovec* and Piešťany (Slovakia), Palić and Kanjiža (Serbia), Hévíz, Harkány, Tarsasfürdő or the spas around Eger (Hungary).

As the Carpathian Basin is rich in thermal spas with proven medical properties, before World War I, Hungary was well-known for its spas and today it is working hard to re-establish itself on the world map of spas. While in the past rich people spent longer periods in spas, mainly to drink the waters, today these places offer shorter wellness programmes. With increase in health awareness and prevention, Hungarian spas should be developed in this direction.

Unfortunately, a large part of the population does not know that in Hungary everyone is eligible for a 15-day-long treatment in spas twice a year (prescribed by a general practitioner) for rheumatic or orthopaedic problems, or to prevent diseases for those who do desk-bound jobs.

Although some of the famous, old spas have disappeared from the Carpathian Basin, a lot of new spas were built after 1998 at thermal springs discovered mainly in the 1960's and 1970's, during extensive search for natural gas and oil. At that time the springs discovered were generally closed down and they were only utilized after the change of regime.

Today this natural asset can be used for medical and tourism purposes. Thermal spas are suitable for implementing sustainable and non-polluting tourism, as water does not need to be heated, and can also be used for heating and cooling rooms. Since imitation tropical beaches can also be built on thermal spas, Hungarian tourists can save the costs of travelling far and spare the environment.

SUMMARY AND PROPOSALS

After the outburst of the COVID-19 pandemic, tourism was the hardest hit by the travel restrictions and by people's fears. After a careful re-consideration of the opportunities, solutions can be found and strategies developed to the more general and chronic problems of tourism, accumulated during the past decades. Before the COVID-19 pandemic, tourism was not only one of the most rapidly developing economic factors, but also one of the most polluting activities. Perhaps, this pandemic arrived at the right moment, as tourism had reached its limits of complete non-sustainability.

Solutions should be found to replace the former methods by less polluting and more sustainable ones, including:

- Increasing the importance of local tourism with focus on shorter distances than before the pandemic;
 - Engaging in less polluting and more sustainable tourism activities, as health, educational or cultural tourism);
 - Improving the distribution of tourists at a given destination, and creating larger “meta-destinations”;
 - Replacing long-distance air travels by shorter trips by camp and caravan cars and by train;
 - Using post-modern marketing to create “exotic” places in the vicinity.
- These new methods might hopefully provide solutions not only during the COVID-19 pandemic, but also for reducing pollution and increasing sustainability in tourism.

NOTES

- ¹ www.worldometers.info/coronavirus/.
- ² www.engame.hu/eass/blog/kulfoldi-tovabbtanulas/943-magyar-diakok-kulfoldon-2017.
- ³ See Árva, L., Könyves, E., Deli Zs., Császár, Zs. and Alpek L. Here we would like to refer to research studies conducted by Árva László, Könyves Erika, Deli Zsuzsa, Császár Zsuzsa and Alpek Levente
- ⁴ See research by KSH (the Hungarian National Office of Statistics) and estimations by Árva, L. and Könyves, E.

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The Effects of the COVID-19 Pandemic on the Paradigm Change in Agriculture



Summary

There have been successes and failures in combatting COVID-19 worldwide. News of the emergence of vaccines and the start of their widespread use give a ray of hope, but the battle is not over yet. Agriculture has a special role to play in this, as food should be maintained in all circumstances all over the world. There can be no question of a temporary shutdown in this sector. This study points out that the pandemic has caused labour shortages in seasonal work in both EU and US agriculture, which not only highlights, but also forces the acceleration of innovation-driven efficiency gains and generational change. Innovation in this case is aimed at reducing the need for human resources, and generational change is aimed at involving young women and men in agricultural production. The preservation and continuation of agricultural production is the basis for maintaining agricultural trade and the supply chain. The study sheds light on the short- and long-term effects and changes that the COVID-19 has caused in these areas. Success requires not only the development of the quantitative, but also the professional, qualitative preparation of the workforce, for which the authors recommend the wide application of talent management in agriculture and point out the most important elements of conscious preparation.

Journal of Economic Literature (JEL) codes: Q10, O1, I25, M12

Keywords: agriculture, economic development, training and economic development, personnel management

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*“Success is not final, failure is not fatal:
it is the courage to continue that counts.”
(Winston Churchill)*

THE EFFECTS OF COVID-19 ON AGRI-FOOD PRODUCTION AND TRADE

In 2020, the situation of the agri-food business shows a complex picture, but we can already say at the outset that the sector has stood its ground and it has persevered in this situation as well. We can clearly say that the COVID-19 surprised the world, which was not prepared for the reception of a virus on such a global scale. Following the outbreak of the pandemic in the Far East, the first official reactions and recommendations were made only several months later even in the EU and the US, only after the pandemic had hit their territories.

This delay accompanied by divergent policies and responses also contributed to the rapid global spread of the virus. Combatting the pandemic soon became the key issue in 2020, both in terms of human health and the economy. The strategic importance of agri-food production and trade became an objective reality when the pandemic erupted worldwide. As healthy and adequate food should be ensured in all circumstances at present and in the future; stopping production and supply processes in agriculture has been out of the question. The combat against the pandemic exposed this sector to different problems than the sectors where actual shutdowns had to be made in production or in services (Lentner, 1998).

The first measures taken upon the arrival of the pandemic were focused on the protection of human health and then on stabilising the economy and maintaining the functioning of the Single Market.

On 16 March 2020, the Commission of the EU presented its guidelines to the Member States on health-related border management measures in the context of the COVID-19 emergency. The relevant communication states that the aim was to protect citizens' health, ensure the appropriate treatment for people who do have to travel, and make sure essential goods and services remain available. In the context of the guidelines, President von der Leyen said: “Our measures to contain the Coronavirus outbreak will be effective only if we coordinate on the European level. We have to take exceptional measures to protect the health of our citizens. But let's make sure goods and essential services continue to flow in our internal market. This is the only way to prevent shortages of medical equipment or food. It's not only an economic issue: our single market is a key instrument of European solidarity. I am in discussion with all Member States so that we confront this challenge together, as a Union” (European Commission, 2020a, p. 1).

The start of the “defence process” was, however, not trouble-free. Member States in the EU did not respond at the same time and in the same way. The applied restrictions and border closures, and households' panic purchases, caused disruption and supply difficulties in some products in the first days. Despite these minor distur-

bances, the agri-food supplies have remained relatively stable and had been secured throughout the EU and the US, where similar processes took place earlier this year.

In addition to the human healthcare measures, great efforts have been made worldwide, including both the EU and the US, in agriculture to ensure food production and trade, and thus to maintain supplies. In September, the G20 Agricultural Ministers issued a statement underscoring the importance of maintaining agricultural trade flows during the COVID-19 pandemic and emphasising their commitment to remaining reliable suppliers of food and agricultural products to the world, and highlighting that reliable and resilient agricultural supply chains remain essential to guarantee the availability of safe, nutritious food around the world.

Examples and measures taken from the other side of the Atlantic included the USDA's farm programmes and assistance to agricultural producers, which involved billions of dollars in payments in the Coronavirus Food Assistance Program or other initiatives, such as the allowance of meal services during school closures to ensure that children receive nutritious meals while their schools are temporarily closed (USDA, 2020).

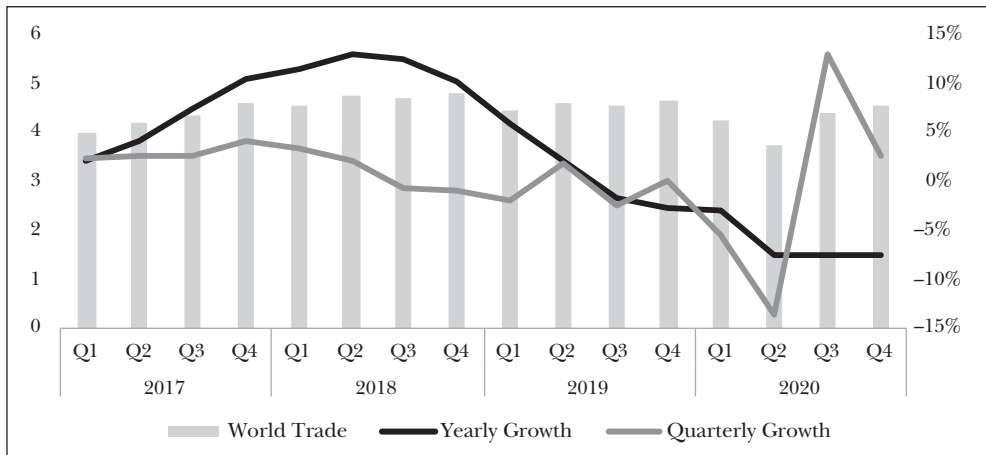
According to Census Bureau 2020 data, in the US, similarly to the EU, there is stabilisation in agricultural trade following the decline seen at the beginning of the year, as the October 2020 exports and imports reflect both the ongoing impact of the COVID-19 pandemic and the continued recovery from the sharp declines earlier that year.

Concerning the EU's response, direct support to farmers and rural areas, and exceptional market measures were taken for strengthening the food security and to guarantee an efficient food supply chain, with the aim to make use of the available funds under existing rural development programmes to provide support to farmers and SME's worst-hit by the COVID-19 crisis and to address the liquidity and cash-flow problems stemming from the closures of shops, markets and restaurants (European Council, 2020).

The foregoing highlights that great efforts have been made in both the EU and the US to sustain agricultural production and supply and related trade. Nevertheless, the different response times and diverging measures with the lack of coordination related to the viral pandemic have indeed resulted in significant and hectic fluctuations in world trade overall. The WTO Global Trade Report, published in June 2020, shows a sharp fall of 27 per cent in trade contracts for Q2, which exceeded the 2008 global crisis. Already in this report, reference is made to the special situation of the agricultural sector, as in the breakdown by sectors, the agri-food trade showed only a seasonal (winter) decline associated with the usual seasons. In contrast, growth started as early as April, counter to the spectacular and cumulative decline in car sales, for example. In its October report, the Global Trade already shows the "bounce back" of world trade, which is illustrated in Figure 1.

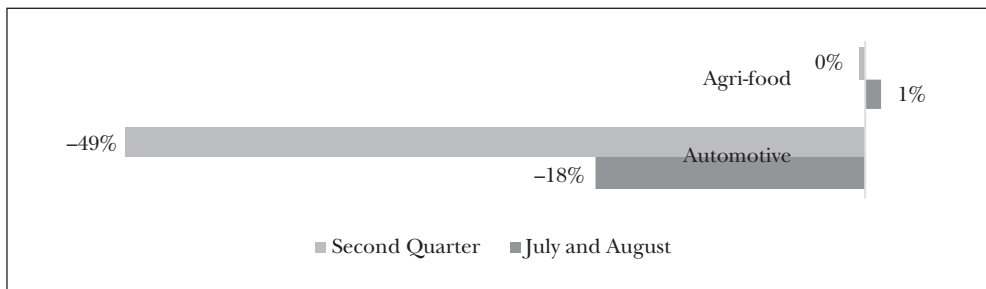
This is explained by the summer recurrence of the virus, and the explosive commercial growth of anti-virus tools and equipment. The October 2020 report shows lower but stabilising trade turnovers than in previous years, while diverging sectoral responses persisted. As an example, Figure 2 clearly illustrates a repeated very significant difference between the previously mentioned automotive industry and the agri-food sector. The figure also plainly shows the stability of agri-food trade in 2020.

Figure 1: Global trade in goods stabilised at lower levels



Source: Global Trade, 2020

Figure 2: COVID-19 has different effects by sectors in world trade



Source: Global Trade, 2020

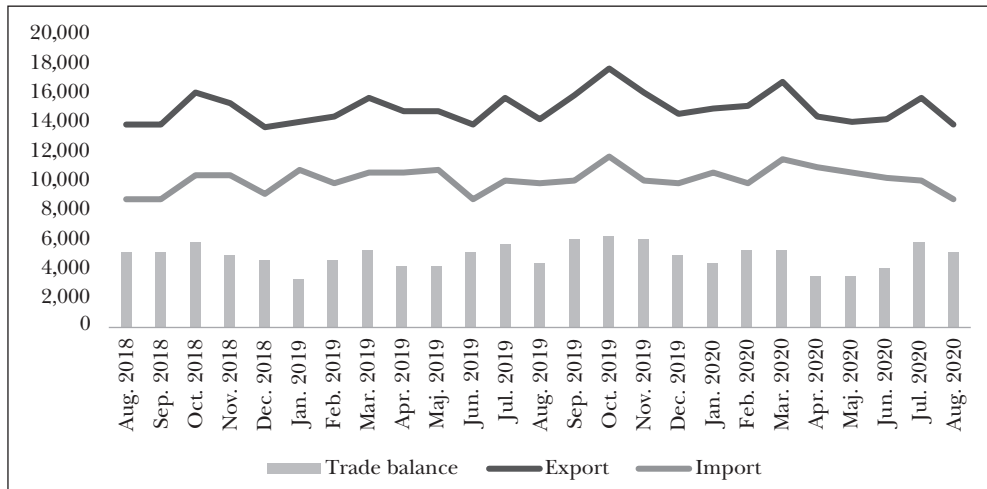
The WTO's World Trade Statistical Review 2020, which looks into the latest developments in world trade, with a detailed analysis of the most recent trends for trade in goods and services, gives us further guidance regarding the resilience of the agri-food sector. According to this WTO report, agri-food exports show an annual growth rate of 7 per cent in trade in agricultural products over the past 20 years, but the pace has been declining since the 2008 crisis. In addition, since 2000, the largest increase in the world exports of food was recorded in 2008, following the 2007-2008 world food price crisis (+22%). The largest decline was recorded in 2009 (-10.5%, WTO, 2020). The findings of the WTO report on the rapid development and then slowdown in agri-food trade in recent decades are in line with those of the FAO, which also establish that COVID-19 has reduced the growth rate of value chains and, at the same time, has shortened supply chains.

While according to FAO, global agri-food trade has more than doubled since 1995, with the rise of global agri-food value chains (GVC), the 2020 report shows that

COVID-19 is slowing down the growth rate in value chains: the financial crisis of 2008 and the consequent economic slowdown stalled the evolution of agri-food GVCs, and the COVID-19 pandemic is expected to further disrupt their potential in global trade and growth (FAO, 2020). FAO also lists the various trends and drivers behind the evolution of trade and markets, which include foremost technological progress, urbanisation, population and income growths; lower transport costs, trade policies and a decline in average import tariffs.

As a result of the measures taken, in contrast to fluctuations in world trade, agricultural production and trade showed balanced trends in the EU following seasonal fluctuations in 2020, based on The EU Commission's data for Q3 2020. The report points out that "despite the continuing COVID-19 crisis, EU agri-food trade remained strong during the first seven months of 2020" and thus agri-food trade in the EU has maintained growth in the period between January and July 2020.

Figure 3: EU27: Trade in agri-food products (EUR million)



Source: European Commission, 2020b

The measures taken in the EU27 have ensured stability in agriculture. This was also manifest in Hungary, despite the fact that seasonal labour shortages were also experienced due to border locks and movement restrictions. Over the past 10 years, the Hungarian economy has successfully tackled public finance problems (Lentner, 2015), achieved significant results in economic growth, and competitiveness has also started to catch up (Matolcsy, 2019).

Similarly to other countries, COVID-19 posed healthcare and economic challenges in Hungary. Healthcare measures were followed by economy protection measures. Task forces were set up to comprehensively organise COVID-19-related healthcare and economic protection and restart. The Hungarian Economic Society's Department of Agriculture and Food also developed recommendations, and several of them

were implemented during the year. These included strengthening short supply chains and the involvement of young local workers to better risk.

As a result of the measures, Hungarian agri-food trade also remained stable in 2020. According to the 2020 estimate issued by KSH (Central Statistical Office of Hungary) on 11 December 2020, the total output of agriculture increased by 4.1 per cent in 2020. Production volume decreased by 2.1 per cent and prices increased by 6.3 per cent. The volume of crop production decreased by 2.9 per cent, that of animal husbandry by 1.6 per cent and that of services by 3.0 per cent. The production of potatoes and animal products increased, while the production of other agricultural product groups decreased or remained unchanged (KSH, 2020a).

NEW HUMAN RESOURCES NEED TO BE INVOLVED IN THE AGRI-FOOD SECTOR

COVID-19 has pointed out that cross-border and cross-regional supply chains and GVC's pose a greater risk to security of supply than shorter supply chains.

Labour shortages have revealed dependence on incoming labour from abroad, as it is the case in Great Britain, Spain or Germany, which have made special deals with some Eastern European countries to allow foreign workers enter their countries for harvest (Kühnel, 2020).

COVID-19 has enhanced the role of local production and consumption. Agri-food production and trade statistics show that even during the COVID-19 pandemic, the sector managed to perform its basic task, i.e. food supply. The EU maintained its global leadership in agri-food trade in 2020, ahead of the US. As a result of the restrictive measures taken to protect human life and the shutdown of most productive and service sectors, unemployment has increased. However, travel restrictions, quarantines and border closures have resulted in labour shortages in agri-food production, especially in terms of seasonal labour demand.

The most practical way to involve new human resources is to make young people interested in agriculture and to provide additional resources to the sector through integration. Currently, the average age of farmers is high. In order to meet this human capacity requirement, technologies need to be developed rapidly to replace human labour, and this requires putting the results of innovation into practice.

Thanks to innovation, revolutionary changes are taking place in world agriculture. In the two decades since the turn of the millennium, greater progress has been made than in the previous hundred years. Hungarian agriculture should also adopt technical and technological innovations in order to achieve rapid performance growth. Meeting the need for human resources worldwide is one of the main directions in agricultural innovation.

The application of innovation results to farmers in both the EU and the US is supported by a number of professional thinktanks and organisations, such as the Farm Europe or the EIT Food. In addition to undertaking the professional representation of farmers, they also help farmers by training and advice, as has been comprehensively

discussed in the framework of the “renewed trade policy for a stronger Europe consultation” on the necessary areas for the development of a more efficient agricultural management and trade policy based on the experience of COVID-19. The world we live in is changing dramatically with significant changes to our society, how we look at opportunities and how we respond to challenges.

FARMS MANAGERS ARE TYPICALLY MALE AND RELATIVELY OLD

Agricultural production, which is the basis of food, is provided by the rural population, so in addition to urbanisation, efforts should be made to improve the retention capacity of the countryside in order to facilitate and support the retention and relocation of young people (Lentner et al., 2017). Hungary is also making serious efforts in this area (Lentner et al., 2018). The “Hungarian Village Project” and the Village Family Home Allowance (CSOK) are definite steps to increase the retention power of the countryside.

In addition to promoting housing, a rural employment environment encouraging for young people should also be developed as sources of absorption and retention. In agriculture, such an environment should be composed of two interrelated but well-distinguished main branches. One is related to the start-up and growth of young people as self-employed farmers, and the other is related to generational change. In this classic case, the management and ownership of the existing and operating agricultural units should be transferred to a person representing the younger generation in the family.

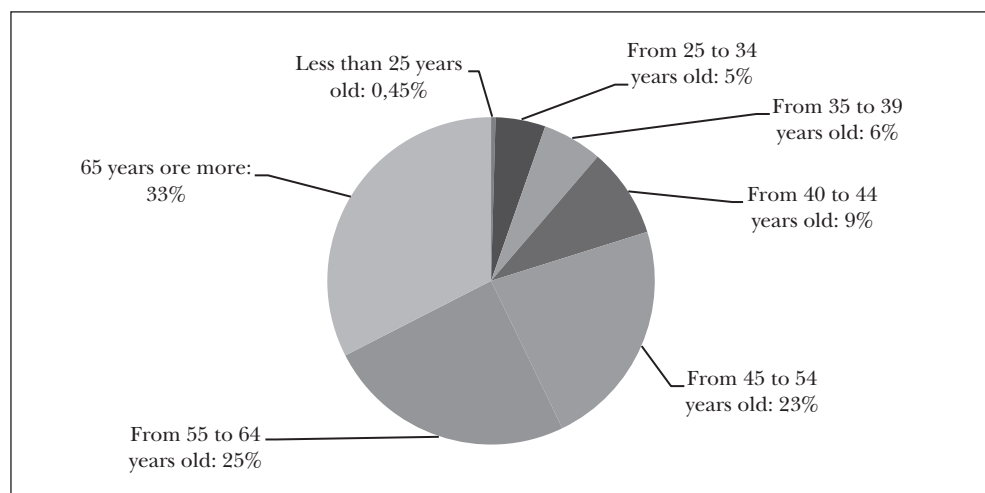
Figure 4 shows the situation of young farm managers and the aging rate in the EU. The ratios correspond to the Hungary’s data. In Hungary, the ratio of managers under the age of 35 is 6 per cent, which is very similar to the EU average. The problem is that between 2000 and 2010 this ratio dropped to the EU average, as the ratio of young farmers under the age of 35 fell by 2.1 percentage points over this period. The EU constantly monitors age-related issues under the Common Agricultural Policy (CAP, European Commission, 2018a). Generational change is also promoted in the US, where the number of young farmers has increased by 2 per cent according to the most recent farm census (USDA, 2017).

Recognising the need to support young people, the EU provides EUR 40,000 in support to help young farmers set up farms. This support is available in Hungary in 2020 under the Young Farmers 2020 (VP6-6.1.1-16) call for tenders.

In addition to the establishment of a farm’s economy, the support also aims to promote the transformation of farm structure, to improve the age structure of the agricultural workforce, to increase the population retention capacity of the countryside and to maintain agricultural activity in the long term.

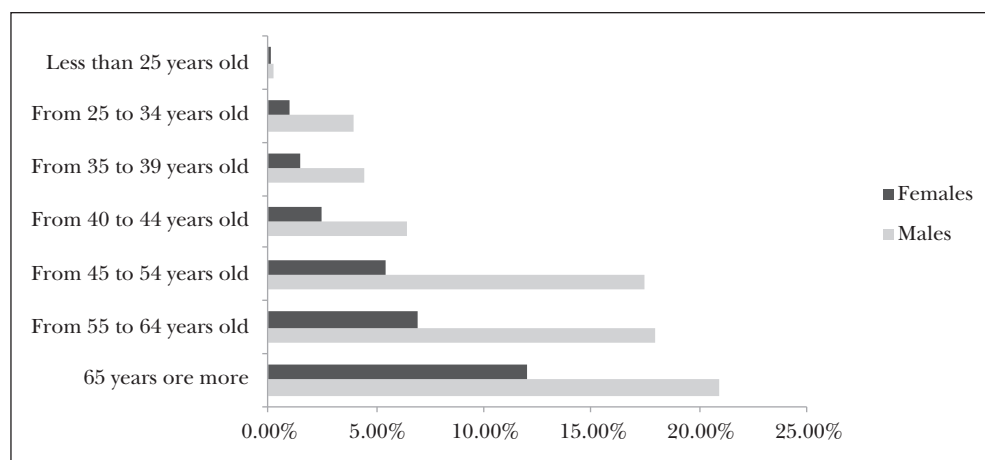
Economic managers’ aging is not country-specific, as the corresponding ratios practically coincide with the EU average. In Hungary, the ratio of farm managers over the age of 65 is 31 per cent, as pointed out in the Young Farmers 2020 (VP6-6.1.1-16) tender.

Figure 4: Age structure of agricultural managers in the EU



Source: European Commission, 2018a

Figure 5: Ages of farm managers, by gender, EU28 (%)



Source: European Commission, 2018a

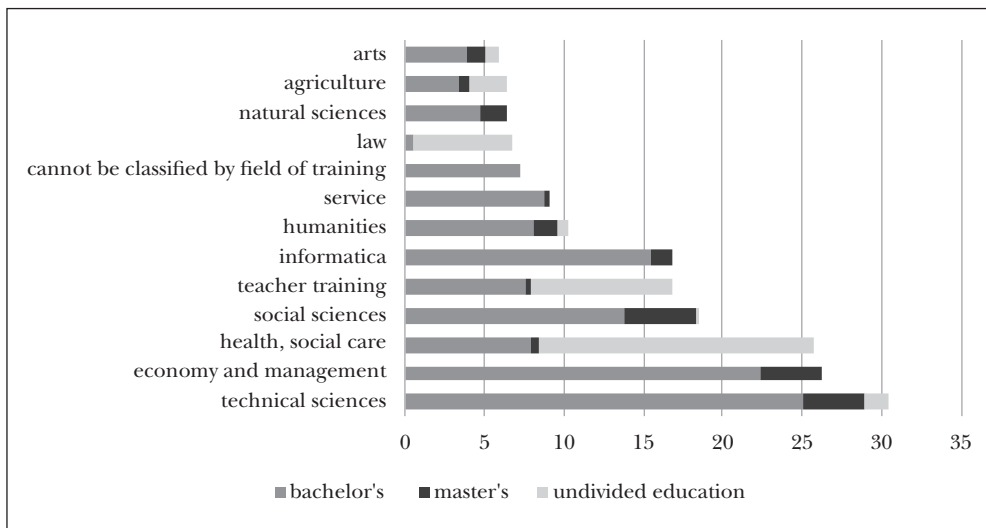
It should be emphasised, however, that in addition to aging at an EU level, there are countries where the situation is better. In Austria, Poland and Slovakia, the situation is better, while in the Mediterranean countries such as Cyprus, Portugal and Malta it is worse than average (European Commission, 2018a). At an EU level 28 per cent of the farms have a female farm manager. In Hungary, the ratio of female farm managers is 27 per cent, which is in line with the EU average. The pyramid of female leaders coincides with that of men at the EU level, which also raises the need for a generational change in their case.

VERY FEW FARM MANAGERS IN THE EU HAVE FULL AGRICULTURAL TRAINING

According to the European Commission, the ratio of fully trained farm managers is very low at an EU level. In the case of Hungary, unfortunately, this is even worse. While in Hungary 7.6 per cent of the farmers under the age of 35 have tertiary qualifications (full agricultural training), in the EU it is 21.7 per cent on average (European Commission, 2018b), which is primarily increased by the Czech Republic, Belgium and Ireland, while the lowest performing states include Romania, Spain and Greece. Hungary's backlog has also been recognised by domestic regulators, who are currently working to establish a firm vision for young people by renewing and making secondary and higher vocational education more attractive to increase the attractiveness of the sector. The goal is twofold. The aging generation should have the opportunity to retire. As the younger generation adapts to new technological solutions faster and, in this context, their willingness to invest is also higher than that of the older generation, a change in momentum and an increase in performance and competitiveness are expected (Lentner, 2007). The current situation is no longer sustainable, mainly due to the time required for a conscious generational change.

In Hungary, generational change is prevented by young people's disinterest in the agricultural sector. The following figure shows this trend over the years.

Figure 6: Distribution of students participating in higher education by fields of specialisation



Source: KSH, 2020b

The combination of agricultural universities, implemented in 2020, will provide not only professional concentration, but also attractive training conditions for young people. Based on this, interest is expected to increase.

THE ROLE OF PROFESSIONAL TALENT, COURAGE AND AWARENESS
IN THE GENERATIONAL CHANGE IN AGRICULTURE

A common feature of talents is that they are professionally motivated and take pleasure in challenging activities (Thom and Zöldréti, 2019). It is also widely accepted in the agricultural economy that during the outbreak of the Fourth Industrial Revolution, the future competitiveness and growth potential of businesses and individual countries are fundamentally determined by the capacity and quality of the human capital they can employ. Whoever is able to educate, develop and retain, or even attract, trained talent and the best workforce, has a chance to retain its market position or improve in the years to come. It is an unfortunate fact that this finding is now increasingly valid in a period of labour supply problems caused by the COVID-19 pandemic.

In the private sector, market competition has now led to a regular struggle to obtain resources with high human potential. Why would it be any different in agriculture, where there is also a huge competition for markets? From time to time, the question of “buying or nurturing” is raised by competitors in connection with the possession of talent. All of this is a little different for traditional family businesses. In their case, with regard to the future supply of skilful talent, the question is: Is there a talented, interested and motivated person in the family who can be involved in maintaining and improving processes by enforcing joint and mutual benefit maximisation? Let’s consider the factors of the question asked.

In order to encourage young people, as pointed out by the BCG/WFPMA collaboration for Creating People Advantage 2014–2015 (BCG–WFPMA, 2015), in addition to new technological challenges, the work environment, community and development perspectives are key factors. According to their survey, for young employees, the recognition of professional work and aspects of work culture are more important than financial aspects when choosing a job.

Naturally, this also applies to the case of an agricultural family business. So it is not self-evident that the talented young person has an interest in the family business, even in spite of financial interest. Otherwise, the young person is driven by other goals like independence, detachment from family and local ties, and the family business profile may be a completely different objective incompatible with his or her ambitions.

In order to motivate young people, the opportunity to fulfil personal ambitions should also be provided. Today, precision agriculture provides a good background for this, because the challenges of using IT and robotics embody the challenges of the future, which are at the heart of most young people’s interests, and provide a bridge to young people’s interest in less attractive sectors of agriculture.

The pursuit of common and mutual benefit between generations is also based on motivation, which stems from a common interest in the success of generational change. However, this also requires courage on both sides, which always plays an important role in decisions. Winston Churchill’s famous saying prevails in generational change and the sequel that goes with it that “Success is not final, failure is not fatal: the courage to continue is what matters”. This courage to take over and continue is essential to successful generational change.

It takes courage on the part of the transferring older generation to part with the unit it has created and operated and to move into retirement, and it takes courage to rely on the younger generation. Nevertheless, on the other hand, it also takes courage on the part of the younger generation to take responsibility for operation, maintenance and development.

OUR COMMON GOAL IS TO DEVELOP TALENT AND SUCCESSFULLY MANAGE IT

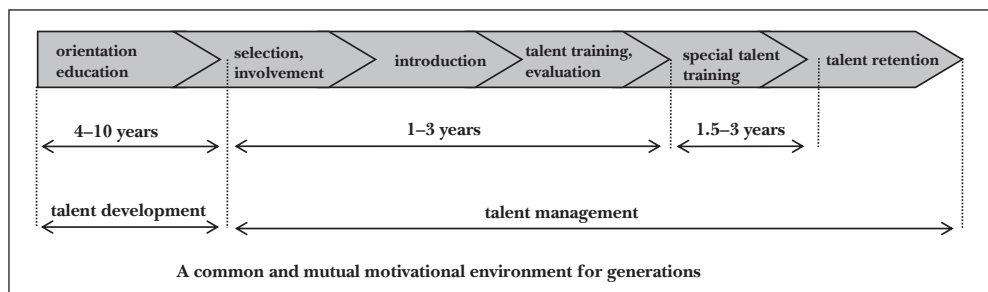
Talent development and management is nothing more than a conscious investment in people. The cost side of this investment is given by “education” or “acquisition”, while the revenue side is given by the excess revenue from the performance increase achieved by the “investment”. Expenditure and revenue results can be tracked by factual data, including for farmers.

The steps of the talent management process and the expected time required for the various steps are summarised in Figure 7.

Based on all this, it can be seen that in the case of preparing for a conscious agricultural generational change, the expected time required for primary and secondary education or vocational training, or preparation for taking over management, can take up to 10-14 years. All this clearly highlights that this requires a carefully considered long-term family development plan and intention and its implementation, which requires a high degree of awareness throughout the process.

In raising awareness, the family pattern can be a good example for the young person. The family should work together to gain the interest of the talented young person, to introduce them to farming, to recognize and consciously develop the potentials hidden in the young person, and to turn the talent of the person concerned to the benefit of the business. It should be emphasised here that talent alone is not equal to performance; it only brings results with actual performance. Thus, in addition to developing individual ambition, reality should be ensured by evaluating incentives and performance. The complex system of talent management is discussed in detail in another study (Thom and Zöldrėti, 2019).

Figure 7: Time required for conscious talent management



Source: Authors's own elaboration based on Thom and Zöldrėti, 2019

Different methodological considerations are available for selecting talent. The SWOT (strengths, weaknesses, opportunities, threats) analysis is most often used. This method is also recommended and very easy to apply for the self-assessment of the members in agricultural family businesses. In order to assess the role of talent management in Hungary, a questionnaire survey was conducted (Zöldréti, 2020) on generational change. It was found that 90 per cent of respondents agreed that it was of paramount importance for a generational change. The use of talent management in preparation is justified by increase in performance and competitiveness.

The survey also focused on the need for support related to talent management. Regarding the nature of the support, 50 per cent of the respondents preferred direct professional support (e.g. education, counselling) over financial support, which only 16 per cent indicated exclusively. The remaining 34 per cent considered the combination of direct professional and financial support as optimal. The survey also confirmed that conscious talent management appears in the practice of large international companies in Hungary. SMEs are aware of the importance of this topic, but for the time being the level of conscious application is very low in their case, so in their case this should be supported in order to have a successful generational change. Generational change and talent management should be seen as a project and tools learned in management should be used for success. These findings are summarised in our other study (Szinay and Zöldréti, 2020).

SUMMARY AND PERSPECTIVES

Focussed combat against COVID-19 needs to continue. To the best of our current knowledge, agri-food production and trade continues to provide for humanity on a global scale, fulfilling its strategic mission. Under no circumstances should this sector come to a standstill, as it would have consequences that should be prevented at all costs.

COVID-19 resulted in hectic movements in world trade in 2020, but this has resulted in only minor movements in the agri-food sector. The restrictions imposed also apply to the seasonal agricultural workforce, and thus forced the sector to rapidly apply the results of innovation to replace labour force and to attract new young labour. This compulsion also points to the need to speed up the preparation and management of young talent in Hungary as well. In the absence of seasonal workforce, the local, young generation needs to be involved in overcoming difficulties and won by innovation-retaining skills. Increasing the retention capacity of the countryside can also be improved through the attractiveness of the agricultural sector. This requires increasing the acceptance of agriculture by young people, in which innovation and the digital *acquis* may be an attractive challenge for them.

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Csaba Lentner

Variations on Crisis Management – Through Examples from Hungary after the Change of Regime



Summary

The samplings included in this study provide insight into the major crisis management measures applied during the more than three-decades of market economy construction that replaced the socialist planned economy system, eroded from the late 1980's. Due to space constraints, the author merely tackles the 1995 economic policy adjustment package, the 2006 autumn adjustment of the convergence trajectory, and the main elements of the comprehensive public finance reform after 2010, and makes reference to the methodology of dealing with the pandemic crisis “unfolding” from the spring of 2020. In addition to public finance measures, the paper also seeks to account for social impacts. This study basically compares the restraint on solvent demand, favoured by the International Monetary Fund and by the World Bank, with the Keynesian economy boosting measures, through the evaluation of the Hungarian practice, which has followed these patterns, and concludes that in times of crisis the expansion of solvent demand by instruments available for the government and for the central bank is the more efficient solution, especially in an emerging Central European market economy.

Journal of Economic Literature (JEL) codes: B52, E42, G01, G28, H31, H63, P41, P43

Keywords: market economy transition, crisis management, austerity, increasing solvent demand, COVID-19, Hungary

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INTRODUCTION

Although the socialist planned economy implemented in Hungary (for more details of the characteristics see Csaba, 2019) underwent numerous attempts at innovation, and significantly differed from the bigoted practice seen in the Soviet Union, the German Democratic Republic, Romania and other “hard-line” countries, from the middle of the 1970’s it showed signs of exhaustion and crisis. The years 1955–1956, and then the so-called New Economic Mechanism adopted in 1968, were decisive in shaping the Hungarian model, imbued with market elements. However, as the reforms could not affect the essence of planned economy, i.e. the predominance of state and co-operative property and the essence of the state economy based on central planning, the limited (enforceable) market elements and the development of more efficient financial interests only generated temporary effects and in a way that the essence of the system practically remained unchanged. For this reason, decline was inevitable in the system as financial disinterest became endemic. However, the economic transformation launched from the late 1980’s, i.e. even in the last years of the Hungarian Socialist Workers’ Party, lacked a strategy adapted to the country’s conditions; the “mere” goal was the soonest possible breakdown of the inoperable social large industry and agriculture. In a different perspective (in stronger but more expressive terms), “getting rid” of the lossmaking large-scale industry and agriculture and “passing on” state and political responsibility. An important factor influencing change in the Hungarian regime was public debt, which had increased to USD 21 billion since the 1970’s, creating massive base dependence in the course of developing a market economy, and moreover, indebtedness continued to increase. In order to compensate for this chronic shortage of cash, working capital and competitive production, the capacities “dormant” in Western Europe and North America played a countervailing role, relocating to the post-planned economy region, including Hungary. However, due to the weak bargaining position and poor capitalisation of the Hungarian government, the relocated international companies and banks were capable of performing significant profit repatriation. This was underpinned by the relatively cheap but still acceptable skilled labour force in Hungary, the significant state and local government tax reliefs and, what is more, grants provided in support of relocation. Furthermore, the rapid loss of production at and the weakening of state-owned industrial and commercial companies (Tungsram, Rába Wagon and Machine Factory, Csepel Works, and the Ózd Metallurgical Works) in the both the domestic and the foreign markets they had previously supplied “channelled” demand towards foreign companies newly established in Hungary. In addition to privatising companies and means of production, and relocating them to Hungary, international companies also acquired their markets. Thus, an optimum environment was created for operation and profit maximization by these international companies both in terms of input resources and in their output (outcome) channels. However, the economic regulatory system applicable to the production structure and ownership conditions that newly emerged in the late 1980’s provided capital to new companies in such a way as that the central budget and the society were under-positioned, both during privatisation and assets, and in terms

of financial stability. Right at the time of the change of political regime, when the elements of the planned economy system had no longer been functioning and the regulatory environment of the market economy system was still in its infancy (approx. up to 1995), a “transformational crisis” evolved, as coined by economist János Kornai (2016). To address this, the first economic policy adjustment package was launched in 1995. As the Hungarian society had been socialised to paternalistic conditions for decades, it was unprotected and unprepared for these devastating effects, as it was for other crisis management packages based on austerity actions applied to households.

OUTLINE OF THE CRISIS MANAGEMENT MEASURES TAKEN TO
REDUCE SOLVENT DEMAND: ECONOMIC STABILISATION
IN 1995 AND CONVERGENCE PATH ADJUSTMENT IN 2006

By early 1995, the overspending fiscal policy and the poorly organised economic activity posed the risk of insolvency, exacerbated by the effects of the international debt crisis started in Mexico and feeding through to Hungary, which made it particularly difficult to finance the growing public debt. The unfavourable developments compelled the Hungarian economic leadership to perform a significant intervention, which was manifest in both the fiscal and monetary line. The budget was cut by about HUF 170 billion.¹ “The package had two main elements: on the one hand, it aimed to improve the external balance, and on the other hand, to reduce the budget deficit. On the one hand, the national currency was devalued by 9 per cent, and matters were made worse by the introduction of an 8 per cent customs tariff surcharge, which was practically devaluation. Next came a pre-announced fixed rate sliding devaluation system” (Petschnig, 1996, p. 252). The heaviest “extension” of the restriction reaching society was in the form of withdrawals in the social, cultural, housing finance and educational fields. In 1995, in order to (also) improve the goals of financial balance, privatisation, including more precisely, actions to obtain privatisation proceeds began in the energy and financial sectors. As a result of consolidation, wages fell by 12 per cent in 1995, however, it is “true” that – as a result of a more stable fiscal position – working capital, including greenfield investments, in the amount of about USD 4.5 billion, representing 9 per cent of GDP, flowed into the country. In 1995, therefore, a financial adjustment was made which, although it brought about temporary macro-economic improvement, was paid by the population, more specifically, the wage earners and pensioners.

After the turn of the millennium, the budget deficit stabilised at a high level again, mainly due to reasons related to the fact that budget expenditures (especially wage increases) were not covered by sufficient resources. The fiscal policy eased after 2002 had shown a deficit exceeding 9 per cent by the end of 2002, and we moved further and further away from the European fiscal criteria, and this coupled with the persistently high deficits brought Hungary under the excessive deficit procedure of the European Union right from 2004, the year when Hungary became a full member of the European Union. In the autumn of 2006, another convergence path adjustment package, marked by the name of former Prime Minister Ferenc Gyurcsány, was intended to curb the rapidly ris-

ing budget deficit. The crisis management package, designed to apply fiscal restraints but leaving structural elements unchanged, “weakened” due to the close results of the 2006 parliamentary elections, and its convincing political support gradually decreased.

Each of the two fiscal stabilisation packages resulted in cuts in welfare spending and focused on addressing budgetary and current payment problems. In a comparison of the similarities, it is worth highlighting that from 1993, and then from the end of 2005, the Hungarian economy was on the verge of bankruptcy, as both the current account and the budget deficit were critical. However, the difference between the two packages is that in 2004 Hungary acceded to European Union, and so it became close to bankruptcy despite the European institutional system and regulatory requirements. Inflation played an important role in the 1995 package, hallmarked by the former Minister of Finance Lajos Bokros, as the weakening of the exchange rate and depreciation of the national currency caused by the effect of the tariff surcharge helped to curb incomes. However, in 2006 boosting inflation could no longer be a means of adjustment, as another disinflation would have been significantly less credible and thus much more costly than ten years earlier. The 1995 package sought to avoid GDP decline associated with a decline in domestic demand by a one-off and then continuous, pre-announced devaluation of the exchange rate, which made the economy export-driven, helping to increase GDP artificially (and to some extent hypocritically). On the other hand, the 2006 package was less focused on reducing the sacrifice of growth. The fiscal measures included in the Bokros Package were supported by massive monetary interventions, but in 2006 this was not the case, and moreover, the interest rate increases performed at the latter date curbed investments. The Gyurcsány Package relied on tax increases and the imposition of new types of taxes, narrowed the scope of tax benefits, reduced subsidies, lowered housing loan discounts, and began to reorganise the central public administration. However, adjustments related to increasing revenues and simultaneously reducing expenditures make the business and employee side less interested in implementing consolidation. János Kornai’s (1997) ideas about the 1995 adjustment are thought-provoking: he claimed that each HUF 1 increase in the income during the deficit reduction performed in the mid-1990s was accompanied by a HUF 3 cut in the expenditure, which is a powerful illustration of the adverse social effects. The 1995 stabilisation package produced more tangible results, despite the fact that a significant part of it was found to be unconstitutional by the Constitutional Court, while the measures of the 2006 package were not vetoed by the judiciary, but the planned chopping of free health services and the introduction of contributions payable to higher education were deleted by referendum. The effects of the 2006 measures are also more difficult to assess, as the Hungarian crisis plunged into an even deeper crisis as a result of the international recession processes that began in 2007–2008, which could only be by a USD 25 billion standby credit from the World Bank, the International Monetary Fund and the European Central Bank. It is important to point out that the fiscal policy insufficiency (“fiscal alcoholism”) manifested since 2002 was the key factor in the unfolding of the crisis in the Hungarian economy, which was then “only” deepened by the 2007–2008 crisis feeding through

from the world economic space, and its consequences. The crisis in the international arena merely took the already unsustainable fiscal policy a step further.

The person in charge of the fiscal part in the 1995 scheme justified the need for corrective actions (Bokros, 1997), as in addition to the modest growth potential in real GDP, the current account deficit was 9 and 9.5 per cent in 1993 and 1994, respectively, which had decreased to 3.8 per cent by 1996 as a result of the intervention. At the same dates (1993, 1994 and 1996), the deficit-to-GDP ratio had improved from 4.9% and 6.2% to 3.5%, respectively. The ratio of gross government debt to GDP had fallen from 89 to 86.6, and then to 72.9 per cent by 1996 (Erős, 2009),² while net external debt had increased from USD 14.9 million to USD 18.9 million and then it had fallen to 12.8 million by 1996. Let us add that while in 1991, GDP declined by 11.9 per cent, in 1992 and 1993 it grew by 3 and 0.6 per cent, respectively, and while in 2009 GDP growth was 2.9 per cent, in both 1995 and 1996 it was 1.5 per cent. The results of the 1995 macro-economic adjustment can therefore be explained, but it had serious social consequences in the form of sacrifices. The person in control of fiscal stabilisation also acknowledged the adverse effects of his measures on income policy, but in the given circumstances he still voted in favour of their necessity, and this decision gave³ rise to a professional debate that has continued to this day (see e.g. Matolcsy, 2008; cf. Györffy, 2006).

According to András Köves (1995), the 1995 adjustment, similarly to the other shock therapy programmes implemented in the region, did not really take into account the dangers of income reduction, and consequently, the social support needed for economic renewal was not given. Köves also explains that this package was not really meant to stop overconsumption, but rather to radically accelerate the deterioration in the living standards that had anyway taken place to that point. According to his calculations, in 1994 real wages and real incomes were 22–23 and 12–13 per cent lower than in 1989, and in addition, 1.4 million jobs, representing 25 per cent of all the jobs, were lost between 1990 and 1994, exactly as many as created during the four decades of the planned economy. Rudolf Andorka et al. (1994) came to a similar conclusion: real per capita income in 1993 was 12 per cent lower than in 1989. In 1993, consumer prices were 22.5 per cent higher than the previous year and 2.6 times higher than in 1989.

Hungarian small and medium-sized enterprises and the population, which are far less capable of enforcing their interests and shifting charges on others than international companies and banks, were hit home by the quick rise in inflation to 28.2 and 23.6 per cent by 1995 and 1996, respectively, which entailed a significant depreciation in savings. The resumption of privatisation in 1995 also adversely affected the interests of the Hungarian state and its efforts at maximising budget revenues. Note that subsequently, inflation declined: in 1997 and in 1998 it was 18.3 and 14.3 per cent, respectively (for more details see Györffy, 2006, p. 247).

A fresh highlight in the process of the regime change predominated by austerities was the economic policy adopted between 1999 and 2002. Its key element was “organised by fiscal measures”, targeted through the Széchenyi National Development Plan, and supported by a Hungarian state-owned bank (the Hungarian Development Bank), and implemented by underplanning inflation, and then earmarking and using the arising

additional budget resources. In other words, economic development took place without sufficient activity of the then central bank, which, despite the effects of unfavourable developments in the world – namely the Asian crisis of 1997–1998 – put the Hungarian economy on a growth path, with nearly three times the average growth rate of the EU. Simultaneously, public debt and inflation declined. Lending relations with the International Monetary Fund practically ceased.⁴ In the years around the turn of the millennium, a period of rapid catching-up could be observed, and Hungary clearly overtook the other Visegrád countries (the Czech Republic, Slovakia and Poland) in terms of GDP per capita (Baksay and Palotai, 2017, pp. 699–700). However, the loose fiscal policy begun in 2002 (following the change of government) led to fiscal imbalances that could not be offset by tightening monetary policy. As a result, Hungary began to drop behind the regional level of development, while the average government deficit in the Visegrád region was only half the figure registered for Hungary, and its level decreased in a trend-like manner compared to the Hungarian processes (Baksay and Palotai, 2017, p. 700), despite the fact that from the middle of the decade an economic boom unfolded in the world (Karsai, 2006). In addition to the fact that the restrictions applied by the central bank proved to be insufficient for offsetting the effects of the loose fiscal policy, based on Leeper’s theorem (Leeper, 1991) it could even be proved in detail that neither a monetary policy endeavouring to cut debt by inflation nor one sacrificing growth for price stability was able to cancel this attitude of excessive spending. As a result of poorly organised budgetary processes, labour market problems intensified (Fazekas and Scarle, 2012), and households’ attention was drawn to foreign currency loans, which were easier to access and cheaper but carried high-repayment risks (Kovács, 2013; Lentner, 2015), which provided additional financing to offset the economic uncertainty caused by the weakening business environment, and represented an endeavour to escape forint loans, which are inherently more difficult to repay due to their *a priori* higher interest rates. The growth model maintained by the increasingly indebted public finances and the primary income owning sectors indebted in foreign currency came to a dead end in 2006 (Orbán and Szapáry, 2006), but since the global economic crisis unfolding in 2007–2008 caused a rapid hike in the rates of the external resources denominated in foreign currency and in their interest rates, effective inoperability became obvious and the country needed international help. The intention to adjust the 2006 convergence trajectory was thus focused largely revenues, and this increased taxes on the primary income owners, while simultaneously reducing their incomes, but making little effort at addressing structural deficiencies, it could alleviate problems only temporarily. From 2006 to 2007, the budget deficit to GDP decreased from 9.3 to 5.1 per cent, but due to the budget previously fuelled by overspending and then tightened, and to a decline in the external resources, economic growth dropped from 3.9 to 0.4 per cent, while in the rest of the Visegrád region it was 7 per cent on average over this period. According to the calculations of György Matolcsy, “in the five years between 1998 and 2002, Hungary was the country fastest converging to the EU average in terms of GDP per capita among the new EU Member States in the region, but then in the second five-year cycle between 2003 and 2007 it became the slowest one in integration. In the first five years, we con-

verged to the EU average by 8.8 per cent, while in the second, the corresponding rate was only by 1.1 per cent”. György Matolcsy (2008, p. 13) also described that in addition to the slowdown in integration between 2003 and 2007, the advantage convergence that had been created in the previous five years was lost, and he even suggested that the 2003–2007 period had better opportunities in terms of external sources. The evolution of the purchasing power of money did not reflect stable conditions either. According to data by Ernő Huszti (2011, pp. 160–167),⁵ between 1995 and 2002 the purchasing power of the national currency increased by 24.2 per cent (to 75.8%), while between 2003 and 2010 (compared to the data of the first term year taken as 100%) it decreased by 27.3 per cent (to 72.3%, compared to the figure of the first year in the term taken as a base line).

Due to weak macro-economic data and the uncertain and contradictory economic environment, in the midst of international events in the autumn of 2008, which also led to a loss of confidence in finances, most investors withdrew from the government securities market and numerous manufacturing companies switched to reduced reproduction. Of the EUR 19.3 billion requested from the International Monetary Fund, the World Bank and the European Central Bank, EUR 14.3 billion was actually drawn down. Credit demand was excessive, while the amount drawn was used in an unprofessional manner (Lentner, 2013, pp. 268–269). The loan was accompanied by a need for further restrictions on lenders. Thus, instead of boosting fiscal demand, Hungarian crisis management continued with fiscal austerity, i.e. a pro-cyclical method that further worsened the economic downturn. Real GDP fell by 6.6 per cent in 2009 in of the Hungarian economy, which was a record low in the EU, and moreover, the budget deficit increased from 3.6 per cent in 2008 to 4.5 per cent in 2009 and 2010. Under crisis conditions, the additional taxes levied on primary income owners (companies and households) curbed production, thus increasing the deficit by about 1.5 per cent. The crisis also hit the economy of the European Union, which has a key role in the export and capital import trends of the Hungarian economy, and brought to the surface the shortcomings, weaknesses and dysfunctional operation of the institutional system of the Economic and Monetary Union (Losoncz, 2010). In the internationally spread set of crises, central bank policies (for their functioning, see Neményi, 2009; 2011)⁶ and the bans on state aid, which had previously been in conflict with operation of the free market (Staviczky, 2010), were placed in a new context, but as the Hungarian fiscal and monetary authority had been rolling the problems forward, was only able to adopt very little of it, or was only able to enforce these measures with low efficiency (Bolf-Galamb and Kányási, 2010),⁷ especially with regard to the country’s near-crash situation, which “unfolded” two years earlier. All this demanded further social sacrifices, and prevented Hungary from substantively joining the international crisis management methods applied right after breakout of the crisis, and could therefore join only years later.

During transition to a market economy, the role of the state in economy management was limited to downsizing its property, “curbing” its regulatory system and “containing” its control mechanisms, and due to the high taxes and the fact that having been socialised for socialism, the society expected paternalism as a non-means-tested right, economy management was ultimately carried on in the form of a “basis-dependent

planned-economy” kind of policy. The spill-over effects of this bad economic structure to market economy, the “moderation” of the “generous” social welfare system detached from state revenues, the practice of repeated “releases for the sake of political and social peace”, and then, the compelled economic focus on foreign direct investment, supported by tax benefits and even budget subsidies, accelerated Hungary’s indebtedness. The economic policy, which *a priori* set out with a “birth defect” (Stumpf, 2014, pp. 18–24) at the time of the change of regime, produced continuous deficit, because the structure of the economy and the applied social policy “predestined” it, and then it responded to the problems that became critical from time to time by imposing additional taxes on the residents with restricted capacity to defend their interests. The interest of primary income owners in reforms and consolidations was thus reduced to the minimum, and moreover, in some cases provoked significant social resistance, at the “end” of which these resident income groups rejected the restrictions-based policy of the government and ultimately also the restrictive government itself. According to Péter Mihályi (2014, p. 903) (“in addition”), the majority of the Hungarian population opposes all kinds of modernisation from the outset, because most of their income is received through state redistribution, which also results from the distorted employment structure. This is because 60 per cent of the adult population is either a public employee or, predominantly, living on public income transfer. Each of the economic adjustments based on austerity measures ended in failure, they did not achieve the desired effect, but the undoubted result of a good two-decade course in building a market economy was the implementation of a peaceful transition and integration into the EU.

RESOLUTION OF THE SYSTEMIC CRISIS AFTER THE CHANGE OF REGIME: THE POST-2010 PUBLIC FINANCE REFORM

In the run-up to the 2007–2008 global economic crisis, Hungary was characterised by poorly regulated public finances, flawed and unsustainable fiscal policies, and non-transparent fiscal management, and overspending was financed by external sources. As a result, the business angels who favoured neoliberal principles expected the same neoliberal economic policy from the Hungarian state, which was struggling in a debt trap. This is where they saw the guarantee that Hungary would repay its loans, but this kind of economic policy was unsustainable for Hungary in the long run, as it did not fit the needs and capabilities of the Hungarian productive forces and production conditions. After the turn of the millennium, both government debt and the interest burden rose sharply. Net external debt rose from 16.5 per cent of GDP in 2002 to 28.2 per cent by 2005. The government debt-to-GDP ratio had increased from 54.6 per cent (in 2002) to 64.1 per cent by 2006, and by 2010 it had already exceeded 80 per cent. In this period, Hungary’s fiscal deficit was around 7 per cent of GDP. By 2006, the country’s operation had become unsustainable, and the 2007–2008 crisis further aggravated the situation. As a result, a reform was required in state operation and public finances (Lentner, 2018). Following the change of government and economic policy in 2010, Hungary no longer received security loans from the World Bank and

from the International Monetary Fund, but the EUR 12.5 billion “requested” from IMF during the 2008 crisis, the EUR 6.5 billion taken from the European Union and the EUR 1 billion loan package from the World Bank were repaid.

After 2010, public finance reforms were introduced in Hungary with the aim to create an efficient public sector, a corporate sector interested in production and investment, and a society interested in income growth. As a result of the public finance reform, the fiscal regulatory environment changed, a number of new legal acts were enacted in the Hungarian legal system, accompanied by the establishment of appropriate and effective state control, and a rules-based fiscal policy became the norm. Hungary’s Fundamental Law, which entered into force in 2011, raised the issue of public financial responsibility to a constitutional level. The chapter on public funds contains regulations on the central budget, public debt, national property, transparency, contribution to public finances, the National Bank of Hungary, the Fiscal Council, and the State Audit Office. The key principle of this chapter is balanced, transparent and sustainable fiscal management. In the Fundamental Law the chapter on public finances focuses on the reduction of public debt. Pursuant to Article 36 (4)–(5) of the Fundamental Law, “(4) Parliament may not adopt an Act on the central budget as a result of which state debt would exceed half of the Gross Domestic Product. (5) As long as state debt exceeds half of the Gross Domestic Product, Parliament may only adopt an Act on the central budget which provides for state debt reduction in proportion to the Gross Domestic Product”. According to section (6), “Any derogation from the provisions of paragraphs (4) and (5) shall only be allowed during a special legal order and to the extent necessary to mitigate the consequences of the circumstances triggering the special legal order, or, in the event of an enduring and significant national economic recession, to the extent necessary to restore the balance of the national economy”.

The fiscal reforms implemented after 2010 include a reduction in taxes on live labour, broadening the family tax credit, increase in the weight of consumption and sales taxes, and tax levied on extra-profit. The reform of the tax system was performed with focus on the reduction of income taxes (personal income tax and corporate income tax), which generated solvent household and corporate income, and the income taxes “removed” from the budget were amply offset by the general sales and excise taxes paid on the increased turnover. In addition to tax reforms, the social security system was also reformed. By the end of 2010, the budget deficit caused by mandatory private pension funds had been widening, as the pension contributions payable to private pension fund members – “by definition” – flowed to private funds, and the current revenues meant to cover public pension expenditures fell sharply, and generated gap had to be closed from public funds. The problem was that private funds only attracted the more well-to-do sections of the population and the relatively well-earning young people starting out on their careers, while they were suitable for considerably fewer, if any, of the lower-income citizens and the elderly right before retirement. As the Hungarian system has traditionally been based on the pay-as-you-go scheme, funding the benefits of pensioners, who make up one third of the country’s 10 million citizens, and the future allowances of the next generations of pensioners

became increasingly hopeless. As a result, the mandatory private pension scheme was abolished and a significant number of members withdrew to the state pension system.

With the entry into force of the Fundamental Law, discipline in and control over public finances became stricter. Following the adoption of the Fundamental Law, Act LXVI of 2011 on the State Audit Office issued was adopted as a cardinal law, which expanded the SAO's audit powers and competences. The purpose of the law is to be able to act more efficiently to protect taxpayers' money and the nation's wealth when they are used. Since then, the SAO has had the right to monitor any use of public funds and assets. The Fundamental Law raised the Fiscal Council among the bodies of constitutional status, thus it became a body supporting the legislative work of the National Assembly, which performs its tasks in compliance with the Fundamental Law and the and other statutory regulations. It participates in drafting the Central Budget Act, and acting as a body to support the legislative activity of the National Assembly, it qualifies the central budget and checks if it gives a true and fair view, and gives its preliminary consent to the approval of the Act on the Central Budget in order to ensure compliance with the so-called public debt rule (Kovács, 2017). After 2010, the efficiency of tax collection improved, which was then facilitated by the adoption of an online invoicing and cash register system, and the launching of the Electronic Public Road Trade Control System.

During this period, Hungary's local government system was transformed and its debt was consolidated (for more details see Lentner and Hegedűs, 2019), and the relevant provisions of the Stability Act (Act CXCV of 2011) and of the Act on National Property (Act CXCVI of 2011) also contributed to the stabilisation of both the central and the local government sub-systems. The enactment of the Stability Act had a significant role in the debt cutting process, and it regulates the Fiscal Council. The Act on National Property contributes to the transparent and responsible management of the national property and to the preservation and protection of national values.

The co-ordination of fiscal and monetary policies was indispensable for economic growth. The monetary breakthrough took place in Hungary in 2013. Since then monetary policy has played a more proactive role in boosting economic growth while simultaneously ensuring price stability. As a result of gradual reduction in the base rate (from 7 to 0.9 per cent by 2016, and in the first step to 0.75 per cent and then to 0.6 per cent in the summer of 2020), private sector financing costs fell and investment and consumption picked up. After 2013, the National Bank of Hungary launched several schemes to strengthen financial stability and boost economic growth. These include the Funding for Growth scheme, similar to the British Funding for Lending or the US QE system, aimed at restarting corporate lending. Between 2013 and 2017, this scheme increased GDP by 2 to 2.5 percentage points (Matolcsy and Palotai, 2019). The phasing out of foreign currency loans was a measure of key significance: the National Bank of Hungary provided HUF 9.7 billion to banks for the conversion of FX loans to HUF loans (Kolozi et al., 2018). In 2014–2016, the Hungarian state repaid nearly EUR 11 billion as foreign currency debt from forint issues. Central bank schemes and economic improvements also had a positive effect on corporate lending.

Increase in corporate lending by more than 10 per cent in 2017–2018 confirms that companies have confidence in economic growth and closing the economic gap.

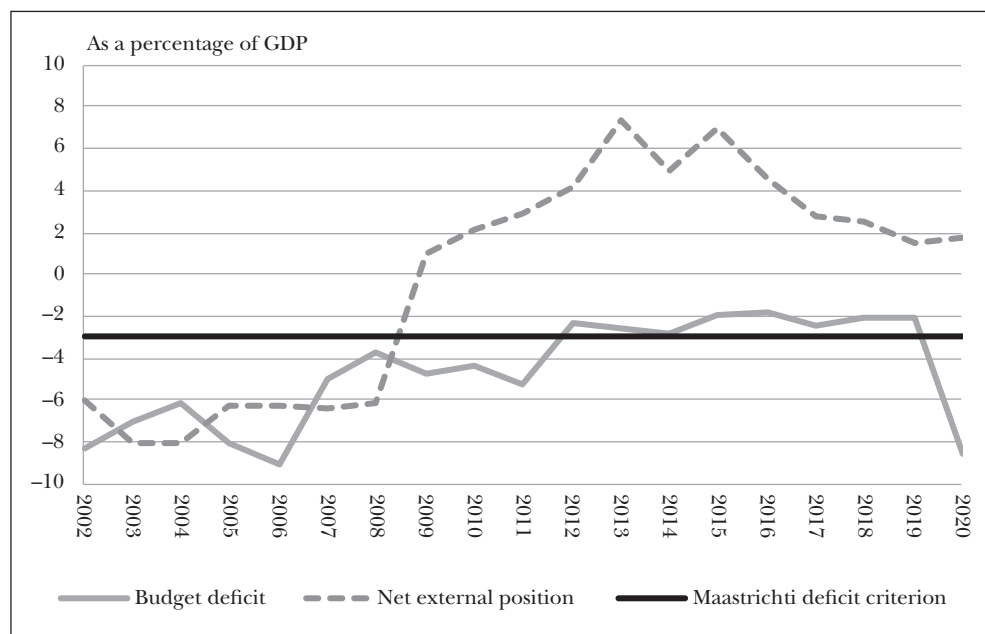
The renewal of public finances after 2010 has contributed to a lasting and effective co-operation between the Hungarian state and the economic participants, which provides an opportunity to build a well-governed state (Kolozsi et al., 2018). A strategic change of direction was required, as the Hungarian economy had been characterised by high external indebtedness and internal imbalances. According to a study by György and Veress (2016), the current challenges of the Hungarian economy can be traced back to the erroneous strategic decisions of the past, so the measures taken after 2010 were aimed at addressing these challenges. The main priorities of the Hungarian public finance system have changed, so after 2010, among other things, the transformation of large distribution systems (pension scheme, social security, health care and higher education) and the transformation of the division of labour between the central and local government levels took place. The most important goals of the changes included increasing the room for manoeuvre in economic policy, ensuring transparency and predictability and creating a work-based society, because the more people work, the stronger the society (Schlett, 2017). Hungarian economic policy measures were important after 2010 because the budget adjustment was not accompanied by austerity measures, but by reducing the tax burden and, at the same time, reducing the shadow economy (Varga, 2017).

Thanks to the changes in legislation performed since 2010, the public finance reforms and the proactive central bank policy adopted after 2013, Hungary has embarked on a long-term growth path. The steady growth seen since 2013 has been accompanied by the maintenance of the macro-financial balance and reduction of the vulnerability of the economy (Matolcsy and Palotai, 2019), which, as everywhere in the world, came to a halt and even declined as a result of COVID-19.

As a result of the Hungarian public finance reform, a legal background is provided by the cardinal laws in addition to the Fundamental Law. The new Law on the State Audit Office (Act LXVI of 2011) was the first of the cardinal laws to be adopted. The law, which is in line with international standards, strengthened the independence of the State Audit Office, expanded its audit powers and increased the transparency of audits by clearly disclosing reports. With focus on the public finance system, the responsibilities of the State Audit Office have also become a priority. As a result of the expansion of the audit powers of the State Audit Office, legislation restructured the operation of the body. The act vested the State Audit Office with new responsibilities and powers the organisation is completely free to use in compliance with statutory requirements, their only mandatory task is the preparation of analyses to support the work of the Fiscal Council (Domokos, 2019). With the tightening of the fiscal control environment, the era of non-consequential controls is over.

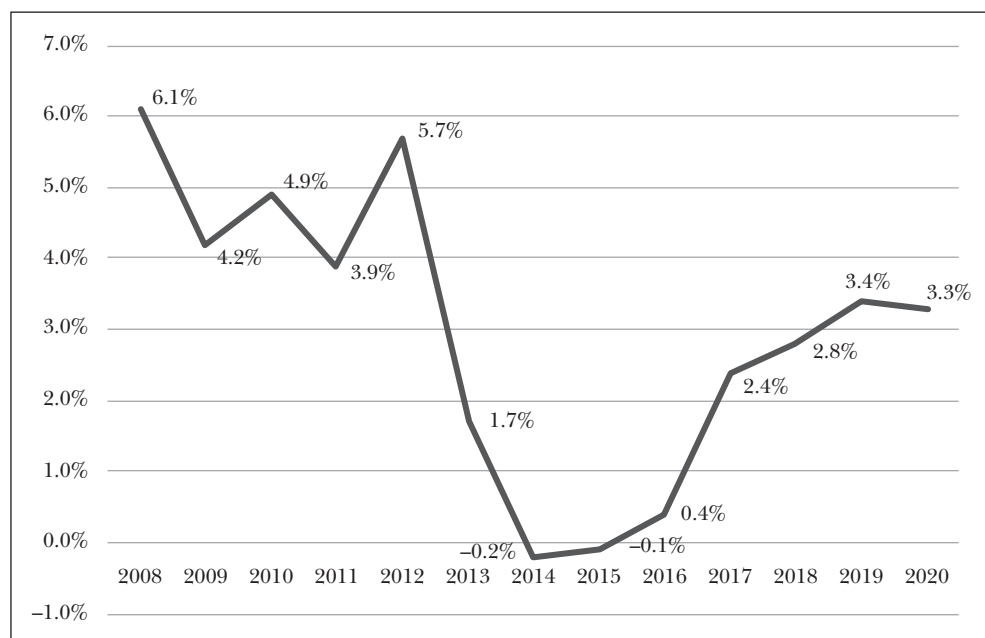
As a result of the public finance reforms implemented after 2010, Hungary's fiscal positions (deficit and government debt) and the inflation rate improved significantly, along with the external positions, in line with the single-objective fiscal and monetary policy aspirations (Figure 1).

Figure 1: Government deficit and the net financing position of the national economy



Source: National Bank of Hungary (2020) and Eurostat (2020)

Figure 2: Inflation, 2008–2020



Source: Hungarian Central Statistical Office and National Bank of Hungary (2020)

CRISIS MANAGEMENT IN THE EVENT OF A SHOCK ATTRIBUTABLE
TO EXTERNAL FACTORS – MITIGATING THE EFFECTS OF THE
COVID-19 PANDEMIC

COVID-19, which hit Hungary in the early spring of 2020, caused an economic downturn. The pandemic threat has significantly deterred the workforce from participating in labour market integration. It restrained demand for services in the tertiary sector, and the combined effect was a decrease in production and in GDP. It is important to emphasise that the crisis is not a consequence of the operation of the Hungarian government and the central bank, but clearly a feed-through effect of external factors. The problems hit Hungary at the peak of its growth trajectory built since 2010.

In contrast to the crisis management measures applied in 1995, 2006 and 2008, the government does not focus on imposing additional burdens on the population and on small businesses. It was emphasised that there would be no austerity, no increase in taxes, and no reduction in social benefits, on the contrary. The central bank is trying to mitigate the adverse consequences of the crisis by increasing refinancing loans, encouraging commercial banks to continue lending to companies, lowering the base rate and introducing a repayment moratorium.

According to the government's appropriation for March 2020, the crisis management package amounts to 18–22 per cent of GDP, approximately HUF 11,000 billion.⁸ Efforts are made at finding funds to cover crisis management by increasing budget expenditures, temporarily “easing” the deficit requirements and raising the central bank's refinancing credit line, i.e. by a combination of the fiscal and monetary means of boosting the economy. However, during the reconstruction of the economy returning to a higher than the pre-crisis levels seems reasonable. In other words, during the reorganisation, it is also justified to perform the long-delayed technological renewal and mergers, which will improve the economies of scale in the small and medium-sized enterprise sector. Obviously, the efficiency of the current crisis management could have been further enhanced if, in the period 2013–2019, either a single-digit personal income tax or a further reduced corporate income tax had entered into force. Thus, the solvent demand, investment and consumption demand of both the population and companies would be higher, and consequently, the state would have to pay less corporate support and job-retention subsidies, and the consumption and solvent demand reserve of the population could be higher. Undoubtedly, preparedness for crisis management and the method of managing crises provide a competitive edge at the level of the national economy, but also at the level of companies and households.

In Q2 2020, GDP fell by 13.6 per cent, the volume of industrial production by 25 per cent, the tourism sector by 80 per cent and the hospitality sector by 60 per cent. A similar, although smaller decline is expected for Q3 and Q4 of 2020 and even for H1 2021, and as a result, GDP is likely to decline for 2020 as well as 2021, and this will certainly weaken the fiscal stability of the state. All these further raise the need for a kind of reconstruction with more emphasis on the new challenges of the 21st century

(for more detail see the paper written by György Matolcsy in this issue), on digitisation, the development of a green economy, transforming consumer and work habits, and the challenges posed by the aging of society. The short- and medium-term economic strategy for the Hungarian national economy provides a safe solution to debt financing simultaneously with improving competitiveness and mitigating the acute impacts of the crisis.

In the next few years, results may hardly be expected without the proactive involvement of the government and the central bank, without influencing the economy. The reorganisation of global value chains, the strengthening of regional positions, the diversification of supplier bases, and increase in the volume of security stocks are to be expected globally. The tectonic plates that make up the world economy will thus be rearranged, and this change requires an efficient response from nation-states, while the role of international institutions is expected to relatively diminish. Concerning our region, internal tensions are expected to intensify within the European Union, the north-south fault lines may increase, and these processes will assign a higher value to the crisis management capacity and method applied in the Hungarian economy, and moreover, the frames of a new development trajectory should be built. The competitiveness of the tax system should reasonably be further increased, funding for public finances needs to be further diversified, and the optimum of internal and external sources should be identified. Although Hungary has achieved historical results in public debt management between 2011 and 2019,⁹ “restart in the accumulation” of public debt should be expected over the medium term, and thus the emphasis will shift even more to secure financing. During the accelerating reorganisations in the world economy, Hungary needs to climb in the development directions (tectonic plates) that help it to break out of the trap of stagnating at a medium level of development, or to prevent the “embedding” of the consequences of the current crisis for decades. Thus, an even more innovative fiscal policy may provide the chance to avoid “getting stuck”. This requires actions similar to those taken under similar crisis conditions in South Korea, Singapore or Finland decades earlier. The digitisation of public services, healthcare reforms and substantial improvements in the quality of higher education can be considered as key areas for real catching up.

CONCLUSIONS

During the application of crisis management methods, it is appropriate to take into account the political, social and legal specificities of the given country. According to Ramady (2010), any economic reform is successful if it is based on the particular country’s legal and regulatory framework and ensures an optimum distribution of the resources required for the society. Improvement in both financial and non-financial institutions is indispensable for the efficient use of public funds. According to Diamond (2003), strategic budget planning, refashioning the existing programmes, improvement in the fiscal system and the adoption of a system of accountability and fiscal incentives are indispensable prerequisites for the success of reforms. Running

the appropriate budgetary institutions is important for the efficient implementation of the fiscal policy (Aidt et al., 2008). Most of the Hungarian crisis management measures of the last thirty years cannot be said to meet all these requirements.

The neoliberal economic reforms favoured by the IMF and the World Bank have failed in post-socialist countries, but especially in Hungary, in recent decades.¹⁰ A balanced budget and a low-inflation environment were acceptable targets, but the road to achievement, i.e. deregulation, privatisation and the neoliberal crisis management method used in their implementation, which further reduced solvent demand, proved to be unsuccessful, especially in the context of rapid and non-transitional liberalisation, as evidenced (among others) by the unfolding of a situation close to Hungary's bankruptcy 1995 and 2006, which further reduced solvent demand. Let us add, however, that both international organisations have learnt from their mistakes and have returned to Keynes' principles, but their goal is still to remain indispensable players in the international financial system even in a multipolar world order. Now they already give countries a wider fiscal leeway, and approve slower spending cuts if it is combined with public investment projects and, through this, economic recovery. A significant feature of the Hungarian public finance reform after 2010, which "pulled the country in crisis out of the pit", was a moderate departure from the normative recipe offered by IMF and the World Bank, i.e. strengthening the role of national property and the state in influencing the economy, broadening economy regulation in contrast to deregulation, the adoption of a tax system more adjusted to the participants' capacity to pay, and, in addition to all these, the National Bank's monetary policy to moderate inflation, and the enforcement of various considerations to boost the economy and ensure financial stability.

In the case of Hungary, however, the 1995 economic stabilisation package based on the crisis management proposals of the international financial institutions, the convergence path corrective actions announced in the autumn of 2006 and the stabilisation measures taken in the autumn of 2008 were essentially limited to addressing the critical and most pressing imbalances, however, curbing solvent demand, investment and imports demanded overall sacrifices to the detriment of growth and social conditions, making them unfeasible and ineffective over the long term. Let us add that the near-bankruptcy situations that unfolded in both 1995 and 2006 resulted from these flawed measures aimed at dismantling the planned economy system without any transition, accelerating deregulation and privatisation, and rapidly reducing the protection of the internal market.

The Keynesian fiscal boosting, which proved successful in dealing with the crisis of 1929–1933, was also favoured by advanced market economies after the 2008 crisis. Hungary, on the other hand, was not in a position, as it did not have the incentive and did not have the "approval" of the European Union to make a move towards boosting demand by increasing the budget deficit during (and embedded in) the 2010 public finance reform. Prior to 2013, no rate cuts had been made or substantial crisis management measures taken by the Hungarian central bank, what is more, the base rate even rose, thus making access to credit more expensive. However, as a result

of the wide-ranging tax reform, by 2013 (in 3 years), the fiscal trajectory “smoothed out”, and Hungary was released from the excessive deficit procedure of the European Union. The Keynesian tools of economy influencing were put in place by the post-2010 government, with proven results at the macro-economic, corporate and retail levels, and favourable experience has shown that the series of responses to the effects of the COVID-19 pandemic, toxic for the economy, should also be built on a Keynesian philosophy of recovery.

NOTES

- ¹ In the spring of 1995, the USD exchange rate was around HUF 110–120.
- ² Public debt theoretically has an adverse impact on the pace of economic growth because the economic stakeholders suspect future tax increases behind rising indebtedness. For more details see Erős, 2009, pp. 324–332).
- ³ For criticisms of the austerity packages see, among others: Matolcsy, 2008; 2015; cf. Györffy, 2006.
- ⁴ For analyses of the improvement of mostly endogenous factors, and of raising internal financing sources for the most part “in our own way – organised by ourselves”, and descriptions of the economic policy course, see Matolcsy, 2002 and Lentner, 2020, Chapter 5.
- ⁵ Let us add that the inflationary conditions generated, among others, by the high budget deficit compelled monetary policy-makers to take a restrictive (compensatory) approach, which led to the strengthening of the price stability mandate and the inflation targeting system.
- ⁶ On capitalised non-standard central bank instruments and the effects of the financial crisis in an international perspective: Neményi, 2011, cf. a description of the Hungarian practice by the same author: Neményi, 2009.
- ⁷ The job support options listed in this publication were insignificant to the severity of the problems, although they were announced on the grounds of qualifying the case as most urgent for the granting of state aid under Article 107 (1) of the Treaty on the Functioning of the European Union.
- ⁸ For the conversion: At the end of 2020, the exchange rate of the euro fluctuated between HUF 350 and 370.
- ⁹ The ratio of external government debt fell from 66 to 34 per cent, the foreign currency ratio of government debt fell from 50 to 17 per cent, and the overall government debt to GDP fell from 83 to 65 per cent.
- ¹⁰ As, for example, in Chile, Argentina or Greece.

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Éva Bruckner

Countrywide Epidemics as “Visits of the Horseman of Death” in Hungary



Summary

For thousands of years Hungary has, for the most part, been a transit zone for other nations' armies or a target of conquest. As a result, the Four Horsemen of the Apocalypse: Conquest, War, Famine and Death were ravaging mostly at the same time. Among them, Death is “the deputy of hell”, which can destroy everything by diseases and epidemics. This study is a brief review of the infectious diseases which ravaged various regions in Hungary during the past centuries, followed by a more elaborate description of those that targeted the whole country: plague, cholera and Spanish flu. With the help of documents which have not been revealed so far, the study sheds light on interesting stories, like the way the plague helped the city of Pest to become the capital city, or how Hungarian doctors could successfully cure tuberculosis in the unique climate of the Tatra Mountains. At the turn of the 19th and 20th centuries, cholera triggered a development in public healthcare and hygiene that still has its impacts felt to date. The coronavirus, which has hit us in the 21st century, is studied with a focus on its effects on our current society.

Keywords: conquest, war, famine, death, epidemics, capital city, public healthcare, society.

In 1498, on the eve of the Reformation and the German Peasants’ War, in an atmosphere of all kinds of troubles, wars, disasters, diseases and epidemics experienced up to the turn of the century, Albrecht Dürer (1471–1528), of Hungarian descent, featured the terrifying doomsday visions from the *Book of Revelations* of the *New Testament* in a series of woodcuts. On one of its pages, four horsemen steer humanity toward the apocalypse. On a white horse, Conquest is riding with a bow in his hand; on a red horse the peace-breaking War with a sword; on a black horse, distributing Famine decimates food with a scales; and on a pale (green) horse Death is riding and defeats, indiscriminately, a crowned king, strong men crying for help, and women who want to protect their little ones, by disease and by epidemic. He is the strongest, the most ruthless one of them, “the messenger of hell,” Lucifer himself, and the end of it all.

Throughout its history, Hungary has been a transit zone and an nearly constant battleground for armies and conquering powers from various parts of the world (Tatars, Turks, Germans, Italians, Russians, Walloons, etc.). As a result, the four horsemen of the apocalypse mostly galloped through the transit country simultaneously (Schulteisz, 2020; Laszlovszky et al., 2006).

LEPROSY, MORBUS HUNGARICUS, FRENCH DISEASE AND SOME MORE

In every century, wars, conquests, and famines have repeatedly created a hotbed for epidemics, mostly fatal, which have defined the lives of the state, the family, and the individual to a great extent (Nékám, 1908, p. 54).

Already in the 11th century, the crusaders passing through Hungary with the approval of King Coloman (reigned bw. 1095–1116) brought with them not only new cultures, but also an infectious disease, *leprosy*, which the Hungarians referred to as “hell in the intestines”.¹ People who fell into this disease, which caused suffering for a long time until death, were exiled to leper colonies. From the 11th century onwards, such isolation stations and leprosories were built throughout Europe in increasing numbers, and in 1325, there were already 19,000 of them (Nemes, 2011). In these places, patients were only allowed to move around late in the evening, with their heads covered by a hood of a certain colour and with a sheep-bell around their necks. The communities were led by a magister, who was one of them, and they had their own administration. In Hungary between the 11th and the 13th century, leper communities were mostly established in areas where there were no other medical institutions. There were a few exceptions: The towns Esztergom and Buda. In the latter the Sáros Spa (“muddy” spa, today’s Gellért Spa)² and the spital accommodated lepers and later syphilis patients. Spitals (the forerunners of hospitals for the poor) did not lag behind their contemporary western counterparts. They cared for 6-20 patients, heated the rooms, bathed the treated people, and those who needed it were fed with a quill (corresponding to today’s probe, Józsa, 2008, pp. 13–15). With the Roman Pope’s approval, lepers were taken care of by members of the Order of Lazarus, founded in Jerusalem, who frequently got infected themselves. When the Lazarus Knights ar-

rived in Hungary, they took over leprosories in increasing numbers. In our old documentary sources, the path of the spread of this disease can be traced on the basis of the abundant toponyms containing the words “Lazar” and “hellish” (Csernus, 2015). However, since the number of lepers decreased from the 14th and 15th centuries onwards, their colonies also discontinued (Magyary-Kossa, 1929–1933). Archaeologists have suggested that there was also a leprosory on Margaret Island in the Middle Ages, where, for example, patients were treated with running water for hygienic reasons.³ In the 14th century, the knight king Louis the Great (1326–1382) was also presumed to have covered his hands, which had been withered by leprosy, by permanently wearing gloves, which was also captured in the miniature of the *Chronicon Pictum*. Based on the grave finds from this age, it is conceivable that people suffering from acute skin diseases (psoriasis, eczema or elephantiasis) or from diseases associated with truncation and distortion (skin tuberculosis, skin cancer, ergotism, etc.) were also closed up with the lepers in their communities (Józsa, 1996).

During the Turkish wars, the great pauperisation was followed with haunting precision by *spotted typhus*, to the extent that it was even given the name *morbus hungaricus*. “Because when the army, which had gathered from all the foreign nations under the Hill of Buda to liberate it, was disbanded and scattered, in addition to glory and prey, they also took home the curse of the scourged country, the spotted typhus. [...] Because this was our export, in which nothing foreign could compete with us” (Cholnoky, 1914, p. 54–55). The well-written description of the disease, commonly called Hungarian disease, by the journalist Viktor Cholnoky raises several questions. For example, why does he only mention German soldiers as infected and neither Hungarians nor Turks? There is a rich literature on the history and nests of the *morbus hungaricus*.⁴ Their unanimous opinion is that the conditions and customs found in Hungary (evaporation of the uncleaned swamps and heavy Hungarian eating and drinking) had greatly weakened our German allies. Associated with all this was the hygienic condition of joint camps: life between unburied dead animals, poorly buried human bodies and waste that was not cleared away. The Turks did not eat pork, in the first place, and did not drink wine, and also cleaned camp sites carefully.

In Hungarian typhus was also called “hagymáz”, which comes from “had mása” meaning “copy of war”. This precisely referred to the fact that the soldiers could die not only with a weapon in their hands, but also of a disease. Camp medics also contributed to such deaths because instead of healing they mostly killed their patients. Their practices did not include more than purging and bloodletting. The most frequently administered drug was saffron mixed in whipped egg white, diluted with wine, which was recommended not only for drinking but also for rubbing the tongue and gums with the tips of the fingers until they started bleeding. After two or three occasions, this treatment was usually no longer applied (Győry, 1900, p. 19, 163).

Typhus widely spread again in Hungary during the Napoleonic conquests, and then, a good century later, it massively attacked the soldiers during First World War, who then transmitted the infection on the War Horse. The Great War became the hotbed of the epidemic, and after two years of rest, it returned as an epidemic caused

by the decision of Trianon: the Hungarian population deported or fled from the annexed areas were compelled to live, for years, in miserable railway carriages on stations, where the living conditions and hygiene were reminiscent of the Dark Ages (Bruckner, 2017, p. 250).

Tuberculosis, also known as the white scourge or pulmonary consumption, is also recorded as a *morbus hungaricus*. Probably typhus was the first disease to be given this name, but there is no doubt that the latter infectious disease also spread with special passion in Hungary. The epidemic appearance of tuberculosis, which mainly concentrated in Budapest, peaked between 1896 and 1905. In the autumn of 1914, the hygienic conditions during the participation of the Hungarian division of the Austro-Hungarian Monarchy in the Galician standing war, which were considered to be hotbeds of typhus, also cultured tuberculosis bacteria. “I had my squadron dug themselves in after the battle until 24 hours at night, I had not eaten for 26 hours, and there is no water... Their flaming village, wounded... After six days, I washed my hands yesterday. It’s been six or eight days since I haven’t changed clothes or shoes, I haven’t eaten... it keeps raining, I’m sitting in a wet hole, I relieve nature here”, we can read in Captain Imre Zámory’s diary, often written on horseback in 1914 (Bruckner, 2014, p. 175). After the years of the World War I, due to the radical surgical treatment of the tuberculous osteitis, in addition to those who became invalid in battles, several amputated lung patients also required artificial limbs and crutches.

Before the turn of the century, there had been hardly any hospitals treating infectious patients. The St. Ladislaus Hospital, founded in 1892, received acutely infected people from 1894. In 1899, St. Gellért Public Hospital operated as a branch of St. Roch’s Hospital. A decree obliged the legislature to establish separate epidemiological hospitals, but implementation was difficult. As lung patients were silently infectious, they were not given much care, and they were not segregated in hospitals until 1913, and consequently, hospitals became the foci of tuberculosis (Kiss, 2005a).

The systematic method of treatment for tuberculosis patients of the middle class was sanatorium treatment, widespread at the turn of the century. Thomas Mann’s novel entitled *Magic Mountain* captures the life and treatments in the lung sanatorium at Davos. The “Magic Mountain” of the Austro-Hungarian Monarchy was in the Tatra Mountains. At the end of the 19th century, Dr Miklós Szontágh and his son established a world-class medical sanatorium at Ótátrafüred, and then Újtátrafüred (today: Starý Smokovec and Nový Smokovec, Slovakia), and Dr Mihály Guhr established a world-class medical sanatorium at Tátraszéplak (today: Tatranska Polianka, Slovakia). The treatment of lung patients in these places included hydrotherapy, “airbathing”, sunbathing and relied on the special climate of the Tatra Mountains (mostly dry atmosphere due to low rainfall, protection from winds, and lots of sunlight).⁵ According to the contemporary perception, the cause of lung disease was thought to be weakness of the heart and insufficient blood supply, as a result of which the tubers were thought to be deposited in the lungs (Domandy, 2002, pp. 174–175). In line with this concept, the goal of hydrotherapy was to ameliorate pulmonary anaemia. Although some

physicians did not attach importance to this method, this procedure, together with the unique climate of the Tatras, yielded results when a vaccine produced by Robert Koch in 1890, tuberculin, did not prove to be curative. (It was only improved to a vaccine much later). Up to the Treaty of Trianon (1920), the 80 suites of Mihály Guhr's sanatorium were the most successful destinations for medical tourism for tuberculosis patients in Europe, and during the Great War it was also the place of treatment for soldiers with lung disease. This disease "first befriends its victim, slowly, gently preparing it for the afterlife; gives strength to his thoughts, magic to his pen, and inspiration to his brush..." (Jókai, 1961). Jókai's words are confirmed by the fact that the sanatorium's patients included several Hungarian painters, who immortalised the Tatras, a lady who was then Miss Europe, and the Czech poet Jiri Wolker, but Dezső Kosztolányi also sought help here, although not for lung disease, but for cancer (Bruckner, 2019). After the enforcement of the Treaty of Trianon, the name of Dr Mihály Guhr sank into oblivion, but in Tatranská Polianka, Slovakia, his legacy, the sanatorium, is currently experiencing a renaissance (Kollárová, 2015).

In the 1490's, a fatal pandemic developed in several countries of Europe and spread sexually. Most likely the sailors of Columbus brought it from America to Europe. It was considered as a *genius epidemicus* until the 18th century (Forrai, 2020).⁶ *Syphilis*, also called pox or Neapolitan disease, appeared in Hungary in 1494. It spread fast and widely in the 16th to the 17th centuries, when the Spanish troops of Charles V were stationed in Hungary (Ferencz and Józsa, 1990, pp. 227–233). In contrast to previous epidemics, the Neapolitan disease was an illness of the elite, as it spread mainly among the upper strata of society and among soldiers. According to Erasmus, those who did not contract this disease were not considered as genuine noblemen. This makes it clear why King Ulászló II (1456–1516) left Buda, the royal seat, travelled to Zsámbék, and only returned to Buda when the epidemic seemed to be coming to an end. Nevertheless, he did not escape the infection. Primate Tamás Bakócz (1442–1521), who accepted celibacy and forbade fornication in line with the commandment, but he himself practiced it, and so was also infected, but he was one of the few who did not die of the disease.

Mapping the legal or illegal brothels made available to the military passing through Hungary during World War I enables one to follow the spread of the infection. The women of pleasure were available to the military in pike-grey clothing reminiscent of nuns.⁷ Their task was to satisfy the sexual needs of the staff and to educate them sexually. At the same time, however, by allowing their activities, the authorities intended to curb the development of homosexual predisposition (Kiss, 2011).

Mária Ormos analyses Hitler, Stalin and Lenin in terms of the extent to which cerebral lesions of syphilis may have influenced their actions (Ormos, 1997). In the Hungarian context, a task awaiting research may be to analyse how and when the advanced state of this disease is reflected in the works of e.g. the poet Endre Ady, and the painters Mihály Munkácsy and László Paál.

The most effective control method, i.e. vaccine injection, was implemented in Europe at the end of the 18th century, against *smallpox*. In agreement with the English

historian Thomas Babington Macaulay (1800–1859), smallpox is considered one of the most horrible of all the servants of Death. Every year, half a million people were indiscriminately lost to small pox, including poor, rich, servants, citizens and kings (during the Rákóczi War of Independence, in 1711, Joseph I, Holy Roman Emperor, Archduke of Austria, King of Hungary and King of Bohemia also died of smallpox) and if someone was somehow healed, he or she lost sight, as happened to Ferenc Kölcsey, author of the Hungarian national anthem, in one eye, or scars disfigured his or her face and body for the rest of his or her life.⁸ Empress Maria Theresa encouraged the spread of the vaccine found against this disease in the Monarchy, including Hungary, by successfully vaccinating her own sons in 1768. However, general and compulsory vaccination was only prescribed by the Public Health Act of 1876 (Kárpáti, 2020, p. 68).

Some of the contagious diseases discussed briefly or not at all due to volume constraints (diphtheria, malaria, scarlet fever, measles, and polio) appeared mostly in cities or in the more densely populated, scattered rural foci in Hungary. Nationwide epidemics were caused by spectacular diseases that were devastating at a very rapid rate – plague, cholera, and Spanish flu.

DEATH SNEAKING IN THE FORM OF A PESTILENCE

Up to the 16th–18th centuries, there had been more thorough analyses of the devastation of the *plague* in Hungary since the Middle Ages, but more meticulous studies were only made of its last two major attacks in Hungary, in 1709–1711 and in 1738–1743 (Győry, 1906, p. 379–382). Based on several contemporary documents and historical sources – for example, the correspondence of Lajos Nagy and a report by the Venetian ambassador Bertalan Ursi (Mende, 2015, p. 136) – we know that similarly to other regions of Europe, in 1348–1349 a large number of people were lost to plague in Hungary. Our knight king, Louis the Great (reigned bw. 1342–1382) waged a campaign in 1347 to avenge the assassination of his brother, Endre, who had been heir apparent to the throne of the Kingdom of Naples. The plague reversed King Louis, and those who returned home with him also brought the plague. This can be concluded from the fact that in 1349 the Venetians did not dare to send their envoys to Hungary because of their fear of the plague that befell us (Németh, 2014).

Very few written records are known on epidemics in Hungary before the beginning of the 18th century. Since black death⁹ has almost always also associated with military campaigns, it is no coincidence that we already know more about the plague epidemic during the Rákóczi War of Independence. The disease broke out in 1708, probably from Turkey, and culminated in the spring of 1709. Rákóczi seems to have taken measures against the epidemic beyond his age. He called for plague hospitals in the cities and camp hospitals moving with the army. Only goods were allowed to cross the borders, not people, even if they were the carriers. Infected houses were sealed, disinfected by smoking, and the patient’s clothing was burnt. However, Rákóczi’s measures only helped cities (this is indicated by the fact that during the War

of Independence the destruction was “only” 10 per cent in the affected localities), but they were practically unsuccessful among his soldiers. The main reasons for this included their raiding battle tactic, which spread the infection, and the transit traffic in the open southern borderland, where Serbians and Germans came and went, but the absence of educated and trained physicians also contributed to it. A prominent role was played in healing by Jakab Ambrus Lang, a physician of German descent (1663–1725), who was the prince’s physician and then his companion in hiding. Of the army of 16,000 Kuruc insurgents, only 3,000 people had survived by the end of the War of Independence. According to Count Miklós Bercsényi, General of the War of Independence: “We were not beaten down by the Germans, but by the plague” (Kapronczay, 2004, p. 48–56; Takáts, 2003; Szállási, 2004).

MISFORTUNE FOR BUDA, GOOD LUCK FOR PEST

Plague, which was also scattered by the soldiers of the Rákóczi War of Independence, also attacked Pest and Buda, and had a greater chance for destruction in the latter. Extinction in Pest after the conquest elicited such a cry from the historian: “Oh, you forlorn Pest! It should rather be called a plague” (this is a pun on the words Pest and the Latin word “*pestis*” for plague; Bél, 1985, p. 11). The Pest side of the Danube was “a mere sandy shore... if the wind blows, the tousled sand won’t let you see anything, and a swamp stinks over there” (Ráth-Végh et al., 1957, p. 5). Buda, the former royal seat, was then the second largest city in historical Hungary. Its population exceeded 13,000, and the Italian, German, Armenian, Jewish, and Muslim merchants who arrived at its fairs occasionally even multiplied this number. However, its streets and squares, like all medieval towns, were covered with sewage and faeces spilled through the windows, rodents romped, and even in the more upscale castle, pigs and dogs swirled (Poór, 1998). When the plague, which hit Hungary from several directions, arrived at Pest, barely found a person suitable for infection, and quickly moved to the right bank of the Danube: in October 1709 demanded twenty-one lives in Tabán district alone (Géra, 2012, p. 139).

Defence against the disease was implemented on the basis of a regulation by Count Lipót Kollonits (1631–1707) ordering anti-plague measures (*Ordo pestis*, 1692) compiled in accordance with the contemporary state of medicine and previous experience (Vámosy, 1901). The fairgrounds were placed outside the walls, and sales were repeatedly suspended, the public spaces were cleaned, and individual begging was forbidden, only the representative of all the beggars was allowed to beg. Houses inhabited by infected people were marked by one cross and patients by two crosses. Public gatherings were banned and pubs were closed. At the city gates, inspectors stood in the way of the aliens, and several quarters of the city were quarantined for months. A pest-house called “lazarenum” was established for the poor at the foot of Gellért Hill (Korbuly, 1939). Information posters were affixed with the following and similar texts: “Plague will not spare people of any age, gender or class, it strikes young and old, poor and rich, master and servant, brave and coward, strong and weak, whether

in good or bad health. It follows the runners... Like any other disease, it starts with colds, fever and shivers... only scientists in the medical sciences know... its certain sign: each breathes a strange odour.”¹⁰ However, in Pest and Buda, there were very few trained doctors and they were expensive, and none of them undertook treatment for plague.¹¹ The treatment included the use of arsenic balls, brandy and ginger taken into the mouth, emetics, sudation, and having the patient drink tinctures made of urine.

In contrast to Pest, where the milder epidemic had ceased by the beginning of the summer, from June 1710, another outbreak of the plague followed in Buda. After the quarters Tabán and Víziváros, a large number of dead were registered in October in the Castle, and then in the following month in Horvátváros and Országút (Géra, 2012, p. 150). Meanwhile, thanks to the four annual national fairs patented in 1690 by Emperor Leopold I (1640–1705), trade increasingly boomed in Pest.¹² Therefore, the traders who had been transporting to fairs in Buda so far, avoided the infected city and chose to take bypass roads or crossed the river by a folding bridge to the Pest side to sell their goods. As a result, the national fairs held at Pest slowly caught up with those of Leipzig and Frankfurt, and the centuries of good fortune had passed for the people of Buda. In 1775, the Buda City Council made one last attempt to boost fairs and requested the king to set new dates to adapt to the markets in Pest. This was received five years later, but no results were obtained (Bruckner, 2014, p. 17).

Between 1740 and 1744, the black death made its last journey all over Hungary and Buda was also severely affected. The consequences of its destruction (population decline, impoverishment and famine) and the natural disasters that followed in its aftermath (fire, floods, etc.) led to the loss of the city’s leading role in the country. And while the Buda Castle was inhabited by the king, the city of Pest was home to the merchants who settled there, and expanded the city by new districts. The quarters called Lower Suburbs (renamed as Józsefváros for Emperor Joseph after 1777) and Upper Suburbs (renamed Terézváros for Empress Maria Theresa from 1777) were established in the 1730’s, and had become the most populous parts of the city by the 19th century. Lipótváros, founded mainly by fair merchants, was built on the banks of the Danube and had been completed by 1790. In the 18th century Pest had already preceded Buda as a rapidly developing business centre, and in the 19th century its population also exceeded that of the already dormant Buda. This is how the plague reversed the role of Buda and Pest in the country.

In the first half of the 19th century, Pest, with a population of one hundred thousand, became the most populous city in the country, and a commercial centre, where “the crowd was swaying and surging like sea tossed by the wind” (Garay, 1902, p. 15) and where foreigners came like to a New America, where gold can be found. In the city of developing fairs, however, horse-flies and flies mingled in the rising dust from the horse fairs held on the sandy plains, covering the kitchens and wards of the nearby military hospitals.¹³ All this allowed *cholera*, the epidemic that spread from India to Europe, to get its foot in this crowded, oriental-style city and hit it again and again for a century.

THE “ANGEL BRINGING DEATH”: THE CHOLERA MORBUS

The epidemic known as yellow horror, bile vomiting and bile duct, hit Hungary in 6 waves. People in the 19th century almost always felt as if they were being persecuted. It is no coincidence that the writers of the time could not avoid mentioning it. “Whoever is grabbed by the morbus doesn’t even have the time to look behind him; he simply falls and dies. He falls over and shuffles off” the teacher informs the schoolchildren about the appearance of the epidemic in Jókai’s novel *Sad Days*. A few decades later, writer Kálmán Mikszáth (1847–1910) still paints a similar picture: “You are like being persecuted. You don’t know where to go. You can’t escape from cholera, as you would from a bullet in battle, because perhaps it hits you just while escaping. [...] And moreover, the newspapers, when you take a seat in the coffee house: all are funeral cards. Cholera is working with increasingly fat numbers. The letters smell of cemeteries, and the pious, innocent characters seem to transform into grave crosses” (Mikszáth, 1992).¹⁴

In the spring of 1831, cholera spread from Galitia to the northern parts of Hungary, including Zemplén County, which had an established emergency committee chaired by Lajos Kossuth. At the beginning of July, the disease appeared and caused great “horror” in Zemplén County. Neologist linguist Ferenc Kazinczy (1759–1831) reports: “Zemplény has been shut down, and I live in Abaúj, some 600 steps from the edge of that county, and no more than an hour’s walk to Ujhely, and so all intercourse between Zemplény and me is closed.”¹⁵ On August 23, 1831, Ferenc Kazinczy also fell victim to the disease. The memory of cholera victims in Zemplén County in 1831, unique in the Carpathian Basin, is preserved in Erdőbény by a so-called cholera column. This is a stone monument made of local rock, connected with iron straps, which was erected in 1832.

The measures against the epidemic essentially repeated the actions taken against the plague, and their implementation was also regulated by the epidemiological part of the 1770 health decree adopted by Empress Maria Theresa (1717–1780) (Balázs, 2007, pp. 65–92). To this date the most remarkable passage of this regulation addresses the responsibilities of senior officials in the epidemiological administration. If they were negligent, five years of strict confinement was to be expected, and those who did not comply with the regulations could face severe penalties: for example, if someone left the quarantine prematurely, they could end up hanged. A milder punishment could have been a minimum of two years of forced labour. The most common method of defence was the already proven lock-up, however, the period of lock-up had to be in balance with trade and economic affairs (Balázs, 2007, pp. 83–92).¹⁶

The borders of the country and the affected localities were blocked by gates and guards. “On the first day they reached Mezőkeresztes. Already at that point they noticed that the gates were not opened to them with great hospitality. All sorts of unfit people demanded a passport from them very much. But, since time immemorial no one has ever travelled with a passport within the borders of Hungary. But after arriv-

ing under Eger... at the outskirts of the city the arriving troupe was simultaneously surrounded by people equipped with rifles and iron forks. No one was allowed to get off the wagon, everyone on the cart, along with their companions, was driven to the compartments of break-away cattle, and was officially informed that they would not be allowed to enter the city until the two-week lock-up was lifted”, we can read in Jókai’s interpretation (Jókai, 2010). And even gallows were erected along the borders to intimidate travellers. They also revived the Cordon Act of 1772, which stipulated that anyone who does not stop at a three-time call could be “shot dead”.

The passengers of the arriving ships were sentenced to forty days of quarantine, and those staying there had to pay special attention to cleanliness, using soap, alkali made from wood ash, and milk of lime. It was only possible to receive or exchange a package or any kind of goods through a grill. Great care was also taken in the delivery of letters and other items: “All mail from above should be intercepted at the house assigned for this purpose, and the postmaster... should open the packages, and each letter should be pierced first and smoked by a surgeon in the presence of the future city official, before it is taken to the post office”, stipulated the decree (Daday, 2002, p. 232). However, the measures did not produce the expected results. Epidemiologists were assigned, but pastors, priests, and anyone who had the slightest idea of medicine was engaged in healing. The most important means of disinfection were chlorine and vinegar (Bálint Nagy, 1931, pp. 1217–1219).

The reason why the cholera morbus was so prevalent among the people was summed up by a facilitator as follows: “And this morbus is present in this year’s melon, apricots and the pulp of all fruits; therefore he who does not want die should not dare to relish even a single piece of them” (Jókai, 1961, p. 75). However, until in England epidemiologist John Snow discovered that contaminated water caused cholera, the composition of air and of the soil had been considered as the main culprit.

In the first half of the century, the disinfection of water was expected of bismuth dust sprinkled in the wells. The epidemic was much more devastating among the poor than among the wealthier, but when they saw this practice they suspected that the intention was to poison them. “The gland will knock out at several premises at a time; and wherever dead bodies will be found, the living will take up arms and seek revenge” (Jókai, 1961, p. 85). This assumption was confirmed by the fact that on 17 July, the students of Pest also broke through the Buda cordon. The so-called “cholera uprising”, which spanned several counties, was eventually put down by the police.

Since Hungary was considered as a country with poor healthcare at that time and doctors could not treat the disease, for a long time there were more deaths with the treatments used than without them. In his *Short Education*, published in the summer of 1831, Mihály Lenhossék, Chief National Physician, suggested bedrest, sweating, and vomiting, which not only not cured a disease that caused an enormous loss of fluid, but rather accelerated death. In 1831, the *Medical Repository* recommended the preparation of the following anti-cholera agent: “Place 17.5 g of finely powdered dry green limestone in a small rectangular vial not bigger than an inch and made of soft

and unglued paper; wrap it in a piece of cotton... and close it in a purse. Place such purses in every pocket of your robe, vest and trousers when you leave the house, and keep one in your hand at all times, grasp all handles and accept all money using them, and in addition also place one in your pocket and wipe every letters and other pieces of paper with it." Apart from the fact that the implementation of this method of defence was rather complicated, it did nothing to help the patient. To alleviate diarrhoea, many were given opium mixed with some essential oil. Leipzig doctor Johann Schubert swore by herbs and, for their effect, he banned his patients from consuming alcoholic drinks, coffee and acidic foods, warning them against colds and "strong tempers". The only method that was of some use was applied by Bernát Harszt, a physician at the village Dég: in addition to a special sweating technique, he made his patients drink 1-1.5 litres of tea per hour (Kiss L, 2005b). "Those who drank only cold water and did not take any medicine recovered sooner", was the contemporary opinion (Rechnitz, 1848, p. 109).

Between 1835 and 1837, cholera hit Hungary with a milder force, but in 1848 it returned and in 1849 its second wave destroyed not only the civilian population but also the soldiers of the Russian and Hungarian armies, opposed in the War of Independence. "And there the war in front / Is only the minor trouble; the sadder one, / Standing behind, / Is pestilence" – grieved the poet Petőfi in his last poem (Petőfi, 2007). Although cholera was not the main cause of the fall of the War of Independence, it certainly did contribute to it (Fazekas, 2020).

Next time death arrived again in 1866, in the form of a "genocidal angel" along the Danube, following trade routes. The launching of steam navigation on the Danube accelerated its spread, followed by the gradual construction of domestic railway lines from 1846–1847. The economic policy of the time of the Austro-Hungarian Monarchy enabled the building of a European-level railway network with a strong concentration of capital, and with Pest emerging as a transport centre. However, this increased the number of people visiting the city and accelerated the spread of the infection. In the autumn, two thousand of the four thousand infected died in three months. Its spread was also aided by large troop movements associated with the Prussian-Austrian War (1866), and in the cities the foci became houses accommodating soldiers (Fónagy, 2020, p. 52). The cholera epidemic that began in 1872 raged for two years. "There is an iron fork at the end of the village, and yet cholera strikes", the saying went among those going to the cities, when they reached the border of a location, as a man holding an iron fork signalled if the epidemic had broken out at the location, and after disinfectant smoking, prospective visitors mostly thought it better to go further. The *morbus* was spreading at an extent that the graveyards of Pest in Váci Street, Kerepes and Ferencváros could no longer accommodate the dead.

The devastation caused by cholera in the 19th century did not change the course of Hungary's history. The resulting uprising that erupted in 1831 did not shake the existing social order. However, the efforts made at researching its origins resulted in great strides in the development of medicine and in general public health.

THE APOSTLE OF PUBLIC HEALTH
AND THE REVOLUTION OF HYGIENE

Based on the experience of cholera, Dr József Fodor (1843–1908) made efforts at the modernisation of Hungarian healthcare. The importance of his work was already recognised in his life: although he did not receive a Nobel Prize, he was nominated for it. He focused on the control of infectious diseases. “Physicians in public service took action enthusiastically, placing patients carefully in cholera hospitals, but more negligence hampered the success of the cure”, he noted.¹⁷ Thus, for example, the house of an infectious patient was not closed, the patient’s caregiver was not monitored, and the infected person was frequently sent to rural relatives during the incubation period or, if staying at home, he or she was only temporarily isolated from the family. He criticized the outdated healthcare practices of the institutions. He called for the theoretical and practical training of health administration experts, including medical officers, in particular. He also published a lot about the hygiene of houses and flats. One of his interesting observations was that houses were built to the Czech and German style, forming blocks like barracks, and so the city was almost an enclosed castle with intolerable health conditions. It was no coincidence that typhoid reared its ugly head mainly among urban residents, and the number of cholera patients was also increased by these places. In 1860, with Frigyes Korányi (1827–1913) and Dr Lajos Markusovszky (1815–1893), he established the principles that were subsequently incorporated in Hungarian public health laws.¹⁸ At the Faculty of Medicine he set up a department for public health, where he himself taught health science. In concert with Markusovszky, in 1886, he established the National Public Health Association, with the aim of developing modern hygiene (Kapronczay, 1986, p. 1713–1717). Immediately after his death, in 1909, a bronze bust made by sculptor György Vastagh Jr. was erected on Gutenberg Square in District VIII of Budapest, with the inscription “For the first apostle of the cause of public health”. He is remembered by a statute in Kaposvár, and a bust at his birthplace, Lakócsa, in Somogy County.

In Hungary, in 1892, a disinfection institute was established on Gyáli Road. Those who worked there were also responsible for the disinfection of homes, including flats and houses (Hammer, 1916, p. 731). Professional disinfection has also been precisely specified for individuals. In 1894, the St Ladislaus Hospital was opened as a specially epidemic hospital, where housing was also provided for healthcare workers. Prior to this, infectious patients were cared for in St Roch’s Hospital up to 1870, and if there were too many of them, they were accommodated in rented houses and later in barracks (Domonkos, 2019).

In the second half of the 19th century, the installation of English toilets in Pest buildings became the trend. Feather dusters have been used in households since then (Magyar, 2006, p. 37). In larger homes of the more exigent blocks of flats in Budapest, the construction of bathrooms began in the 1880’s. By 1890, water had already been introduced into 70 per cent of the houses in the capital city. And hand washing, which had not really found followers since its advocate Dr Ignác Semmelweis, was now in vogue.

Cholera visited Hungary once again in the 20th century, during the World War I. A living memory of this period in Miskolc is the cholera graveyard, which was established at the same time as a cholera hospital as a “military observation station”. In the hospital’s 78 larger, 8 smaller barracks and 7 stone outbuildings, 50 doctors and 100-200 nurses cared for those injured in the battles and those who fell ill in the epidemic. The cholera graveyard provided a resting place to 962 Hungarian, Russian, Romanian and Italian soldiers killed by the cholera. Similarly to the Mária Valéria estate in Budapest, after World War I, this hospital became a slum. From then on the graveyard fell to disrepair and was only renovated in 2019 (Sasváriné, 2020).

THE THREE-DAY FEVER, OR SPANISH FLU

In addition to cholera, in the early 20th century, during the First World War, death galloping on a pale horse took its tolls all over the world, including Hungary, by a new, previously unknown disease called “three-day fever or three-month-old fever” in England due to its short period, and “Spanish flu” elsewhere, as news of the contagion first came from Spain. Spanish flu¹⁹ is an influenza A virus, but this was discovered only long after it was able to spread worldwide. In Hungary it set out on its murderous journey in the summer of 1918, and it was probably introduced by Hungarian soldiers fighting on the Italian front. They were transported to the Zita Military Hospital or to the branch hospital in Telepi Street in Budapest. They transmitted the virus to their fellow patients, and frequently to also doctors and nurses (Bödők, 2020, p. 89).

As its symptoms were similar to flu, doctors considered it no more important than flu. “As medicine stands today, it is impossible to say what we are up against. The disease has a mild course, we isolate the patients, but we cannot do anything else”, said Chief Physician Sándor Szabó in July (Valentiny, 1918). In the summer, the epidemic seemed to be easing, but it had to be noticed again in September. The Chief Medical Officer of Budapest convened the city’s district medical officers to discuss how to defend. He instructed them to monitor schools, inspect common areas, and, if something happened, take strict precautions (*8 Órai Újság*, 1918b).¹⁹ In October 1918, the daily *Pesti Hírlap* reported that it could receive a “20,000 crown fee for undertaking research into the pathogen of Spanish fever” (*Pesti Hírlap*, 1918). Although there were some who undertook research, but they remained unsuccessful. Meanwhile, more and more news came from the countryside – from Nitra County, Kosice, Subotica and Bratislava – came to an end – and the number of daily deaths began to skyrocket. The disease caused pulmonary haemorrhage even without complications, and the infected lived for only 1 or 2 days.

Dezső Kosztolányi’s short story *Esti Learns the Death News* already reflects the shock caused to people by the reported data on the epidemic. “His hand reached for the morning paper... only mourning reports stared at him, with black crosses like a forest of headstones in a cemetery. 178 new deaths... the Spanish epidemic peaking. Not Spanish, he thought. Plague, pestilence. This is the doom, the doom” (Kosztolányi, 1936). These lines suggest the mystical and prophetic divination of a doomsday air,

brought to life in Dürer’s woodcuts. Throughout the country the epidemic situation was much more serious than claimed by official bodies. The victims included poor and rich, at all ranks and ages, and in all occupations. And the story of their deaths was short and shocking. “The war mowed men, while the Spanish flu mostly swept women and men out of the ranks of the living”, writes Ilona Harmos wife to poet and writer Dezső Kosztolányi in her memoirs (Kosztolányi, 1988). Brides just a week before their wedding, and beloved young wives (e.g. Etel Judik, the first wife of Frigyes Karinthy) boarded Charon’s boat, and death did not spare even entire families (Géra, 2020). It sought and killed our writers, poets, artists with special care, in the prime of their life and work. Mentioning only the biggest ones, the victims included poet Endre Ady, writer Margit Kaffka and painter Tivadar Csontváry Kosztka. Death also overtook the last Hungarian king, King Charles IV (1887–1922), who had fled to Madeira, Portugal. Charles, who had become emaciated and weakened in exile, returned to his home on the hill in March 1922 with his two children from the city of Funchal, and was then assumed to have got cold due to the temperature difference between the two levels. However, a few days later he developed a high fever and coughed. The doctor treated him with flaxseed compress, camphor, caffeine and turpentine. He later also cupped blood around his spine to remove the infection from the patient. In his final hours, the man who had since been beatified and considered holy, prayed for his family and for the happiness of his people.²⁰ As a final attempt at his rescue, doctors injected blood into the lungs (Dékány, 2020, pp. 96, 97; Nagy, 1995), but to no avail.

It was difficult to find a doctor competent in treating Spanish flu patients not only on the island of Madeira, but all over the world, including Hungary. According to the assumptions of the contemporary physicians, it was caused by bacteria, and there were even some who, despite protest by the lung specialist Sándor Korányi (1866–1944), identified the disease with lung plague. Hospitals were also poorly equipped and unprepared. As a medicine, the newspapers recommended Martz cognac medicine, Franz Joseph Epsom salt water, wines from Syrmia, Anacot pastilles for disinfecting the oral cavity, and a disinfectant called Lyzol for mopping the floor (Bödök, 2020, p. 90). Meanwhile, the trains, departing from and terminating in the capital city, kept carrying infected soldiers. A piece of news published in September 1918 sheds light on the displeasure triggered among the population by the conduct of the capital’s mayor, who shifted responsibility in such a turbulent period of an epidemic: “The trouble is nationwide, and citing that reason, the capital’s leadership seems to be passing on the task of action to the government. However, at that point, let us ask: Where is Mayor István Bárczy at such a time of danger? He is the representative of the executive power, so it would have been his imperative duty to watch over the timely taking of precautionary measures in the public interest of the capital. He also has the right to supervise hospitals, but István Bárczy is nowhere to be found. Well, of course, no toast may be given to Spanish flu...” (*8 Órai Ujság*, 1918a, p. 4).

In October, the Metropolitan Assembly finally took a pivotal action: theatres, cinemas and nightclubs were ordered to close for 2 weeks, cafés two hours earlier, and colleges and universities indefinitely, and a maximum of 4 people were to be allowed

to stay on railway platforms at a time. The most significant decision was to exempt a hundred doctors from military service (Géra, 2009, p. 220). In the counties, deputy-lieutenants issued successive instructions to implement more stringent procedures. “In order that wherever there is a shortage of doctors due to mass illnesses and the collective epidemiological treatment of several serious patients is absolutely necessary, on the basis of an authorisation from the administration... any educational institution shall be equipped as an epidemiological hospital and urgently appoint an epidemiologist. If the population does not voluntarily supply it with equipment, the Minister of the Interior may grant permission for compulsory requisitioning”, reads in a letter from the Bihar County deputy-lieutenant to the chief judges and medical officers (*Biharvármegye Hivatalos Lapja*, 1918, p. 34).

However, during the Károlyi Government (1918–1919), the order on closing down public places, theatres, etc. and on the earlier closing of cafés was abolished at the end of October. Contributing to the revocation of the measures was that PM Mihály Károlyi was afraid that if he carried on with the strict bans, he would lose his popularity (Bödök, 1920, p. 90). Crowded public transport contributed to the spread of the infection because the old types of vehicles had already been removed from service before the epidemic.

In January 1919, the virus disappeared all of a sudden, but it merely gathered strength to attack again in 1920. “The Spanish epidemic is spreading. Yesterday, 57 and today 73 patients were transported to St Gerard’s Hospital. Ten people died yesterday. The authorities took the measures they had taken in 1918” (*Miskolci Esti Lap*, 1920, p. 2). However, the epidemiological committees did not dare to take more stringent measures, they did not dare to publish data about the facts, and the newspapers also informed the public only in minor articles. The powder keg was obvious in everyday life: if a tram driver or a conductor did not allow a parent to board with an infected child, most of the passengers turned against them. The epidemic took life from the already destitute population. From those who had had enough of the ticket system, who lined up for hours every day, at the risk of infecting each other, lined up to buy or obtain something. From those who were waiting on the railway platforms for their family members, their sons to return from the battlefields or just the news of their deaths. And while the epidemic ravaged, a revolution broke out, then they were exposed to a dictatorship, and finally a peace treaty was imposed on them that completely shattered the country.

“TO-DAY THY TURN; TO-MORROW MINE, FAIR ONE”
(IMRE MADÁCH)

One hundred years after the Spanish flu, the attack of the coronavirus opened a new chapter in world history. Unexpectedly and unknown, it entered people’s lives in but moments. It shook the world.

In history most of the epidemics commenced primarily from the large populations of cosmopolitan cities that had evolved as a result of civilization. The globalised

world created an opportunity for the Spanish flu at the beginning of the 20th century, and then for the coronavirus to flourish 100 years later. COVID-19 races through the borderless continents and countries by means of transport travelling nearly at a wind speed, and wreaks havoc at places where modern-age migration also contributes to population growth and to the contamination of distant regions.

In this fundamentally shaken world, Hungary is similar to a “island country”, free of migration and relatively spared from the coronavirus (Békés, 2020). The history of Hungary has served as a lesson and has taught us that the role of a transit zone, i.e. when foreign nations infested the country and crossed it, frequently with the intention of conquest, has always made Hungary a hotbed of diseases and a field for the horsemen of the apocalypse. “Now the Mongol arrow flew / Over our devoted heads; / Or the Turkish yoke we knew, / Which a free-born nation dreads. / O, how often has the voice / Sounded of wild Osman’s hordes, / When in songs they did rejoice / O’er our heroes’ captured swords!” Kölcsey recalls these events in the National Anthem, and points out the tragic consequences a Hungarian may expect: “Even a home he finds he lacks.” At the time of the crises intensified by the coronavirus, Hungary is – as so many times during its history – currently in a phase that saves the country’s life and then lays down new foundations, and its successful implementation requires attention to historical lessons and their messages.

The main source of human knowledge is the experience conveyed by historical traditions. For a solution to problems and tragedies that have already been experienced, one should start from them as a base line, not from abstract ideas out of touch with reality (Egedy, 1998). The consequences of the events of our past show, among other things, that uniform action is required from the representatives of the various conceptual trends to prevent migrants, who may already carry and transmit the virus and also involve the risk of statelessness, from crossing our country or from finally settle here as a result of the eventual fulfilment of the admission quota imposed on us, the latter being, unfortunately, difficult to imagine. There was already strength in the nation to unite in 1848 and in 1867, because in its absence our War of Independence would not have begun or a compromise would not have been reached with the House. Certainly there was also such a minimum in the autumn of 1956. These episodes may provide hope for an escape from the mutually reinforcing web of the coronavirus and migration. However, there are also alarming, “neuralgic points” in history with effect to the contrary (the battle of Mohács, the matter of understanding our origin, and several events in the 20th century, most prominently the Treaty of Trianon, cf. Pritz, 2016). When from the protection of his political convictions, one undermines the historical consciousness of one’s society, he can hinder the successful shaping of a nation’s future. Contrary to seemingly innovative endeavours, national, historically established values can be saved by the ideological system of conservatism – “which is not a party programme, but a method” (István Bethlen quoted by Békés, 2019).

Although the virus was born of globalisation, it may well dig its grave. However, the first casualty, also in Hungary, will be liberalism. Instead of individual rights and unlimited room for manoeuvre, sanctions, limited option for action, agendas managed

by an operative staff and prohibitions have come into force. These changes have had and continue to affect all areas of our daily lives – work, education, social relationships and health. Thus, we are victims of the epidemic not primarily as EU citizens, but as individuals, whose fate is strongly determined by the problems that the country has been facing in an undermined world at present and in the times to come.

Exactly 160 years ago, on 26 March, 1860, Madách completed his immortal work, entitled *The Tragedy of Man*. In a drama about all the troubles, curses, and responses to humanity, the infected Hippias complains: “O woe is me, I writhe in agony, An icy sweat, the flames of Orcus burn! The plague, the plague, my life is gone from me! Is there not one of you to succour me Who have with me so much of pleasure shared?” Lucifer’s response is sarcastic, reminiscent of gallows humour: “To-day thy turn; tomorrow mine, fair one” (Madách, 1956, p. 92).

This dialogue could well be heard today, its topicality is almost eternal. The questions an individual may ask in relation to the panic caused by the epidemic are the same as Hippias’s in the *Tragedy of Man*: Does the coronavirus tear us away from our friends and communities? Are we not completely left to ourselves for the future no one knows for sure what holds in store? Will Lucifer’s prophecy materialise for us, the members of society or for our country?

Sociologists attach great importance to shared experiences in shaping collective consciousness and emotion. The father of sociology, Émile Durkheim (1858–1917), for example, sees the possibility of creating a collective state of mind, as he calls it, “collective effervescence”, in church ceremonies (Durkheim, 1978). Harvard University professor Mario Small said sporting events are the best way to create a community experience in which participants recognise that they are part of a larger whole that is bigger than them. In today’s Hungary, as an “island state,” such and similar experiences (concerts, theatrical performances, etc.) can only be implemented within limits, with a limited number of people, with faces hidden by masks, separating the individual from his or her peers who accept the common experience. However, as a result of events, the deeds and attitudes that have been manifested these days have made the individual aware that everything he does or does not do, complies with or does not comply with, no longer just applies to him or her. In other words, instead of an ideologically and emotionally cohesive narrower group, the individual has become a member responsible to a much larger community, perhaps made of his or her compatriots.

It is conceivable, although it is disputed among experts (Bernschütz, 2020; Szabó, 2020) that the coronavirus brings with it the formation of a new, historical generation, which may be called the V generation, i.e. the virus generation.²¹ The basis for the evolution of this assumption may be the spread of the present coronavirus into a pandemic. The experiences lived directly and collectively during the epidemic can help them to evolve into a cohesive generation. “Stay at home!” – “perhaps this is the most important thing, which means the same experience for everyone” (Szabó, 2020). In addition, our society, whether or not called a “virus generation” in the future, will also be motivated by global events as a result of the effects of the coronavirus. Specifically,

for example, the conflicts that are now circulating on the world stage, with protagonists like the weakening United States and the new force facing it, the embodiment of a new economic momentum, China (Lentner, 2019). It is necessary to recognise that COVID-19 can bring about a paradigm change in every respect – social, political and economic –, and the success of its outcome depends, also in Hungary, on the community’s orientation in the periods between crises. It is no less interesting to what extent the identity of the society of the future (the new Generation V?) will be shaped by the fact that the place where we live will be appreciated and the role of borders will become important. The home, which was threatened with destruction, comes to the fore. If multiple layers of the social hierarchy move away from the perception of the nation’s continuity and survival, our traditions may be lost, cultures may be transformed, and the paradigms that have happily shaped our private and family lives over the past 10 years may disappear.

Our anthem, heard somewhere every day, draws attention to the fact again and again that Hungarian solutions should be sought to problems in the Hungarian reality, and we must not imitate or copy bad examples in the relationship between Hungary and the rest of the world (Tőkéczi, 2000).

In 2020, the coronavirus gave the green light to the four horsemen of the apocalypse. The figures in Dürer’s woodcuts are once again lurking among us, creating a doomsday atmosphere, anxiety, restlessness, fear, panic, a hopeless vision of the future. If we follow the path they point out, Lucifer’s prophecy may easily be fulfilled for both the individual and the nation: “To-day thy turn; to-morrow mine, fair one.”

NOTES

- ¹ László Józsa relieves the Crusaders of the blame of introducing the disease claiming that there had been lepers in the country already before the Crusaders entered Hungary (Józsa, 2008).
- ² On the site of today’s elegant Gellért Spa, the Sáros (“muddy”) Spa operated up to as late as the 19th century. It was a place for the “despicable hetaeras” and the soldiers of the garrison (Szviesényi, 1963).
- ³ Linguists support this presumption by claiming that at that time this island was called the Island of Rabbits, while a leporosorium was called an island, or “insula leporum” in Latin. Rabbit is called “lepus” in Latin, with a similar word in the possessive case, and if the copying monk omits a letter “r” from the name of the island, it will become: insula leporum, i.e. the island of rabbits (Trogmayer, 2005, p. 53).
- ⁴ For a summary of almost the entire literature on morbus hungaricus, see Győri, 1900.
- ⁵ During hydrotherapy for tuberculosis patients, initial, febrile, and highly febrile conditions were distinguished. The first case, sweating, evaporation and then refreshment were used, the second included wet rubbing followed by a cold shower a few hours later. During “airbathing”, patients did exercises naked in the cool mountain air. Sunbathing took place during the hottest hours. The patient, covering his head, lay naked for hours in the sun in an enclosed courtyard. While sweaty, he or she was wrapped in a blanket, and then after a while he or she took first a lukewarm and then a very cold bath (Bruckner, 2019, pp. 106–109).
- ⁶ The age of witch hunts coincides with the period of syphilis, as women were primarily blamed and punished as sources and transmitters of the disease.
- ⁷ The courtesans were classified as first- or second-class according to whether they were available to officers or to foot-soldiers.
- ⁸ Elizabeth I, the legendary Queen of England, tried to cover her pitting and face marked by smallpox sites for the rest of her life, as did Haydn, Robespierre, or Stalin.

- ⁹ “Black death” was a name for bubonic plague.
- ¹⁰ OSZK Poster and Small Print Library, Small Print, 1795.
- ¹¹ Report on the spread of the plague. MNL. PML. IV. 1-c/2. 1710/No. 8.1. r.
- ¹² The national fairs in Pest were held on St Joseph Day in March, on St Swithin’s Day Saint in June, on St John’s Day in August, and on St Leopold’s Day in November, and lasted for two weeks.
- ¹³ BFL. IV. 1208. Minutes of the Fair Committee of the City of Pest, 12 March 1806.
- ¹⁴ The history of cholera epidemic in Hungary is one of the most elaborated topics among historians dealing with epidemics. The destruction of cholera is well described in almost every county in historical Hungary. For a brief description of these, see Havasdi, 2011.
- ¹⁵ Correspondence by Ferenc Kazinczy. K 621. Kazinczyana – Kolera morbus. Spine title: Kazinczy Kazinczyana Cholera 1831. Manuscript Library of the Library and Information Centre of the Hungarian Academy of Sciences.
- ¹⁶ The 40-day lock-up was already questioned by Adam Chenot (1721–1789), who came from Luxembourg and worked in Transylvania, on the grounds that it was detrimental to the economy and to trade. Emperor Joseph II also made his decree on the basis of this principle, but since, among other things, he revoked it, Chenot was also forgotten (Spielmann, 1971, p. 106).
- ¹⁷ József Fodor: *Defence against infectious diseases*. Hungarian National Museum, Semmelweis Museum of Medical History, Library and Archives Personal documents. Documents of József Fodor, box 133.
- ¹⁸ Frigyes Korányi was an internist, university professor, correspondent member of the Hungarian Academy of Sciences, and one of the early key personalities in Hungarian medicine. His name became synonymous with the establishment of the Association of the Sanatorium for Poor Lung Patients and the Elizabeth Sanatorium. Dr Lajos Markusovszky was one of the organisers of modern Hungarian health education, a member of the Hungarian Academy of Sciences.
- ¹⁹ As the disease was reported in the press of Spain, a country that was neutral in World War I, hence the name “Spanish flu”. According to the news at the time, in Spain a very high number of people fell ill, but not fatally. Grippe-Katastrophe von 1918/19 “Nehmen Sie alle Tischler und lassen Sie Särge herstellen”. *Der Spiegel*, 2019. április 27.
- ²⁰ King Charles IV was beatified in 2004.
- ²¹ The father of generational theory is Karl Mannheim (1893–1947) of Hungarian descent (Mannheim, 2000, pp. 307–365), and the theory was then further developed by William Strauss (1947–2007) and Neil Howe (1951–) in the 1990’s. Simplifying the point: certain historical conditions are suitable for the creation of distinct generations. It may also be a starting point for the development of the V-generation. However, the direct effects on the generation vary across age groups, with the exception of the “stay at home” (tantamount to online education for young people, home office for middle-aged people, etc.), which calls into question the creation of a cohesive community for some (for a different view, see Szabó, 2020; Bernschütz, 2020).

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Impact of the Coronavirus Epidemic on Local Social and Healthcare Services through the Example of a Hungarian City



Summary

This paper analyses the impacts of the globally disruptive COVID-19 pandemic, and local responses to the above challenges, more specifically, the operation of services under the state of emergency through the example of Győr. With the outbreak of the pandemic, state and municipal stakeholders responsible for public service provision became the focus of public attention. Their capacity to provide quick, efficient and firm action in response to novel situations and challenges was constrained by the internal operational deficiencies of large care systems, notably, undersupply in human and financial resources and the absence of flexibility and speed in various domains of state and municipal administration. Experience shows that full compliance with government measures and regulations was indispensable for the elaboration of local responses and good practices. In Győr, despite the municipality's reputation for the high standard operation of health and social care services in the framework of its mandatory and voluntary functions and the presence of advanced care systems,

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tremendous human resources were required to tackle the emergency situation. This paper provides a detailed discussion of the relevant locally implemented practices and measures.

Journal of Economic Literature (JEL) codes: O18, I18, H75, R50

Keywords: Coronavirus pandemic, city, local social welfare system, healthcare, housing, state of emergency

INTRODUCTION

Urban living is a unique and unparalleled way of life. The urban environment, our immediate surroundings exhibit distinctly urban features such as wide streets, tall buildings (historic buildings or modern constructions in new business districts), heavy car traffic, trams, buses, metro and large masses of people everywhere. Virtually everywhere: on public transport facilities, in theatres, cinemas, restaurants, places of entertainment and cultural events. But also in workplaces, schools and universities. Congestion is an inherent feature of urban life, resulting from the interaction of local residents and the crowds of tourists. This congestion, i.e. the co-presence of a large number of people offering an ideal context for the spread of the Coronavirus poses the greatest threat for us today. Despite a considerable amount of experiences acquired in the first wave on the transformative effects of the virus on everyday urban life, the difficulties faced by urban residents in the event of further waves of the pandemic, its disruptive effects on urban lifestyles can only be estimated. But how exactly were the cities affected?

First, congestion as a typically urban phenomenon disappeared almost instantly. Tourists were the first to flee. The imposed international restrictions and travel bans led to a cancelling of international flights, and tourism service providers in the cities closed their premises. Second, the introduced quarantine measures produced empty streets, barren public spaces, deserted university lecture halls and vacant auditoriums in our cities and large parts of Europe. With the imposition of home office, coffee shops and restaurants in business districts lost their customer base and cultural stakeholders had to suspend their activities. The generalisation of home office was observed in previously unimaginable areas. As a result of the relocation of work to home, commuting to cities was eliminated. Third, in addition to the disappearance of incoming commuters, the physical absence of local workers from business districts left entire neighbourhoods vacant. All this has significantly reduced or eliminated inbound foreign and domestic arrivals and intra-urban movements in cities. In sum, the Coronavirus situation has deprived cities of one of their main attributes, congestion.

The Coronavirus pandemic also exposed the vulnerability of social and healthcare systems in the affected cities. In response to the human pandemic causing a mass illness and endangering the safety of life and property, the Hungarian Government de-

clared a state of emergency¹ across the entire territory of Hungary on 11 March 2020 starting from 3 p.m., which authorized the Government to adopt exceptional measures, suspend the application of certain acts and derogate from the provisions of laws, pursuant to the relevant provisions of the Fundamental Law.² Government decrees issued during the state of emergency were to remain in force for a period of 15 days, and their extension required the authorisation of the National Assembly, as stated in the Act on the Protection against the Coronavirus entering into force on 30 March, 2020. The law on the elimination of the emergency situation due to the Coronavirus pandemic was passed by the Parliament on 16 June, 2020 and entered into force as of midnight on 17 June 2020.

This paper presents a case study analysis of COVID-related measures implemented by a Hungarian city in the domain of social policy and primary healthcare. The City of Győr with its 130,000 permanent residents is the 5th most populous city in Hungary (in addition to the capital), and including its immediate catchment area, the city provides services for a total of 200-250 thousand people. Győr hosts the largest engine factory of the world as well as Audi's major vehicle factory. The city is one of the most important economic centres in Hungary.

Service delivery within the framework of the human service model of Győr and the model's specifics has been the subject of a number of research endeavours. A recent research study analyses the human service model of Győr, focusing on healthcare service delivery (Laczkovits-Takács, 2018a). A separate paper investigates the evolution and role of social policy in Győr based on a review of strategic urban development documents (Laczkovits-Takács, 2019c) and the role of the Municipality of Győr in social public service delivery (Laczkovits-Takács, 2019a). The Healthy Cities Project pillar of the Győr human service model has also moved into the focus of academic attention lately (Laczkovits-Takács, 2018b; Laczkovits-Takács, 2019b; Laczkovits-Takács, 2019d). Another research focusing on social urban rehabilitation in Győr analyses a specific segment of the housing pillar of the Győr model (Fekete and Laczkovits-Takács, 2019).

THE SOCIAL WELFARE SYSTEM AND THE CORONAVIRUS PANDEMIC

The declaration of the state of emergency generated a number of tasks and a significant burden for the healthcare and social care systems. The operation of institutions and service providers, the key operating principles and procedures relating to health and social care were specified in Government decrees, the Ministry of Human Capacities (EMMI) orders, prospectuses, letters of the Minister of Human Capacities, implying a central prescription of rules and regulations and their local elaboration and implementation. Operational specifics were thus fixed by the central and local levels jointly. In the realm of local decision-making, pursuant to the relevant legislation³, as of 11 March 2020 the functions and competences of municipal councils, including powers delegated to committees, more specifically, the Committee for Social Affairs, Healthcare and Housing (hereinafter: SZELBI), were transferred to mayors under the state of danger. The last meeting of SZELBI took place on 16 March 2020 (SZELBI, 2020).

Social assistance

Caregiving for seniors over the age of 70

Under the state of emergency, protection and caregiving for the elderly were transferred into the competence of municipal social policy. Pursuant to the relevant provision of Government Decree 46/2020 (III.16),⁴ any person above the age of 70 who undertakes not to leave his/her place of residence or stay and notifies the local government thereof, is entitled to caregiving services provided the mayor of the local authority. In the field of caregiving for the elderly, the municipality provided the following forms of assistance:

- daily delivery of hot meals within the system of (fee-based) social care provision,
- purchase of alimentary products on a weekly basis,
- redeeming prescriptions on a weekly basis or according to demand (monthly prescriptions).

People over the age of 70 were requested to provide information to the local authority on their demand for care in either of the following forms (Győr.hu, 2020a):

- personal submission of the completed declaration form downloaded from the www.gyor.hu website,
- sending the form via email,
- by phone.

While the needs reported through the above-specified communication channels were recorded by the staff of the Mayor's Office, the provision of caregiving for the elderly in Győr was ensured by the staff of the United Health and Social Institution (hereinafter: EESZI), based on a preliminary request of the service in the above indicated forms (Győrplusz.hu, 2020g). The performance of surplus tasks generated by the emergency did not require staff expansion in the EESZI. The employees of care centres took care of the administrative aspects of catering, while meal delivery was handled by the contracted partner. A separate group was established within the institutional boundaries of EESZI with employees recruited from members of senior clubs, school nurses, vehicle drivers of the Technical Supply Organisation and the Economic Operations Centre. The number of staff required for service delivery was adjusted to evolving demand and continuously monitored. At the peak of demand, nearly 30 people had to be recruited. Later on, demand for assistance in postal cheque payments was also registered, provided by the local authority in cooperation with Magyar Posta Zrt., which took care of the real-time posting of cheques collected every three weeks at local post offices. Misszió Mentő Betegszállító és Szolgáltató Kft. offered support in municipal task delivery through a provision of weekly transport services for seniors seeking to handle their administrative affairs (e.g. banking).

On 17 March 2020, the municipality informed local residents through various channels about caregiving for the elderly above the age of 70, and the first requests were registered by EESZI on 18 March 2020. In addition to the services contained in the official prospectus (daily hot meals, shopping, redeeming prescriptions), the

municipality of Győr offered assistance to residents over 70 in postal cheque payments and banking transactions with the participation of additional partners. Table 1 illustrates the number of seniors requesting municipal assistance.

Table 1: Number of care recipients per service type (persons)

	Number of requesters (persons)
Requested lunch	267
Requested only shopping	127
Requested redemption of prescription	43
Requested only postal cheque payment	70
Requested shopping and redemption of prescription	283
Requested shopping and postal cheque payment	25
Requested redemption of prescription and postal cheque payment	6
Requested shopping, redemption of prescription and postal cheque payment	39

Source: Authors' own elaboration based on data from the United Health and Social Institution of Győr

Social assistance

Assistance is a high-priority field within the social sector, which, according to our data analysis, did not show significant disparities in terms of the number of submitted claims compared to previous years, as illustrated by Table 2. In the field of social assistance, apart from the postponement of the preparation of the environmental study, procedures were conducted as usual. The applications for assistance under the emergency situation did not outnumber relevant claims for the same period of the preceding year, while new groups, such as people who lost their jobs as well as workers unable to execute their job due to the emergency situation emerged among the applicants. During the period of emergency, the mayor evaluated a total of 280 applications for extraordinary settlement support in place of SZELBI (Decision 10/17/06/2020 of the Financial Ministry).

Social services and primary child welfare services

The municipality of Győr delivers various forms of personalised care services within the framework of the following institutions and the participation of civil partners with supply contracts:

- Unified Institute for Health and Social Care,
- Unified Nursery Institutional Network,
- Family and Child Welfare Centre,
- Homeless Assistance Service.

Table 2: Social assistance by the local government between March and May, 2019 and 2020 (persons)

	2019			2020		
	March	April	May	March	April	May
Extraordinary settlement support	79	77	78	73	89	81
Regular Child Protection Discount	23	21	22	16	22	14
Housing aid	47	37	49	49	39	52
Medication support	24	23	29	21	27	26
Educational support	0	0	0	0	0	0
Debt management	0	0	0	0	0	0

Source: Authors' own elaboration based on data from the Department of Social Welfare of the Mayor's Office of Győr

Care for the elderly

In the case of various forms of social assistance, a Government Decree⁵ ordered the cessation of service delivery and an entry ban for day care facilities (except for employees). This implied a suspension of the operation of senior clubs providing day care in Győr.

A ban on visits imposed in residential institutions and temporary care homes starting with 8 March 2020, and the ensuing curfew from 15 March affected senior residents of 232 residential homes and 43 temporary care homes in Győr. EESZI no longer filled vacancies or accepted new resident applications. Infection control, and prevention tasks in particular, were adjusted to the crisis situation triggered by the Coronavirus pandemic in the institution's residential and temporary care homes, and a sufficient number of isolation rooms were prepared to quarantine the elderly in case of demand (Győrplusz.hu, 2020h). Based on a decision⁶ of the National Chief Medical Officer, the ban on visits to residential homes was partially lifted from 8 June, 2020, and visits were allowed following preliminary telephone consultation with staff members of the mental health group or a designated nurse and subjected to strict rules (EESZI, 2020).

Nursery care

A locally adopted measure suspended nursery care in institutions operated by the municipality, churches and foundations as of 16 March, 2020. During this period, child supervision services offered by the municipality were accessible only for those unable to provide childcare under the following conditions (Győrplusz.hu, 2020a):

- parents on maternity or paternal leave are banned from taking their nursery age children to the nursery community (presuming that they are able to provide childcare),

- institutions are prohibited from accommodating children whose parents or relatives living in the same household were staying abroad in the past two weeks,
- a sick child with fever or sharing the same household with a person with fever shall not attend the nursery, and if he/she does, employees of the institution have to make sure that the child is immediately sent home.

The municipality, in order to ensure the organisation of service provision, requested a declaration from parents stating their demand for nursery service in the days to come. The declaration form could be accessed from the city's website, and the completed form was to be sent to the institution by e-mail or delivered in person.

Under the normal state of affairs, the 12 nurseries of Győr provide day-care for 594 children. Between 16 March and 30 April, on average 3 to 12 children demanded nursery day-care, supplied by one or two groups of a nursery, respectively. A significant increase was observed from 11 May, when 10 groups of two nursery facilities ensured child supervision (Table 3).

Table 3: The number of children and groups in the care of the Győr nurseries between 16 March and 22 May 2020

	Week 12	Week 13	Week 14	Week 15	Week 16	Week 17	Week 18	Week 19	Week 20	Week 21
Number of children (persons)	12	3	4	5	6	9	12	19	39	59
Group number	2	1	1	1	1	2	2	4	10	14

Source: Authors' own elaboration based on data from the Institution Maintenance Department of the Mayor's Office of Győr

Nursery care was thus operated on an on-call basis. With the easing of restrictions imposed by the Coronavirus pandemic, parents increasingly returned to their workplaces, triggering a rising demand for nurseries and a concomitant extension of nurseries' supervisory capacities. This necessitated the opening of an increasing number of groups or entire institutions and an extension of education staff ensuring the supervision of children (Győrplusz.hu, 2020j).

In accordance with the government decree, as of 25 May 2020, nurseries in Győr were allowed to restore their pre-emergency operation. The number of children benefiting from day-care is presented in Table 4, which reveals a continuously rising trend in comparison to the preceding period.

Family and child welfare services

Reduced customer service was organized in each regional division of the Family and Child Welfare Centre, with priority given to telephone and electronic contact forms. The provision of street social work was maintained, while family visits were restricted to crisis situations, serious degree of vulnerability or official requests (EMMI, 2020c).

Table 4: The number of children and groups in nurseries in Győr between 25 May and 12 June 2020

	Week 22	Week 23	Week 24
Number of children (persons)	275	372	426
Number of groups	49	48	51

Source: Authors' own elaboration based on data from the Institution Maintenance Department of the Mayor's Office of Győr

Despite the state of emergency, alerts issued on child or adult crisis situations as well as those reported by guardianship offices were evaluated on a mandatory basis. In the case of administrative tasks extending beyond on-call time, home office was officially permitted. Kindergarten and elementary school support staff were prohibited from conducting work on site and in public institutions, hospital social counselling services were provided by telephone and via e-mail (permanent counselling was suspended in hospitals), and psychological counselling was handled through Skype. The changes did not affect the functioning of the child protection alert system; the toll-free number was fully operational, adjusted to the opening hours of Family Support offices. However, the organisation of groups, courses and programmes of the Sziget-Kék Community Space and the HÍD was interrupted. The prominent role of the Family and Child Welfare Centre within the city and the local system of social care is underlined by its ongoing capacity to maintain its operation in compliance with stringent regulations under the pandemic, as demonstrated by statistical data (Table 5-6) depicting the operation of the Basic Services Group and the Authority Group. The family helpers of the Basic Services Group perform the classic family support as well as the basic child protection tasks. Case managers belonging to the Authority Group provide support and coordinate activities related to child protection care, prior to and accompanying authority measures. The month of April saw the implementation of 11 temporary placements requiring urgent action, i.e. the immediate removal of children from their families due to the prevalence of life-threatening circumstances, an alarmingly high number, given the yearly average rate of 1 or 2 interventions per month. The impact of the pandemic period triggered a two-fold increase in the number of police interventions reported to the centre, mainly on family conflicts, abuse, and a rise in the number of drug abuse and attempted suicide cases by young people.

Care for the homeless

The Homeless Assistance Service provides care for the homeless population within the administrative boundaries of Győr, comprising the following: night shelter, temporary night shelter, soup-kitchen, social catering, day-care, temporary care, rehabilitation, nursing, assistance, primary healthcare, with each service operated at 90-100% capacity utilisation during the pandemic period. The dominance of elderly people

Table 5: Customer turnover of the Basic Service Group (4 regional divisions) in March, April and May 2020

	Adult claimants (capita)	Children at risk (capita)	Turnover (persons)
March 2020	375	337	1,155
April 2020	523	343	993
May 2020	524	368	1,076

Source: Authors' own compilation based on data from the Family and Child Welfare Centre

Table 6: Customer turnover of the Authority Group in March, April and May 2020

	Children at risk (capita)	Turnover (capita)
March 2020	458	617
April 2020	448	1,066
May 2020	435	905

Source: Own compilation based on data from the Family and Child Welfare Centre

benefiting from care services of the institution in the Homeless Shelter and the large number of elderly and sick residents of transitional shelters required the observation of rules applicable to residential institutions for elderly persons, in addition to those pertaining to homeless care. In parallel to the imposition of a ban on visits, a curfew was extended to the entire institution as of 9 March 2020, including a prohibition of visits by residents accommodated in various institutional departments. This was followed by the ordering of a partial curfew and a ban on new admissions starting with 18 March 2020. Leaving the institute's premises was prohibited, except in justified cases (work and medical examinations) and for legitimate reasons (the demise of a close relative), with the special permission of the head of the institution. In compliance with stringent local regulations and procedures, the provision of meals was confined to specified hours, conducted in isolated circumstances and supervised by a social worker. Medical care was supplied only in exceptional cases (blood sampling, bandaging), upon preliminary request, also attended by a social worker. Under the curfew, the institution's staff received extraordinary authorisation to purchase tobacco products and excise goods (lottery, sweets) twice a week, depending on residents' demands. Since the permanent internment of individuals diagnosed with a substance use disorder was a daunting task, a temporary relaxation of house rules was necessary to allow for residents a moderate consumption of alcoholic beverages under controlled circumstances. With regard to the homeless, the curfew was lifted on 8 June (NNK, 2020) and the ban on visits was revoked on 18 June (NNK, 2020).

After the first wave of the pandemic, the mayor of Győr distributed a reward funded from municipal resources to social workers who provided daily care for the needy. 230 employees of the United Health and Social Institution and 42 employees of the

Homeless Assistance Service (Győrplusz.hu, 2020) obtained a reward of HUF 110,000 (approx. EUR 315).

HEALTHCARE SYSTEM

The emergency period transformed the functioning of the system of primary healthcare as well. As of 16 March 2020, the provision of planned healthcare treatment was limited to cases of emergency, i.e. in the event of a risk to life or permanent damage to health (EMMI, 2020b). With the reorganisation of patient care, direct patient care provision was confined to physicians under the age of 65, constraining 9 general paediatricians and 10 general practitioners to delivery by telemedicine in the specific case of Győr. In accordance with the legislative changes, the following “new” opportunities were emphasized in patient care with a view on mitigating the risk of infection:

- assessment of suspected COVID-19 infections reported by phone,
- teleconsultation by phone,
- e-prescription.

In case of demand for general medical or paediatric care, first, the patient had to reserve an appointment by phone, and was entitled to medical examination at the physician’s office only if deemed necessary by the GP. Remote consultation was prioritized, which proved to be sufficient in 90% of cases in Győr (Győrplusz.hu, 2020d). Under the emergency, the use of e-prescription in primary healthcare enabled the automation of prescriptions instead of using handwritten notes. Hence, redemption of a patient’s medication became possible for anyone presenting the patient’s social security number and a credible proof of their identity.⁷

The operation of clinical nursing also followed the protocols tailored to the emergency situation, suspending personal consultations as a basic rule except in specific cases (new-born infants, persons who have recently given birth or whose life is in danger). Accordingly, nurses prioritized electronic forms of communication, such as telephone, e-mail, chat, video calls and skype. In the area of pregnant care, however, the cancellation of prescribed personal consultations was not possible (EMMI, 2020a).

In the primary dental care system, service provision under the state of emergency was limited to emergency care as of 15 March 2020. The operation of dental service organized within the framework of EESZI was maintained in the pandemic period, strictly confined to emergency dental interventions.

The delivery of general practitioner or paediatric on-call services also required prior consultation by phone, allowing patients to personally consult their physician only in cases of emergency. The patient turnover of on-call services in the pandemic period is illustrated by Table 7, showing a significant decrease compared to the same months of the preceding year.

Besides primary healthcare delivery, the municipality assumed further duties as well. A *toll-free emergency number* was set up in Győr, which residents with concerns about their health and seeking advice could call (Győr.hu, 2020b). To operate the emergency number, the city donated 5 telephone sets for receiving calls round-the-

Table 7: Patient turnover at the Győr General Practitioner Services in the months between March and June in 2019 and 2020

	2019		2020	
	Adult (persons)	Children (persons)	Adult (persons)	Children (persons)
March	716	750	550	511
April	736	634	285	103
May	582	551	321	82
June	780	856	324	181

Source: Authors' own compilation based on the data provided by the Győr General Practitioners' Services Nonprofit Ltd.

clock. The line was operated by experienced medical practitioners working in 4-hour shifts, who provided information and advice to callers (Győrplusz.hu, 2020e). The creation of the line, in service since 19 March 2020, was intended to discharge the workload of healthcare institutions and workers. From 26 March, another emergency number was made accessible for parents in Győr, operated by paediatricians ready to answer phone calls round the clock on issues related to the Coronavirus pandemic (Győrplusz.hu, 2020f). The emergency number created for adults was called by 658 people, while the emergency number set up for parents was called by 56 people.

LOCAL COLLABORATION, DONATIONS

As a result of the collaboration of local actors, an *epidemiological observatory* was opened on 23 March 2020 in one of the dormitory buildings of Széchenyi István University. The aim of the established healthcare institution is to isolate suspected cases of Coronavirus that do not require hospitalisation and to monitor confirmed cases located in healthcare service areas of the Petz Hospital's Department of Infectious Diseases (Győrplusz.hu, 2020b). Individuals suspected to be infected with Coronavirus under the age of 65 and showing no severe symptoms were entitled to hospitalisation in the observatory. The centre provided medical care 24 hours a day with the assistance of one physician, four skilled health workers, and an administrator until 8 p.m. on 14 May 2020.

The hospital's foundation procured a molecular genetic testing device capable of detecting the Coronavirus, and municipal funding enabled the purchase of 2,000 test strips in addition to the 1,000 procured by the hospital. At the beginning of May 2020, Győr received another larger-capacity machine, financed by the State Healthcare Centre. Thanks to the machines, COVID tests were no longer sent to Budapest but performed locally and screening social care workers in Győr became possible (Győrplusz.hu, 2020i).

On 20 March 2020, a few days after the declaration of emergency, the mayor of Győr, in collaboration with local stakeholders, established the *Győr Emergency Fund* to support the fight against the Coronavirus in Győr (Győrplusz.hu, 2020c). In the spirit of public interest commitment, a new account was opened, facilitating a reduction

of the tax base by support granted to economic organisations. As of 25 June 2020, the fund had received 164 payments, totalling nearly HUF 54 million (approx. EUR 155,000). The smallest amount paid was HUF 1,000 (approx. EUR 3), while the largest was HUF 20 million (approx. EUR 57,150). The majority of subsidies allocated to the Győr Emergency Fund were used for the purchase of medical equipment and protective clothing, significantly promoting the activities of the Petz Aladár County Teaching Hospital, and on twice occasions, quick tests were purchased for the hospital, and durable food was distributed to a hundred families in Győr. The beneficiary families were selected on the basis of the recommendations of the Department of Social Welfare of the Mayor's Office and the Roma Minority Self-Government. The spectrum of material goods received by the municipality was very large – honey, several hundred kilograms of fruits, 20,000 pieces of chocolate, detergents, hand sanitizers, replacement sand for sandpits in playgrounds and institutions – which were donated to the city's public institutions. By courtesy of the Emergency Fund and Alcufer Kft., the hospital received 10,000 FFP2 protective masks, and through the contribution of Kardirex Health Centre, masks were distributed to 1,000 bus drivers in Győr.

CONCLUSION

The study gives an overview of the operation of human services in the City of Győr in an emergency situation. In an emergency, the social sector had to cope with a large number of additional tasks, such as caregiving for seniors over the age of 70, while the (reduced) operation of other fields in the sector was subject to stringent regulations adjusted to the changing circumstances and functions. Primary healthcare was also facing a daunting challenge due to the emergence of alternatives offered by telemedicine replacing previous practices of personalised care and its widespread utilisation in the treatment of patients. Experience demonstrates that operation under the state of emergency may generate a number of good practices whose incorporation into the daily routine of primary healthcare is worth considering. The mobilisation of urban stakeholders was highly efficient: the newly established Győr Emergency Fund received significant donations, and a considerable amount of material goods were offered to those in need. During the first wave of the pandemic, the operators of urban care systems learnt to pursue their activities under extraordinary circumstances, and the current state of the pandemic suggests that the knowledge accumulated in spring 2020 will serve them well in the future.

NOTES

¹ Government Decree on the declaration of state of emergency 40/2020 (III. 11.).

² Article 53 of the Hungarian Fundamental Law.

³ Act No. CXXVIII of 2011 concerning disaster management and amending certain related acts.

⁴ Government Decree 46/2020 (16 March) on the measures to be taken during the state of danger declared for the prevention of the human epidemic endangering life and property and causing massive disease outbreaks, for the elimination of its consequences, and for the protection of the health and lives of Hungarian citizens.

- ⁵ Decree No. 88/2020. (IV.5.) on measures to be implemented in the event of an emergency situation related to specific social and child protection services, and on rules of procedure of social services in a state of danger
- ⁶ Decision No. 13305-54/2020EÜIG of the National Chief Medical Officer.
- ⁷ Government Decree 8/2020. (II.12.) on the Amendment to Regulation No 44/2004 of the Minister for Health, Labour and Family Affairs on the prescription and dispensing of medicinal products for human use of 28 April 2004.

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György Jenei

State Sovereignty and National Identity in Hungary



Summary

There is a great debate in the European Union on the present role of nation states, and on the role of state sovereignty on their importance in the future. Some say that the concept of nation states is out-of-date and incapable of facing the challenges of the modern world, while others believe that the nation state is a means of dealing with modern challenges. The key questions of the disagreement are the place and role of nation states in the European Union and the interdependent sovereignty of modern states. This study joins the discussion by reviewing the history of the Hungarian state sovereignty and its ethnical background. The second aim of this paper is to provide a historical contribution to the current discussion with outlining some details of the historical trends and external views on Hungarian ethnicity and state sovereignty.

Keywords: historical challenges and current problems of the modern state sovereignty in Europe, sovereignty of the Hungarian state and its ethnical background, external views on the Hungarians, nation states

“The Hungarian are living in the healing fever of the times We have no way to escape loyalty. Powers believe living in their systems is good and right, they should allow us to live in our own human and national form. This form will be no more and will be no other than a form of social democracy and national independence. This form, in terms of governance, could be filled by a national government with the will of the people.”

(„Hungarian Prayer”. Speech of Áron Tamási, the Szekler-Hungarian writer in the Hungarian Radio Kossuth, on 26 Oktober 1956. On the third day of the Hungarian revolution and freedom fight.)

THE ORIGIN OF HUNGARIAN STATE SOVEREIGNTY

Both Hungarian ethnic identity and sovereign Hungarian statehood are of steppe origin. However, they are not the same age. The much more than a thousand-year-old origin of the Hungarian ethnic identity fits into the thousands of years of history of the steppe peoples. Their age is uncertain, but one thing that is certain is that it originated earlier than Hungarian statehood. The Hungarian state – in the form of the Hungarian Grand Duchy – was established at a known date later than György Szabados states: „...Hungary is the only still existing European nation today who were not only the first state organization, but also their ethnogenesis took place in the steppe culture, and which, with this Eastern heritage, integrated into the intellectual-political world of the medieval ‘West’ and expressed within its own state and ethnic characteristics” (Szabados, 2015, p. 159).

Many historians agree that the most eastern living pre-Hungarians belonged to the group of Ugric peoples living in the forest zone in Asia, who then slid down into the steppe zone, which is south of the forest zone. In other words, the Ogur Turks, also known as the Bulgarian Turks, slid into the steppe area beyond the Urals, where the pre-Hungarians lived, even more eastern than the Mansi and Khanty peoples. The consequence of the cultural influence was that the pre-Hungarians changed from a one-sided hunter-fisherman group to an animal-keeping and even animal-breeding people. This has been proven by linguistic research results (Deér, 2007, p. 30).

Based on the existence of the folktales among the Hungarians at the time of the conquest of the Carpathian basin (895 A.D.), it cannot be ruled out that the people with Hungarian ethnicity already existed as part of the Hun Empire (Gombocz, 1921; Hóman, 2010). After all, the oral tradition among the peoples of the steppes has persisted for several centuries. The oral traditions among the steppe nomads last usually for many centuries. An obvious example for this is that in today’s Hungary, the living oral tradition of the Kun tribes and their Kun origin, or the oral tradition of the Jazigs that lasted for centuries regarding their Iranian origin and their relations with the Ossetians living in the Caucasus. So much is obvious that the topic is worth further scientific research.

This is confirmed by Péter Váczy’s research on the Empire of the Huns. Addressing the origins of the steppe peoples, he points out that the folk name in the steppe empires is given by the conquering people or tribe. So the name does not mean eth-

nic homogeneity. For example, as Váczy writes: “The first of the eleven tribes of the Uyghurs in the rank, was the Kagan tribe. They were the ‘Uyghurs’, hence the name of the entire tribal alliance was Uyghur” (Váczy, 2010, p. 60). The name Hun also meant ethnicity, but “...many times the name Hun just meant that the person was member of the Hun Confederation” (Váczy, 2010, p. 61).

The situation was similar of that of the Huns and Uyghurs in the Turkic, Avar, and Khazar Empires, where the Turkic, Avar, or Khazar were the naming ethnicities of the sovereign state based on their dominant position in the empire. However, other ethnicities with independent identities were also integral parts of these empires, possibly including groups with Hungarian ethnic identities. The consequence of the cultural influence of the people living in the steppe was that the Hungarians were thus included in the westward rotation of the nomadic tribes (Györffy, 1999, p. 60).

The pre-Hungarians were not divided as servants among the individual ethnic groups but formed an independent ethnic identity in the Ugric-Bulgarian-Turkish folk composition, as a separate Hungarian group.

Their Hungarian language proves that they were not absorbed but lived as an ethnic group with an independent identity among the Ogur Turkish peoples. As József Deér states: “The survival of their language can only be explained by the assumption that they formed a separate tribe in the Bulgarian-Turkish political organization, because if the Hungarians had been divided as slaves among the conquerors, the Finno-Ugric language would have disappeared without a trace, and the Carpathian Basin would have been taken over in 895 A.D. by a people of a completely Turkish ethnicity and Turkish language” (Deér, 2010, p. 36).

During the wave of more centuries of migration from the East to the West, Hungarian heterogeneity expanded due to Mongolian and Oguz Turkish (Hun and then Avar) coexistence, which expanded further including new ethnicities such as the Alans, Sogdis, and Sarmatians of the Iranian ethnic group during the steppe migration (for a detailed description of the historical process in the steppe zone, see Hóman and Szekfű, 1941, pp. 23–32).

The heterogeneity of the Hungarian people became even more colorful after the settlement in the Carpathian Basin, as Mihály Babits wrote: “...the Hungarian people did not arise from the unification of two or three varieties of people, such as the English one, but from the merging of countless small species fragments into one stronger tribe. As such, it has become more unified and yet more diverse than many other peoples in Europe, both in its soul and in the culture that expresses it in its soul” (Babits, 1939, p. 52). The Hungarian Grand Duchy was founded as a steppe power when the Hungarians (9 tribes) led by the tribe called “Megyer”, felt enough force to secede from the Khazar Empire, and at the same time they entered that stage of history as an independent empire.

From the founding of the Hungarian Grand Duchy on the steppe, Hungarian identity became a double meaning. It represented the ethnic group with Hungarian ethnic identities (the name of the steppe tribe became the “megyer” tribe), but Hungarian identity also indicated a heterogeneous empire, in other words: a state,

which was based on the importance of the Hungarian ethnicity bringing together and organising groups with an identity that often spoke another language as well. This state followed the Hun, Avar, Turkish, and Khazar patterns, and at this point the Hungarians became a real nation (Deér, 2007, p. 40).

The location of that event was in Etelköz during the 8th century, where the Hungarians found themselves in a life-threatening situation, as József Deér states: “Etelköz was a large cemetery of the nomads heading west, where they had already collided with the ring of those who had already settled there and had been faced with the pressure of their eastern relatives. The consequence was that they were being wiped out in battles fought on both sides over a few decades. The Hungarians were threatened with the same fate as the nomads, which later also affected the Pechenegs, Uzes, and Cuman tribes in this region” (Deér, 2007, p. 39).

Leaving Etelköz in 895, the Hungarian Grand Duchy avoided being wiped out by occupying the Carpathian Basin.

THE FORMATION, SOVEREIGNTY AND STRENGTHENING OF THE CHRISTIAN HUNGARIAN KINGDOM

After the occupation of the Carpathian Basin, the Hungarian Grand Duchy became a significant European power over the centuries as a Christian Kingdom of Hungary, and the dominant role of the Hungarian ethnic group remained unbroken in this empire, while its original heterogeneity expanded with new ethnic groups. At this point, it is worth dispelling a common misunderstanding: in the case of the Hungarians, the adoption of Christianity was not a passive acceptance, however the apostolic Kingdom of Hungary, since its establishment, was an active factor for shaping Christianity. The Hungarians, like the steppe peoples, did not dogmatically refuse monotheism. As József Deér points out: “The Hungarians were torn from a cultural circle in Europe whose peoples had a high-level experience of God... Our Bashkir relatives who remained in the East – besides the spirits of nature – prayed primarily to the God ‘who dwells in heaven’ and ‘whom’ is considered superior to all the spirits of nature” (Deér, 2007, p. 61). The Christian world was not superior to the Hungarians. In fact, the 10th century can be called the “dark age of Christianity” as Nemeskürty writes: “Between 882 and 992, eight popes were murdered within a hundred years, mostly by their fellow priests, who were their rivals of power” (Nemeskürty, 1994, p. 9).

The history of the Kingdom of Hungary is unique to Europe in two respects. On the one hand, unlike the empires that previously ruled the Carpathian Basin (such as the Hun and Avar predecessors), it did not cease shortly after its founding. The Germans – remembering Charles the Great’s series of campaigns to destroy the Avar power in the Carpathian Basin – attempted to destroy the power of the Hungarian Grand Duchy shortly in 907 but were defeated in the battle of Bratislava and had to retreat all the way to the Enns River. They renounced, for a short time, the offensive wars against the Hungarian Empire. The occupation of the Carpathian Basin then became a conquest.

On the other hand, Hungarian statehood is unique because the current sovereign European states were founded under the influence of either Rome or Byzantium and following their patterns and ideologies, while Hungarian statehood originally followed the pattern of steppe established statehoods and has historically survived to the present day with a unique adaptation and continuity of ethnic identity. In other words, nowadays the sovereign Hungarian state is an exceptional power formation in Europe. For the first time, the statehood of the Hungarians who settled in the Carpathian Basin successfully led the spoils of war against the Christian powers of Europe which was typical of the steppe powers. However, it has been at a crossroads since the middle of the 10th century (Hóman, 1941, p. 180).

Prince Géza therefore took proactive steps towards adapting to Christian powers. This not only opened the possibility of survival for the Hungarian ethnic identity, but also initiated the transformation of the Hungarian empire. Continuing this direction, St. Stephen transformed the Hungarian Grand Duchy into a Christian Hungarian Kingdom. The Hungarian Empire thus gained its sovereignty and opened opportunities for the development and fulfillment of all the subjects of the kingdom, regardless of their ethnic and linguistic affiliation. Hungarian state sovereignty was unique in Central Europe.

The Hungarian King received the Holy Crown from the Pope, which meant that he avoided any feudal dependence from the German-Roman emperor and any other European power. This has not been the case with other emerging state formations in Central Europe.

The sovereignty of the Kingdom of Hungary was made indisputable by the fact that Pope Sylvester – in the words of Bálint Hóman – “sent Saint Stephen the requested royal crown and the ‘apostolic cross’ with a long handle on it, as a symbol of his conversion mission, organized independently from the ecclesiastical organization of foreign countries, and organized directly under the Roman Holy See” (Hóman, 1941, p. 180). Otto the 3rd, the German-Roman emperor recognized the sovereignty of the Christian and apostolic Hungarian kingdom by gifting Saint Stephen the spear of Saint Moritz of Thebes, decorated with a holy relic from the cross of Christ.

Together, the Holy Crown, the Apostolic Cross, and the spear meant the sacredly established sovereignty of the Kingdom of Hungary as it fully symbolized and expressed the recognition of all the European states existing at that time, in accordance with the requirements of the Early Middle Ages.

In the following centuries, the sovereign Hungarian state, the Kingdom of Hungary, was strengthened. The sovereign Kingdom of Hungary became a significant European power. It did not follow the pattern of any other European Christian power – it was not assimilated but integrated – but created a Christian state that became an active component of the Christian Europe, and acted as a bulwark of Christianity from the Ages of the Tartar invasion. Until the death of King Matthias, Hungarian state sovereignty was strengthened, and the Kingdom of Hungary became a European superpower.

European opinions about Hungarians in the Early Middle Ages

Like other historical stages, it is characteristic of this period that a thorough overview based on empirical data of the Hungarians, and the Hungarian history is contained in various social science works, studies and monographs. On the other hand, the first recollection of the Hungarians which was institutionalized in the literature of the medieval chronicle and influencing public thinking, was founded by Father Regino when he wrote about the Hungarians invading Germany, saying that “according to news, Hungarians eat raw meat, drink blood, and tear out the enemy’s heart to strengthen their courage” (quotation from Eckhardt, 1992, p. 88). Who did this news come from? Regino worked with a template which the Christian West characterized pagan peoples. The origin of the template goes back to Justin. The medieval chroniclers and yearbooks also followed Regino’s opinion, copying and extracting opinions from each other. Sándor Eckhardt, who was dealing with the foreign view of the Hungarians, lists the main stages of the spread of the Hungarian image. He said, that a lot of chronicles, for instance the “Saxo yearbook writer, the Actuarium Garstense, Saint Trudparti’s yearbooks, Actus Brunwilerensis, Adam Bremen, The Great Belgian Chronicle as jays repeat these incompetent perceptions” (Eckhardt, 1992, p. 89).

This schematic pattern was followed by the well-known opinion of Bishop Otto of Freising, who passed through with the Crusaders in Hungary, about Hungarians (Eckhardt, 1992, p. 97–98). The explanation of this schematic picture is that the European powers shaped their opinion about the people of the Kingdom of Hungary, as well as the Hungarian ethnic identity according to their own interests. Their position was basically hostile and contemptuous. The starting point was the policy of the German-Roman Empire, which considered the Carpathian Basin to be a German province.

The hostile feeling of Christian Europe was justified when the Hungarians conquered the Carpathian basin, because the feeling of pagan Hungarians was similarly hostile towards the Christian Europe (Deér, 2007, p. 28). On the other hand, the view for centuries was that Hungarians were just Asian barbarians – but this was ceasing. Stereotypes had been followed, stigmatized, and the patterns of antique templates created earlier about barbarian peoples were drawn on Hungarians who have taken up Christianity in the meantime. This view only changed when the Christian European state needed Hungarians. As such, for the first time, according to the official Byzantium – who once needed the Hungarians against the Turks – the Hungarians were no longer barbaric beasts but had become brave and daring warriors.

The decisive role of the interests is shown by the fact that the Germans, who fought the Hungarians several times since the Battle of Bratislava in 908, continued to be averse to the Hungarians. As mentioned, the Germans organized themselves into an empire and carried out numerous attacks and campaigns against the Kingdom of Hungary that had been strengthened and which was considered to have been dangerous. At the same time, they did not give up their territorial claim to the Carpathian Basin. Therefore, they needed to draw an antagonist image, which was artificially produced by the chronicle writers.

This fundamentally negative image only changed centuries later during the struggles against the Turks. This time, in a positive direction, and the Hungarians appeared as noble defenders of Christianity.

The development of Hungarian ethnic identity was not at all influenced by the changes of external perception – it was clearly based on the Christian values and self-awareness driven based on this. This was primarily achieved by social psychology and everyday thinking, and in addition to Christianity, the steppe traits also survived. The Hungarians considered their own ethnicity within a larger Christian community in Europe to be a self-conscious and equal part (Keresztury, 1992, pp. 142–143).

*State sovereignty in Europe during the Early Middle Ages.
Historical antecedents of Westphalian sovereignty¹*

In current everyday thinking, the terms *state* and *sovereignty* are intertwined.

However, the etymological origins of the two Latin terms are different. The origin of the term *state* comes from the word *status* in ancient Latin, and in many European languages (state, der Staat, etc.), the original Latin word can be recognized. On the other hands, the origin of the term *sovereignty* comes from the word *superanus* in ancient Latin. This term first appeared in southern Europe, and then in the German-speaking world in the 11th century (Conze and Boldt, 1990, p. 70).

In the interpretation of medieval states, sovereignty meant an exclusive transcendent dependence on an otherworldly power.

Non-sovereign states on the other hand, were, in addition to transcendent dependence, in a position of feudal dependence to some worldly power. Medieval states were dynastic powers that changed depending on the evolution of power relations between dynasties.

TERMINATION OF HUNGARIAN STATE SOVEREIGNTY.
THE IMPACT ON HUNGARIAN ETHNIC IDENTITY

After 1490, the sovereignty of the Christian Kingdom of Hungary collapsed. As a combined effect of the expansion of the Ottoman Empire and the Habsburg Empire, Hungarian state sovereignty left the country in two directions, to Vienna and Istanbul. The Habsburgs maintained the Kingdom of Hungary in the sense of public law but relocated its functions of power over to Vienna. On the other hand, was brought under the rule of the Turkish Sultan. As the Sultan wrote in his letter to the French king, “By the grace of Almighty God, we have subjugated Hungary to the bright rule of our great majesty” (quotation from Nemeskürty, 1996, p. 34). The Turkish occupation was tolerated only the autonomous Transylvania, with rights limited to the administration in a subordinate situation until the end of the 17th century. Following that, the Turkish influence ceased.

Hungarian state sovereignty ceased for centuries and apart from a few episodic aspirations and appearances, was only reestablished after 1920. This meant that Hungarian ethnic identity was formed in the absence of Hungarian state sovereignty until 1920.

Hungarian identity during the Turkish occupation

The first consequence was that the unified Hungarian identity had disintegrated.

The spread of different trends of reformation in the village people resulted in the fact that the ability to read and write in the Hungarian language had strengthened the Hungarian identity. A peculiar symbiosis was established between the Hungarian language and the trends of the reformation. The Hungarian language originally expressed our separation that originated from the East.

Galeotto Marzio had noticed that, unlike Italian speakers, who did not understand each other even within the Bologna region since their spoken language is so different, Hungarians understood each other widely (Nemeskürty, 2003, p. 37). The intertwining of the reformation and Hungarian identity was expressed by the fact that Bible translations became more and more widely known amongst people. The Hungarian Reformation was a fundamental sustaining force of Hungarian identity, and at the same time provided the Hungarians with a European rank. The statue of Prince István Bocskai also indicates this in the Geneva monument of the Reformation.

However, the whipping of Hungarian mistakes and backwardness had also appeared.

The prominent personalities of the country – regardless of party and religious affiliation (Zrínyi, Nádasdy, Eszterházy, Bethlen, Pázmány) – also explained the disintegration with national issues. The country's and geopolitical situation of Hungary was not seen as a sufficient explanation for this. This had two consequences. On one hand, a terrible vision of the threatening and fatal death of the nation appeared in Hungarian identity (Keresztury, 1992. pp. 145–146). On the other hand, the search and analysis of the causes not only triggered a vision of national death, but also became a source of a strong sense of Hungarian identity, in which the concern for our destiny stimulated the struggle for freedom.

The vocation of the struggle for the survival of the Hungarians is based on the Christian feeling that Hungarians consider themselves God's people, who must endure God's punishment for their sins, but if they want to remain sons of God, they must fight. The consciousness of the Hungarians, and the desire for freedom rested on sacred foundations. Due to its sacred nature, Hungarian Christianity – both Catholics and Protestant denominations – opposed Muslim Turks. This folk survival meant the survival of Christianity.

István Bocskai, Gábor Bethlen, and Miklós Zrínyi got the furthest on this road. All three set the restoration of the Hungarian Empire as a hidden goal, relying on Hungarian forces on the basis of the struggle for independence against the Habsburg and Ottoman Empires. This failed for various reasons.

At the end of the period of Turkish occupation, another feature of the strengthening of Hungarian identity appeared: the distancing, and even resentment to the west, mainly due to the violence of the Germans. This brutal violence culminated during and after the expulsion of the Turkish troops, where it reached its culmination, which was described in the writing of Judge Flämkitzer. Gyula Szekfű quotes this as he writes, "Hungary is full of the terrible blackmail of the German army, its insatiable actions,

its utter arbitrariness, inhuman clashes, just so books could be filled with descriptions of such violence and barbaric ruthlessness” (Hóman and Szekfű, 1935, pp. 248–249).

The power of the Hungarian identity was weakened by the fact that the self-consciousness of the Hungarians began to split in two after the disintegration of the Kingdom of Hungary. Hungarians representing Turkish and Habsburg orientations opposed each other, either in a way that supported the constructive goals of the Turkish Empire or the Habsburg Empire, even in opposition to each other. In the 17th century, it appeared in contrast of the “kuruc” and “labanc” orientation.

The purpose of the Kuruc identity (the term kuruc is of Turkish etymological origin, who called the rebels and the insurgents *kuruc*) was to restore the sovereign Hungarian imperial statehood as a result of the struggle for independence against the Habsburg Empire, even with the political support of the Ottoman Empire. They trusted that Porta would not interfere in the internal system of the Kingdom of Hungary. On the other hand, the Labanc identity (the etymological origin of the term “lobonc” referred to the German wig wear, see Nemeskürty, 2003, p. 66), renounced Hungarian independence and contended with the preservation of the formal functioning capacity of Hungarian political institutions. The two identities accused each other.

The kurucs accused the labancas with betrayal, and the labancas accused the kurucs with chasing unreal dreams. At the lowest point of the confrontation, they even clashed with weapons. The opposite view, came to the fore in 1664, when in the battle of Szentgotthárd, forces demanding Turkish support spoke for Turkish victory, while Habsburg parties fought against the Turks on the side of Montecuccoli.

European opinions about Hungarians during the Turkish occupation

Although the barbarism and backwards view of the Hungarians was still a recurring theme from the very beginning, external judgment had been the dominant image of the Hungarians as the glorification of the bastion of Christianity. The change in views was very well characterized by the writing of Machiavelli, where he speaks about the role of Hungarians: “Hungary’s inhabitants, being warlike serve as a bastion, so that the Scythians who are bordering on them do not dare to believe, that the Hungarians could be defeated and broken through. Often large Tartar attack movements were organised, which were then arrested by Poles and Hungarians. They also often boast about it, if they had not had their weapons, Italy and the Church would have felt the weight of the Tartar armies on several occasions” (Terbe, 1936). The role of the Hungarians as a bastion was also related to the fight against the Turks, and many people were grateful for this role. This gratitude was expressed in German, in French and Italian sources, which expressed the glorification of the bravery of the Hungarians. However, there were also regular opinions that Europe would have been not grateful, as the Hungarians had only defended themselves.

In the last decades of the Turkish occupation – seeing the divided and weakened Hungarians – the hostility of the Habsburgs intensified, which was helped by the fact that Kuruc troops fought on the side of the Turks during the siege of Vienna.

As a result, in 1688, the year of the recapture of Buda Castle, the work of the then Bishop of Győr – the later Hungarian prince-primate – Count Lipót Kollonich (in his language titled *Einrichtungswerk des Königreichs Ungarn*), was published, which established the Habsburg colonial policy. It started from the premise that the Hungarians, after not having been able to liberate themselves, lost their right to establish an independent state.

Hungary was considered a conquered province, and after the expulsion of the Turks this principle was enforced, as exemplified by Nemeskürty: “Jászkunság was given as a gift to the German Order of Knighthood (1702), Hungarian wine export and silk brokerage trade were granted to the English company Sedgewick as a licence, and beef exports were taken over by an Austrian oriental company” (Nemeskürty, 2001, p. 300).

The New Acquisitions Commission usually did not return the liberated territories to the old Hungarian owners, but instead to army transporters, military commanders, and court officials. Additionally, they did not repatriate the Hungarian indigenous population to the depopulated areas, but divided the estates among the newly settled Serbs, Slovaks, and Germans.

THE MODERN, SOVEREIGN EUROPEAN STATE IN EUROPE AND HUNGARY

The theory debate that took place during the Middle Ages also paved the way for Westphalian sovereignty.

The theoretical discussion²

First, the transcendent view of Jean Bodin (1530–1596) was disputed by Johannes Althusius,³ arguing that the owner of sovereignty (i.e. political supremacy), is not the ruler but the people. As an alternative to transcendent sovereignty, popular sovereignty has emerged as a determining factor (Kunzmann et al., 1999, p. 101).

The immanent approach was completed by Hugo Grotius (1583–1645) by changing the transcendent interpretation of natural law into an immanent approach. This meant that people formed communities organized by their mind and social instinct, and were able to agree on what was in harmony with their divine nature. That is, according to Althusius and Grotius, state sovereignty derives from popular sovereignty.

This debate has also arisen in various theories of social contract. In Thomas Hobbes's (1588–1679) conception, the power of the state is unlimited, inalienable, and indivisible (Kunzmann et al., 1999, p. 117), but John Locke (1632–1704) argues that natural law forbids the harming of lives, health, liberty, and property of others. This society is therefore not a set of isolated individuals. In a social contract, people create a state as a community force that, while superior to them, is bound by natural laws. If the higher power breaks the laws, the people can replace it, even by using revolutionary violence (Kunzmann et al., 1999, p. 121).

The starting point of David Hume's (1711–1776) theory of the state is that the individuals seeking to acquire and possess wealth, needs peace and security to preserve his wealth. They create a legal order that ensures peace and security, because that is the only way they can limit the conflicts that exist between people because of the scarcity of material goods. This principal power was created on an immanent basis, in order to assert the benefits of society as a whole by framing individual aspirations on the basis of fidelity to justice (Kunzmann et al., 1999, p. 127).

Jean-Jacques Rousseau's (1712–1778) theory of state is a completely inherent theory. In fact, it is also a social contract theory in which Rousseau introduces the category of public will and makes every human's will a part of the public will. The public will give expression to popular sovereignty. That is, popular sovereignty comes from the social contract, not state supremacy. Laws are valid only if they are in accordance with the public will. Otherwise, they are only violent, individual instructions that are not binding on the individual. People's sovereignty is enforced by an executive power controlled by the public will, and if it deviates from this, the public will is enforced against the executive power, and if necessary, by revolutionary action (Kunzmann et al., 1999, p. 133).

Rousseau's theoretical position closed and summed up a centuries-old theoretical debate and expressed his position on the inseparable relationship between state sovereignty and popular sovereignty with valid effect to these days.

The modern European territorial state with Westphalian sovereignty

Scientific literature agrees that the modern sovereign European territorial state was created at the end of the Middle Ages, after 1648, based on the so-called Peace of Westphalia, which was otherwise concluded in the cities of Münster and Osnabrück. Westphalian sovereignty defined individual states as holders of internal supreme power over a population living in a clearly defined area. At the same time, it obliged states to mutually recognize each other's internal supremacy, that is, not to interfere in the exercise of the supremacy of other states.

The Peace of Westphalia, which ended a devastating 30-year-long war, marked a turn by shifting the focus to an immanent relationship between the individual European states, however the absolute monarchies and enlightened absolutisms that concluded the treaty, also retained transcendency. In absolute and enlightened monarchies, there were no citizens, only subjects, so we cannot talk about internal sovereignty.

The modern European states have developed a formulation that combined coercive features (law and order, war) with economic organizational activities (taxation, trade) in such a stable way that allowed for more effective responses to historical challenges, such as city-states and urban leagues. This stable connection is called the state interest.

Sovereignty is the essence of territorial state, not just a property of it, and this is still valid today. Sovereignty entitles it to exclude all other states from the exercise of the internal rights, and to exercise the rights of sovereignty freely and, if it deems to

be necessary, to transfer the rights as well. The extent and timing of the transfer is the sovereign right of each nation state. Sovereignty extends in both the vertical and horizontal directions. The vertical direction is expressed in the extent to which sovereignty limits the individual as a citizen.

The horizontal direction refers to areas of institutional practice that are inseparable from sovereignty. These include diplomacy, tax collection, foreign trade, and immigration control.

We distinguish between the internal and external dimensions of sovereignty. The internal dimension defines the range of people and resources that are valid in a defined geographical area. The external dimension determines the international obligations of the state, and the scope of activities that the state may or may not do in the international relations.

Although the Peace of Westphalia declared external sovereignty, the states regularly violated this in historical practice. They continued the medieval tradition of regularly and armedly seeking to change the boundaries, and to limit or destroy the internal supremacy of other states.

Modern statehood certainly meant stability against the instability of medieval states. However, the relationship between state sovereignty and popular sovereignty remained open and was raised in the individual state dimension. The basic question is: does popular sovereignty underpin state sovereignty, or does state sovereignty limit popular sovereignty on ethnic, political, or social grounds?

Hungarian sovereignty in the modern times

During this period, the sovereignty of the Hungarian state did not exist, but the political activity of the Hungarians was confined within the framework of the Habsburg Monarchy with limited autonomy. Until 1920, the sovereignty of the Hungarian state was raised in two historical episodes, in the framework of an open national uprising and war of independence. Once, as an aspiration of the Rákóczi War for Independence in 1703–1711, and secondly at the Hungarian Revolution and Freedom Fight of 1848–1849.

In the Rákóczi War for Independence, the openly undertaken goal of restoring the sovereign, historical Hungarian Empire failed. This closed a chapter. It became clear that the struggle for independent Hungarian statehood was unrealistic. The Turkish Empire was pushed back to the Balkans, and the remaining Hungarian political institutions within the dominant Habsburg Empire represented exclusively the realistic political space and opportunities for the activities of the Hungarians.

The survival of the Hungarians became questionable and there was a real danger that they would disappear and be absorbed like the peoples that arrived earlier to the Carpathian Basin. However, under the reign of Maria Theresa, a number of economic and cultural opportunities opened up for the Hungarians. Hungarian identity was a motivating force before the ascension, by revoking the previous repressive measures (abolition of the New Acquisition Committee, expulsion of the German Order of Knights in 1745). Maria Theresa created further favorable conditions for the strength-

ening of Hungarian identity. The identity was strengthened by the integration of settlers of other nationalities – who begun to speak Hungarian among each other – into Hungarian society. The miracle of the ascension was also noticed by foreign observers. This was also expressed by Paolo Renier, Ambassador of the Venetian Republic in Vienna (Nemeskürty, 2001, p. 318).

At the same time, the duality of Hungarian identity prevailed. Habsburg modernization was accompanied by efforts to Germanize the Hungarians. One Hungarian identity opposed Germanization and therefore also rejected modernization. With this, he not only defended the attacks against the Hungarians, but also achieved the unfolding of a significant part of the settlers. The other identity accepted Germanization because of the rise in economic prosperity. The two identities sharply and mockingly condemned each other's behavior, but there was no armed conflict between them.

The external image of the Hungarians in the 18th century

The public opinion of the German-speaking area by the Hungarians was contemptuous. Then the Hungarians gradually gained strength. According to this, Hungarians can only fight, but otherwise they were unpretentious. They were assumed to not understand about cultivating land and are incapable to develop their minds. This is aptly described by Nemeskürty when he describes that Jakob Friedrich Reichmann, in his universal literary history, questions the existence of Hungarian literature because “Hungarians value a good horse or a bright sword more than a valuable book” (quotation from Nemeskürty, 2001, p. 311) The original German title of his book was *Versuch einer Einleitung in die Historiam Literariam insgemein* (1708). Dávid Czvittinger, who was living abroad and was a young German-speaking man from Banská Štiavnica, compiled and published the data of 250 Hungarian writers for this purpose and published them in a lexicon-like compilation (*Specimen Hungariae Literatae*, Frankfurt-Leipzig, 1711) (see Nemeskürty, 2001, pp. 311–312).

The contempt of the Hungarians was fueled by the widely held opinion that the Hungarians have no future and absorption is their fate. This opinion was made internationally known by Herder, who wrote: “The language of a small number of Hungarians wedged among others will not be discovered after centuries” (German title: *Ideen zur Philosophie der Geschichte der Menschheit*, 1791) (quotation from Nemeskürty, 2001, p. 312). However, history has refuted this view in the short term. The Hungarians were strengthened by taking advantage of the measures set by Hungarian Queen Mária Teresa (she was not only the wife of the King) to alleviate the colonial dependence. It resulted in, that at the beginning of the twentieth century, with the reform movement, the Hungarians were at the forefront of development in Southeast Europe.

Perhaps the most comprehensive opinion, driven by contempt and destitution, was expressed by Lipót Alajos Hoffmann in his book *Nineveh* during the time of the 1790 Reform Assembly. (By the way, he was a paid secret agent of Leopold II.) This was summed up by Tibor Eckhardt as follows: “According to the Hungarian nobleman, Corpus Juris contains everything, that you need and Hungarian land creates

everything, that you need. You do not need foreign science. Ignorance is national virtue and bad news is created for someone who travels abroad and has learned something useful... The National Assembly is a peasant mob. A half-understood book, like Rousseau's Social Contract, provides the material for their phrases. Besides punch and wine of Tokaj, their revolution is on fire. Urbanity and science are not domestic plants" (Eckhardt, 1992, p. 105).

In the 18th century, the beginning of the ethnic minorities in the Carpathian Basin prompted the direction of popular self-awareness were coincided with the negative German opinions. The former unified "Hungarus" consciousness has disintegrated, and especially among Slovak and Romanian authors, a distorted image of a barbarian, cruel, Asian mentality and tempered Hungarian man was reflected. The Hungarian language is called the language of horses (*limba cailor*), which is a simple copy of the German language (Eckhardt, 1992, pp. 107–111).

An exception to this was the Polish public opinion, in which the consciousness of brotherhood was strongly and continuously present, to which the similarity of the characteristics of the two nations are connected. This was already expressed in the 16th century by Prince Wisniowiecki, as he wrote, "there are no people who are as similar to the Poles in terms of customs and nature: they have the same weapons, the same way of fighting, the same way of life, and even a few years ago their clothes were the same as the Hungarians now... So we do not agree with any nation as much as we do with the Hungarians..." (quotation from Eckhardt, 1992, pp. 112–113).

SOVEREIGNTY OF THE MODERN EUROPEAN TERRITORIAL STATE AND HISTORICAL CHALLENGES

The content of modern sovereignty has changed historically since the introduction of Westphalian sovereignty. This was linked to the historical challenges that have allowed modern, territorial European states in recent centuries to where they are in the present day. These challenges include: the national challenge; the democratic challenge; the social challenge; the current complex challenge.

– The first challenge was the development of the bourgeois nations, of which two versions of the response have emerged. The starting point of the "state-nation" version was the new revolutionary state, which, homogenized from top to the bottom, and formed a new social structure and a unified civic culture (e.g., France, and Great Britain). In the other version, this is called the "culture-nation", in which a unified citizenship was firstly created, and the civil "nation-state" (Germany, Italy) was created as a result of the social rearrangement and the emergence of a new unified culture. This eliminates the city-state power formations, the principalities in Germany, and the city-states in Italy.

Becoming a nation, whether in national or cultural versions, has resulted in state formations in which the basis and driving force of state sovereignty has been the bourgeois nation, hence these institutions are uniformly known as nation-states. The

nation-state provided an incentive framework for the Industrial Revolution, but polarizing tensions prevailed between the various strata of society. At the same time became a source of conflict between nations emerging with time differences, and the suppressing efforts of the enforcement of minority rights.

– The second challenge was the democratic challenge, to which the European state responded by developing representative democracy. This statehood institutionalized the general representation of different social strata, but at the same time failed to adequately address social differences and tensions. The responsibilities of the state have gradually expanded. Schumpeter defined the essence of representative democracy as “an institutional arrangement of political decision-making in which the demands of power are asserted by competition for the votes of the people” (quotation from Schumpeter, 1947, p. 269).

By the end of the twentieth century, the needs of social groups went beyond periodic, regular voice and occasional referendums. Institutional participation was also required in the inter-voting decision-making processes, which went beyond the framework of representative democracy (Beer, 1965). This opened a new stage in the history of modern civic democracies, called participatory or post-parliamentary democracy (Jordan and Richardson, 1987).

However, there were problems during the transition to participatory democracy. For example, consultation channels very often operated formally. They did not work regularly, and the information needed for participation in the decision-making process were not received in time. Many countries, on the other hand, are stuck at the level of representative democracy.

– The third obstacle was the social challenge for which in the 19th and 20th century the European states responded by building welfare states. Significant social groups were miserable, which did not provoke participation, but instead resistance to the emerging order.

Welfare states have built public service systems that provide minimum standards of social welfare based on equity and / or equality values. The turnaround was marked by the state of Bismarck, in which the international literature uniformly considers to be the germ form of the welfare state. This state has alleviated social tensions using the tools of state intervention. From 1881, social policy intervention began. It unfolded in two basic areas: health social security and education (Jenei, 2008, p. 160).

In the 1920s, Sweden began to build a broad, multi-sectoral social policy, ranging from family policy, health policy, education policy and to employment policy. The social welfare system re-regulated family assistance and the issue of women after Alva and Gunnar Myrdal's extremely influential book (*The Crisis of Population*) (Myrdal and Myrdal, 1934).

Other countries had also pursued the mitigation of social problems caused by market redistribution through state intervention. After the Great Depression of 1933, President Roosevelt ordered a reduction in agricultural raising by compensating farmers in the 1933 Agrarian Act, it regulated working hours in the Industrial Recon-

struction Act, established a minimum wage, and set up unemployment offices. During World War II, Great Britain developed a program that comprehensively enforced the state's commitment to welfare. In 1942, Lord William Beveridge (1942) developed the basic direction, and in 1949, Thomas Humphrey Marshall then articulated the "principle of social citizenship" (Marshall, 1949).

Following World War II, welfare statehood became a general unfolding trend among modern nation-states. Different types had emerged: the Anglo-Saxon, the Scandinavian, and the Residual types. What they had in common was that they created a social balance between market and state redistribution.

In this typology a special model was developed by the BRD. It was the so-called social market economy model. The essence of the social market economy was to set up a complex, comprehensive system of social security (this would be a validation of the classic socialist basic goal), but it operated this system based on a functioning system of market competition.

– This statehood is currently facing a complex challenge. The main components are the technological challenges, the economic challenges, the ecological challenges, and the demographic challenges. The European states were responding to this challenge by developing a complex strategy, and its main component is the shift from a "government" mode of operation, to a "governance" mode of operation.

The two main components of the technological challenges are the proliferation of nuclear weapons, which threatens the defence function of nation-states, and the revolution of mass communication, which leads to the development of global production strategies that have weakened the regulatory function of the nation-state (Strange, 1996).

The economic-financial challenge is manifested in the globalization of financial markets and production. This makes individual state currencies vulnerable and limits the state's role in economic governance (Stopford and Strange, 1991).

The essence of the ecological challenge is that pollution has no national borders, and even some dangers extend to the entire planet. Individual sovereign states do not have sufficient tools to deal with these problems (Goldblatt, 1997).

The demographic challenge stems from population ageing in some regions and population explosions in other regions. The consequence is that the number of refugees (famine, political persecution, human rights violations) and economic migrants have been increasing (Agnew, 1994, p. 70). This creates interdependence between the nation-states as migration destination states and requires strategic coordination in mitigating the problems caused by the population explosion.

Each challenge is of such a nature and magnitude that the nation-states can only provide an adequate and effective response if the sovereignty of each state is extended to a new component. This is because nation-state sovereignty is exercised alone, and, in isolation, and therefore cannot be effective, even for strong nation-states. State sovereignty can only be preserved if it is complemented by interdependent sovereignty. This is the only way for the nation-states to build a constructive partnership with global forces, to have the ability to deal with global threats.

WHAT ARE THE PECULIARITIES OF THE HISTORY OF THE
HUNGARIAN NATION-STATE?

Culture national beginning

Beginning with the reform period, the Hungarians chose the “culture-nation” approach version, which was comparable to that of the Germans. Like the Germans, the social base of this process was heterogeneous. In the Hungarian Reformation, not only the bourgeoisie was strengthened, but also the nobility became the main driving force for the development of the culture nation.

Hungarian culture developed to an extent of epoch-making significance. Hungarian craftsmen toured Germany and France at their young age; they worked there and trained themselves. The works of the poetic generations (Csokonai, Berzsenyi, Kölcsey, Vörösmarty, Petőfi, Arany and others) were and are internationally recognized. The European mathematical prince Gauss appreciated the mathematical activities of Farkas and János Bolyai (father and son). Beethoven was often among the Hungarians, giving concerts in Pest, Buda and elsewhere. Schubert also liked to spend several summers with the Hungarians. Hungarian folk music gained European fame and it became the musical mother tongue of Hungarians. Theatres, publishing companies, newspapers and literary magazines started their operations. The Hungarian Academy of Sciences was founded.

In the Habsburg Empire, however, Hungarians were still considered second-class subjects. Their aspirations were suppressed in a variety of ways. An excellent example of this was at the beginning of the 19th century, during the reign of Emperor Francis I. It was described by historian Gyula Szekfű as follows: “Cabinet absolutism under Francis was actually a police domination, and this marks a really low level compared to the era of Maria Theresa... He sets up a secret cabinet so that the opened letters get to his desk as quickly as possible” (quotation from Nemeskürty, 2000, p. 100). In 1814, two thousand five hundred Hungarian books were banned and condemned for destruction, which were published between 1790 and 1813. The transformation of the Hungarian language into a national language was also followed hostilely. An example of this was that the famous German publisher, Corta, issued a tender with the title: “Is the Hungarian language suitable for the expression of modern concepts of public administration, trade, culture, industry and science?” Half of the applicants considered the Hungarian language unsuitable for this, whilst 5 recommended the Hungarian language. Of course, the result of the tender was not even announced. Among the applicants was Ferenc Kazinczy, who later became the leading figure of the Hungarian language renewal movement.

During the Revolution and War of Independence of 1848–1849, the short-established sovereign Hungarian state, were defeated by the Habsburgs with the support of the Russian Tsar’s troops.

After the brutal retaliation, the Habsburg Empire set the goal of destroying Hungarian identity, as Prime Minister Schwarzenberg put it: “Please, what is a Hungarian

nation? These have always been rebels who must be destroyed; they must be rendered harmless once and for all” (quotation from Nemeskürty, 1981, p. 11). Heinrich Friedjung formulated the conceptual basis of this goal even in 1908 – during the Austro-Hungarian Monarchy – as follows: “the name and concept of the Austro-Hungarian Monarchy is unhistorical. Hungary was part of Austria” (quotation from Nemeskürty, 1981, p. 10). According to him, at the end of the Middle Ages, Hungary was destroyed and considered to have been militarily conquered since 1686.

In 1850, Julian Chownitz published a book in Bamberg titled *Handbuch für Auswanderer nach Ungarn* (Handbook for Emigrants to Hungary), in which he considered the colonization of Hungary necessary and justified it as follows: “Hungarians received all the good from the Germans; the blessings of culture can also be attributed to them; when Hungarians roamed somewhere in the Dniester region, German cities were already flourishing in today’s Hungary. Therefore, the settling Germans must not believe that they are guests here; therefore, Hungarians should not be considered hosts. Hungarians are only backward natives who can hardly wait for the blessings of German civilization” (quotation from Nemeskürty, 1981, pp. 14–15).

Turn in the direction of state nation

The establishment of the Austro-Hungarian Monarchy marked a turning point. The Hungarians gained shared sovereignty within the empire. However, this was not nation-state but state-nation sovereignty. The typical problems of state-nation aspirations arose. In the course of Hungarian history, social tensions arose, as consequence of unparalleled technical and economic development. This generated mass emigration. The suppression of the autonomy demands of national minorities had exacerbated minority-ethnic tensions.

The Hungarian government of the Austro-Hungarian Monarchy responded late to the democratic challenge. Universal, equal, and secret suffrage was already introduced in Austria already in 1907, but not in Hungary. This shortcoming and other barriers of democracy persisted even in Hungary, which regained its sovereign statehood after 1920. The chances of a democratic transition were opened up, after the 1945 elections, but they were destroyed by Soviet military dominance by cruel means and with the support of smaller Hungarian groups. Until 1989 the political system was characterized by dictatorship. Although this was alleviated, but the one-party system made internal sovereignty impossible until 1989, and limited sovereignty was declared by the Soviet-Union based on proletarian internationalism, which prevented external sovereignty.

In Hungary, the response to the social challenge had also deficits. Land distribution was not accomplished and due to high levels of poverty and, the country became socially vulnerable, which was exploited by the expansive Hitlerian empire. Social contradictions tore up the social base of the political system. Poverty remained burdened with unresolved problems during the dictatorship period.

The current situation in the European Union

The European Union is an institution without historical precedent. It is a combination of confederate and federal components. Strengthening interdependent sovereignty is therefore the result of initiatives from top-down and from bottom-up at the same time. The question is how the inevitable tensions between the two different initiatives can be reduced or eliminated.

Top-down initiatives, especially when they linked to economic coercion and political attacks cannot be effective because they limit or diminish the sovereignty of nation-states. This weakens the Union's ability to respond to global challenges. The result of the "top-down" process is sometimes effective, but there are cases when it is only formally declared and accepted. In that case a real danger is the creation of a "paper palace".

The means of mutual respect and purposeful dialogue between the nation-states, based on facts and mutual knowledge and recognition of interests, can only be achieved through joint, coordinated action and the development of strategies. This way it is possible to develop the interdependent dimension of state sovereignty in conjunction with the enforcement of popular sovereignty.

A European United States project based on economic coercion, political blackmail, or ideological homogenization-, limits and violates the sovereignty of European nation-states. At the same time, it violates European historical traditions. The rebuke of Sándor Márai, which he wrote in his 1942 article titled *Röpirat a nemzetnevelés ügyében* (Leaflet on the Issue of National Education), is still relevant, as he writes: "The greatness and destiny of Europe has always been and will be that peoples of different cultures, past, racial and linguistic differences differ in the struggle for the level and survival of their present and future, and it is this difference that gives real strength and character to the common European effort... A Europe whose inhabitants speak a common language, whose peoples have lost their historical self-consciousness, their people's ambition, would cease to be Europe. Europe's strengths are diversity, opposition, debate, remembrance, proof and difference" (quotation from Nemeskürty, 1996, p. 167).

Lord Dahrendorf also considers the sovereignty of European states to be essential, as he writes: "The essence of Europe is to be made up of states of different economic, political and cultural natures. Europe must not be condemned to be a certain kind of centralized United States... Unfortunately, the Union is beginning to ignore individual cultures... However, this makes no sense. The European Union has never defended the interests of anyone. Answers can only be national in nature. Different countries can only have their own responses" (quotation from Nemeskürty, 1996, p. 167).

HUNGARIAN STATE SOVEREIGNTY
AND ITS CURRENT ALTERNATIVES

After 1989, a pluralist democracy based on a multi-party system was established within the framework of the rule of law in Hungary. The legal-institutional conditions for this were created and legitimized in free elections from 1990 on. External sovereignty

has been strengthened with our memberships in various international organizations (OECD, etc.). Our membership in the European Union internationally legitimised and institutionally accepted the Hungarian legal state, the pluralist democratic political system and the regulated market economy.

Nevertheless, according to the majority votes of the European Parliament, the greater part of Hungarians – with a two-third majority – have supported a political force in the last decade and still does today, which violates democracy and the rule of law. In other words, the overwhelming majority of Hungarians support dictatorial political power. This view is regularly expressed by influential Western media and international networks that call themselves civil institutions. According to these opinions, Hungarians are not ripe for democracy.

This contempt is reflected in the greater part of the resolutions of the European Parliament, in statements by politicians, being in leading positions in the European Union, in the writings of influential newspapers and magazines, and in radio and television programs, which conclude that they should enforce the rule of law, the democracy, and the freedom of expression instead of Hungarians. In other words, Hungarians are considered second-class people and this statement have been expressing this for 10 years, regularly.

This contemptuous-condemning position is essentially a political-ideological doctrine. It is not supported by any violation of international law or European Union law that can be proven against Hungary. Nor is it its aim, to influence the public opinion of each Member State, and this endeavour is not ineffective. Opinions are divided on the above-mentioned issues of wide extent. This opinion also affects in Hungary. It provokes both agreement and rejection. In some cases, the aspirations and criticisms of the Hungarian government's opposition appear in a coordinated manner in the domestic and international media.

The crucial question for the near future is at what levels interdependent sovereignty will be strengthened and how the relationship between each level will develop. The strength of the aggression of the political-ideological pressure of the European Union, the further reduction of the European Union's weight in the world economy, or the instability of disputes between Member States will help to strengthen the identity with the phrase "leave the European Union". In extreme cases, centrifugal forces are set in motion that could trigger the disintegration of the European Union.

It helps to strengthen the so-called 'United States of Europe' identity, when federal features are pushed into the background or to secondary position to confederate features. This identity and its social support favour interdependent sovereignty at the EU level over regional, for instance Central European interdependent sovereignty, and the internal clashes weakens in the Hungarian public life the power of national cooperation.

The identity with the so-called "cultural nation" and "Hungarian state sovereignty" identity gets stronger if the strengthening of the Union in the European Union is based on "bottom-up" cooperation, the regional interdependent sovereignty of the member states around Poland will gain strength, and the economic and social

cohesion of the Hungarians living in the Carpathian Basin will establish even closer links based on the improvement of the relations to the neighbouring countries. Otherwise, if we would leave alone, it is impossible to provide an effective response to global challenges.

There is a chance for all three Hungarian identities to be strengthened. It is likely that the uncertainties that characterize the current situation, and the threatening question marks, will be permanent in the European Union. In addition to the influence of global forces and European Union institutions, the purposeful and action-oriented cooperation of the Hungarians is also an equal factor in shaping the conditions. At some point of junction, the alternatives that determine the reciprocal power relations of the three identities are already foreseeable.

The first point is whether the development of federal features in the European Union will be dominant and will be forced on the Member States “from above”, or whether the interdependent sovereignty of the Member States determines the relationship between federal and confederate features.

The second point is how the character of NGOs evolves. Is the influence of civil society on NGOs growing or is the role of foreigner-funded NGOs strengthening among the civil organizations?

The third point is that, according to Helmut Schmidt’s terminology, “unbridled pursuit of profit as a system” called by him “predatory capitalism” will remain dominant. Schmidt devotes an entire chapter to this issue in his memoir, in the chapter titled *Predatory Capitalism. What Can We Do About It* (Schmidt, 2011). The global forces will be able to bring the countries of the Euro-Atlantic cultural circle under its growing and unilateral political influence through the operation of a mechanized fossil of the European bureaucracy, or will nation-state be able to renew the role of social communities based on new values and social policy ethics; and based on the regular, institutional involvement of community organizations with full autonomy in the management of public affairs?

The fourth point is whether the degeneration of democracy towards demagoguery continues (Aristotle considered this degeneration inevitable) or the fulfilment of popular sovereignty becomes a determining factor (this is what Aristotle calls “politeia” or moderate popular rule, which he defines as follows): “It is clear, then, that a political community that relies on the middle class is the best one, and the city-states in which the middle class is populous can be governed correctly” (Arisztotelész, 1984, p. 194).

The fifth point is, to what extent does unrestricted immigration to Europe lead to labor market integration and to what extent do it lead to the extension of parallel societies? What will be the impact of immigration on terrorism? Is it spreading? And to what extent the practice of Saudi Arabia will be copied, which allows to enter its country only when you have a valid employment contract and requires you to leave the country when the employment contract expires?

The sixth point is whether Hungarian sovereignty will be supported by a strong, actionable national coalition, or will – divisions with the support of social demagoguery – be able to weaken the sovereignty of the Hungarian state?

NOTES

- ¹ At the part on the challenges to the sovereign state I followed the orientation of the book Jönsson et al., 2000.
- ² At the chapter of the paper on the theoretical discussion regarding state sovereignty, I quoted the relevant passages of the book Kunzmann et al., 1999.
- ³ On the theory of Jean Bodin and Johannes Althusius passage quoted from Kunzmann et al., 1999, p. 101 and Bodin, 1987.

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Barnabás Virág

Economics 10x10 – Lessons from the Last Ten Decades of Hungarian Economic History



Summary

This paper overviews the economic history of Hungary in the last 100 years, and especially the convergence process to the advanced economies which was hindered by severe external shocks, two world wars, global economic crises and the suppression by the Soviet Union. After the political transition of 1990, many expected a rapid economic miracle, but the economic transition period was prolonged for 20 years. Thus, the sustainable convergence has started only after 2010 when the necessary fiscal, monetary and structural reforms were implemented. The most important lesson we can draw from our economic history is that economic growth cannot be sustained without financial balance, thus economic policy has to find the effective and targeted measures to enhance economic growth and macrofinancial balance at the same time.

Journal of Economic Literature (JEL) codes: N14, E60, H11

Keywords: economic history, economic cycles, public policy

INTRODUCTION

Despite substantial research effort of excellent economists (from Smith, 1959 to Acemoglu and Robinson, 2012) it is still debated what are the causes of rise and fall of nations. One useful mean at hand to deepen our understanding about the key drivers is offered by economic history. Looking at long time periods we can identify repeating

BARNABÁS VIRÁG, Deputy Governor of Magyar Nemzeti Bank responsible for monetary policy and financial stability.

patterns or economic cycles which can help to understand how developments at the global level influenced the fortune of nations.

The approach offered by economic history helps to explain the continuous struggle of Hungary to catch up with the living standards of developed European countries. During Hungary's long history geopolitics has always played an important role. With the exception of the 14th and 15th centuries, Hungary rarely experienced continuous and independent development and several times suffered severe shocks. The past 100 years were hard as well: during this period Hungary had to completely rebuild its economy three times and also had to survive two global crises. As the consequence of these external shocks, Hungary could not achieve lasting, sustainable economic growth and experience convergence. History taught, that geopolitics can determine the fate of nations, hence forming alliances is essential to prosper. In recent years, Hungary has joined forces with the also rapidly developing countries of the Carpathian Basin, and this will contribute significantly to future convergence and at the same time improve the fate of our fellow Hungarians who live outside Hungary.

However global geopolitics and economic cycles do not explain all the differences in countries' economic developments. Good governance and sound economic policy are indispensable to climb the development ladder. The two decades of Hungarian economic development following the collapse of socialism was instructive. Excessive liberalization and reckless fiscal policy impeded permanent convergence and led to recurring crises. Fortunately, lessons have been learnt. After 2010 the government introduced several fiscal and structural reforms to stabilize the economy, enhance growth and improve competitiveness. The implementation of the reforms was front-loaded, as most of them were introduced or implemented between 2010 and 2013. As consequence, a period of economic convergence has started in 2013, and by 2019 Hungarian regained its position among the best-performing economies in the region. Furthermore, the economy retained its stability over the whole decade, which is an unprecedented achievement.

In this paper I cover the last hundred years of Hungary's economic history. The starting point is the tragic, externally imposed Trianon Peace Treaty, which disrupted Hungary both in economic and geopolitical terms. I will discuss the economic impact of the horrors of World War II, the oppression by communist state and the transition to market economy. I will argue that in addition to wars, decades of political repression and recurring global economic crises, also domestic economic policy mistakes hampered Hungary's convergence. Still, in some periods Hungary was able to attain partial convergence, but it was always halted by external shock or domestically induced imbalances. As the country financed its development mostly from mounting external indebtedness, Hungary's growth model was long characterized by a choice between growth and balance. In the absence of a modernizing economy and improving competitiveness, convergence opportunities often very quickly fell by the wayside as the winds of the world economy changed.

This paper relies strongly on analysis and the datasets compiled in the book titled *10 x 10 years in numbers – The economic history of Hungary for the last 100 years* (MNB,

2020), which covers the last ten decades separately based on as comprehensive data as possible. This paper is more focused on policy dilemmas and emphasizes the importance of both external and internal factors in economic development. In the following first I will briefly discuss the main measures I use for economic progress and give an overview of the whole hundred years. Then I discuss three periods separately. The first period starts with the Trianon treaty and lasts until the start of the soviet repression. The second period covers the socialist era and the third the next three decades.

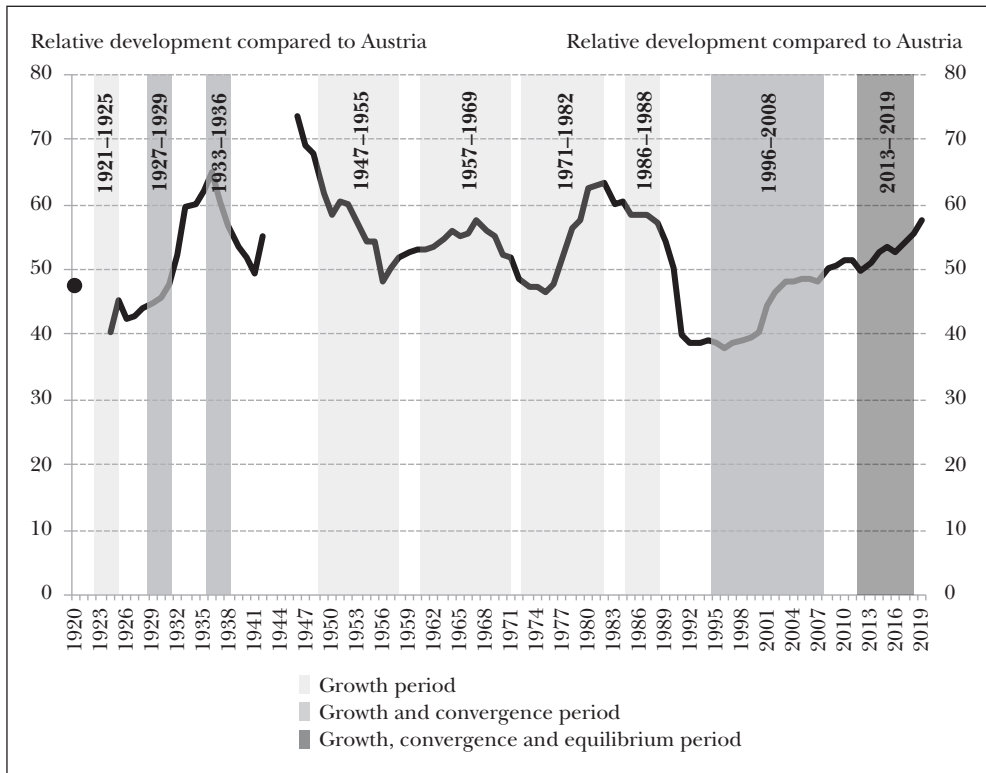
KEY INDICATORS OF SUSTAINABLE DEVELOPMENT, A BRIEF ASSESSMENT OF 100 YEARS

Our key indicator of economic progress is the relative development of Hungary compared to Austria. However, focusing on this measure exclusively can be misleading from time to time. Purchasing power parity, a statistical measure essential for calculating relative development, is extremely hard to measure reliably even today, and going back in time increases the uncertainty of statistics tremendously. Hence relying on more indicators may be a better option. An alternative indicator of relative economic progress is growth rate differential. Although its measurement error can be high especially in the first half of the sample, it may provide valuable additional information on development. Even if these measures indicate convergence, one has to keep in mind, that high growth can be maintained for many years paying the price of growing economic imbalances. However, these periods tend to be followed by severe recessions, hence measures of imbalances are needed to check whether economic progress is real or fake. Finally, economic growth is of value for the society only if the benefits of growth are widespread, so the indicator set of economic progress should involve some direct measures of standard of living as well.

Keeping these caveats in mind, let's turn to the 100 years long time series of growth rate and relative development index of Hungary. One can observe that relative development fluctuated in a wide range, but there is no sign of a positive convergence trend in the whole sample. Big global downturns tended to hit the Hungarian economy severely, causing a drop in relative development. Growth rate differential shows that the Hungarian growth rate rarely exceeded the Austrian one. The economic harms caused by communist regime also quite striking. The almost half century of socialism did not provide any period of clear convergence and ended with the collapse of the economy. After the fall of the socialist system and a longer than expected transition period the economy started to converge. However, we are still within the historical band of fluctuation so further improvement of competitiveness is of paramount importance to maintain the convergence process.

From time to time over the past 100 years, the Hungarian economy was temporarily able to achieve rapid economic growth, but prior to 2010 this was always accompanied by the deterioration in external and internal balances. Sound macrofinancial balances are often neglected as factors of convergence, but on the long run their importance is as high as the importance of economic growth. Economic history makes it

Figure 1: Periods of growth and convergence in Hungary compared to Austria



Note: On the basis of the data of Maddison until 1990, Ameco from 1991 and Eurostat from 1995.

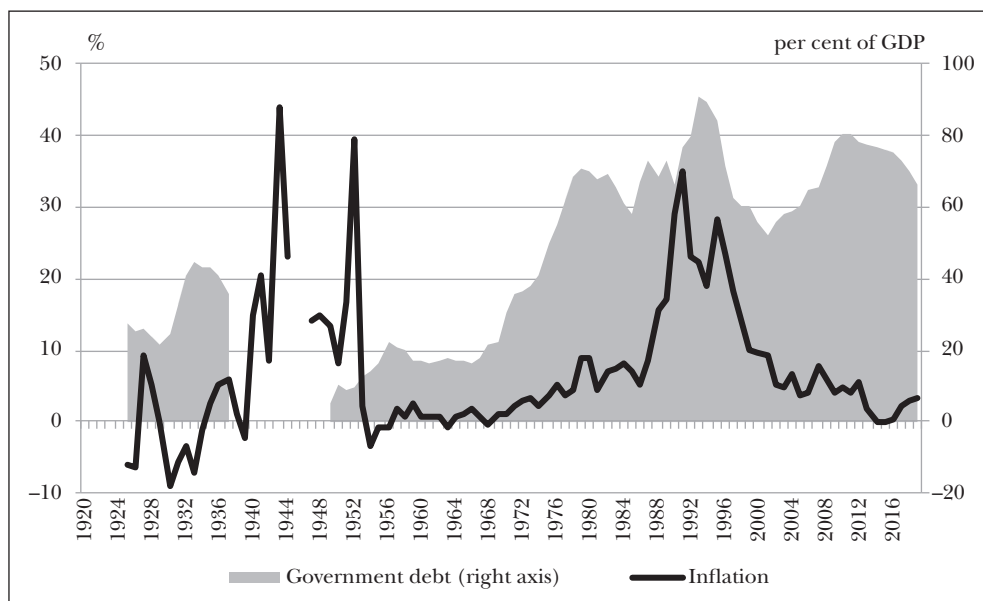
Source: Maddison, Ameco, Eurostat and MNB

obvious that persistent economic growth is only feasible if equilibrium is maintained, as imbalance often leads to crises that slow down growth for years or even a whole decade. One of the main obstacles to developing countries' convergence is that they are hit by more frequent and stronger crises than developed countries. These crises may stem from serious internal problems, or if there is imbalance, a country may also be hit harder by external shocks.

There are various examples of economic imbalances in Hungarian economic history, for example in the 1980s and the 2000s imbalances occurred in the form of accumulating external indebtedness. Indebtedness first led to stagnation, then amplified the impact of strong external shocks (disintegration of the socialist bloc and the global financial crisis, respectively), and caused severe recessions.

In addition to growth and equilibrium, the third factor of economic convergence is the standard of living and welfare. Economic growth benefits societies only if the growth is inclusive. Research on wealth and income distribution in recent decades showed that economic growth does not necessarily go hand in hand with increasing prosperity. Unregulated liberal market economies tend to create excessive inequali-

Figure 2: Government debt and inflation



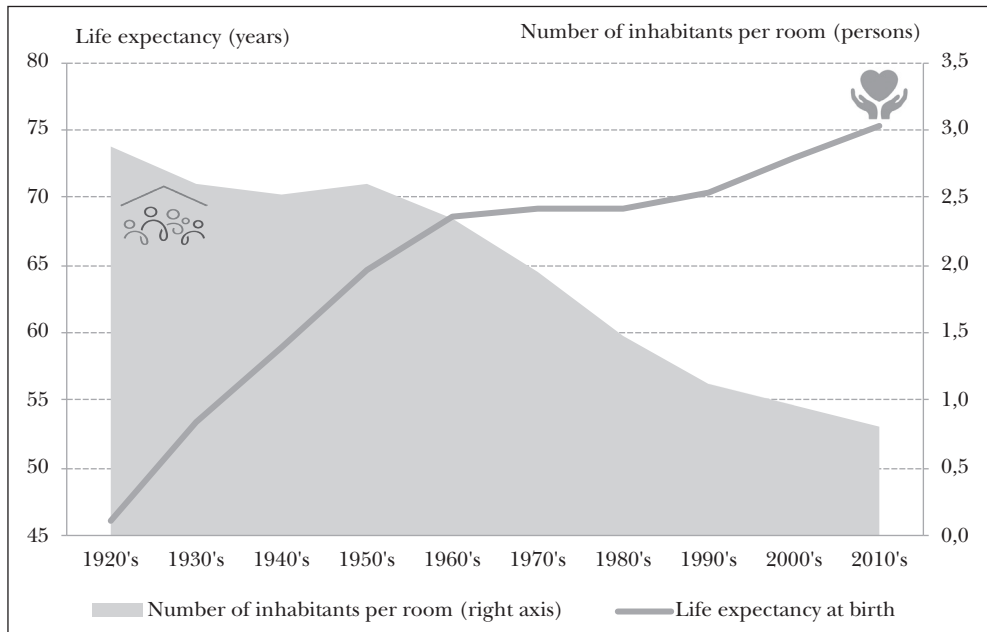
Source: HCSO and MNB

ties, increase social conflicts, which on the long run undermine the drivers of future economic growth through limited social mobility and negative effects on human capital accumulation. These problems are calling for state intervention. However, too much state intervention may backfire as well. In Hungary one of the inherent failures of the socialist system was that while it aimed for excessive equality, it did not reward individual performance and innovation. Economic history suggests that those countries were successful where the abilities and strengths of the state and the market were harmonised. The balance between the state and the market contributes to the rise of a broad middle class, which increases cohesion, facilitates the development of human capital and contributes to rising labour productivity.

Standard of living is influenced by numerous factors, including many non-economic ones. At the beginning of the 100 years timespan Trianon caused an enormous trauma not only at a national but also family level. 63 per cent of the population found themselves outside Hungary, and many families were torn apart decreasing standard of living in an unquantifiable manner. However, during the last 100 years in respect of living standards Hungary made big progress. The improvement was not continuous, for example life expectancy at birth rose to 69 years by 1966, when it stopped, and only exceeded that level at the turn of the millennium.

To have a full grasp of economic development, in the next three chapters I will discuss the economic progress of Hungary alongside the aforementioned three dimensions: economic growth, macroeconomic imbalances and standard of living. As I will show most of the time Hungary didn't have the opportunity to converge to the

Figure 3: Life expectancy at birth and the number of people living in one room



Source: HCSO and MNB

more developed European economies due to external factors and domestic failures. However, in the last decade the appropriate economic policy ensured both economic growth and macrofinancial balances, thus a convergence period emerged and there is new hope for continuous economic progress.

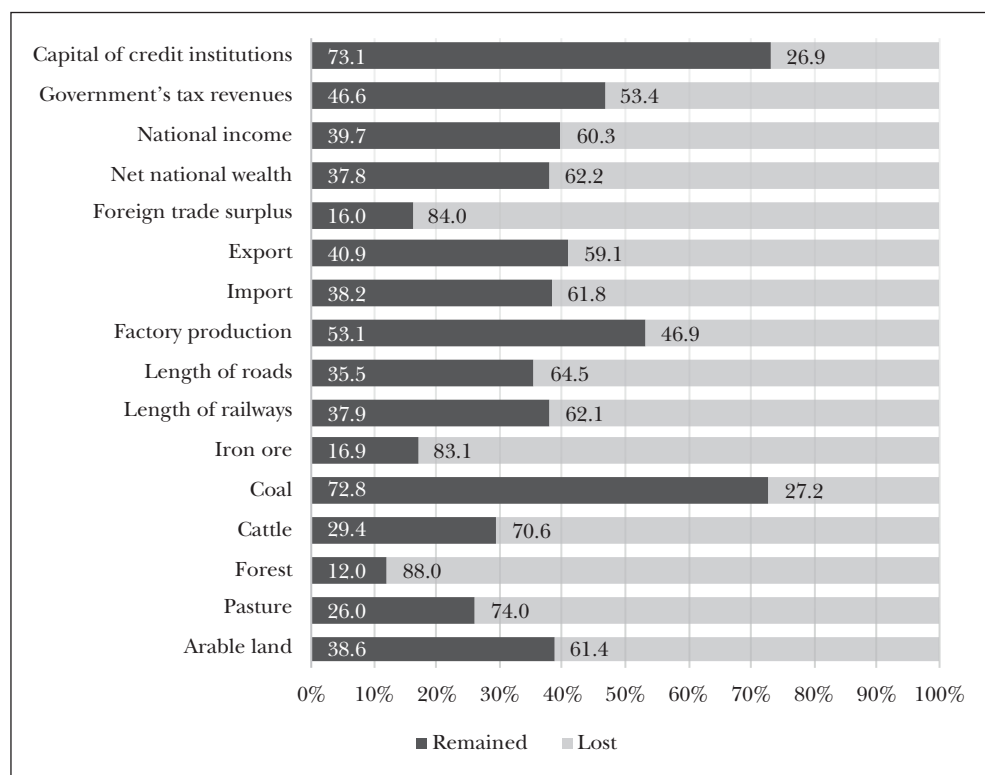
FROM THE TRIANON TREATY TO THE WORLD WAR II

The last hundred years started with a historic trauma, the Trianon peace treaty, Hungary lost 71 per cent of its territory and more than 63 per cent of its population. It was a disaster for the economy, which had already suffered huge losses during World War I. The new borders completely destroyed the production chains. While a significant portion of the processing capacities remained within the new borders of Hungary, the extraction of mineral resources and more than half of the arable land went to the detached parts. In some industries the new borders caused severe overcapacities. In railway machinery manufacturing, production had previously met the overall need for machinery throughout the country's rail network, but after the treaty barely 40 per cent of the rail network was within the new national borders. The previously world-famous Hungarian milling industry lost most of its raw material base. Before the war, Budapest was the world's second largest mill city. In the early 1920s, however, grain production in the new territory of the country was not even enough to tie up the capacity of the mills in Budapest alone (Berend and Ránki, 1972).

The dissolution of the Austro-Hungarian Monarchy altered many previously internal trade connections to external. Previously, the majority of Hungarian production was sold in the Monarchy's protected internal market of 50 million inhabitants, and most of the domestic use came from the Monarchy as well. Because of the new borders foreign trade became more important, both to meet industrial demand for raw materials and to satisfy households' consumption needs. In order to regulate Hungarian foreign trade a new tariff regime was established. The customs policy primarily protected the interests of Hungarian industry, tariffs of 30 per cent were imposed on processed products and duty rates on light industry were close to 50 per cent.

The financial sector also had to be restructured completely. In 1924, the Magyar Nemzeti Bank was founded. To ensure the foreign exchange demand of imported goods fixed foreign exchange management was introduced, exporters were obliged to convert their foreign exchange earnings into domestic currency and this was used to cover the foreign exchange demand of authorised imports (Szakács, 2000). Fixed foreign exchange management was in force until up to the end of 1925 (and was subsequently reintroduced in 1932).

Figure 4: Impact of the Treaty of Trianon on the main macroeconomic indicators and structure of the Hungarian economy



Source: Magyar Statisztikai Szemle (1938)

Despite the enormous challenges the economy recovered from the shock of the war and the Trianon treaty fast, and production already reached the pre-war level by 1927 (in the territory of post-Trianon Hungary). The Great Depression of 1929–1933, strongly affected the Hungarian economy via recessions in its export markets, but then the recovery resumed. Several Hungarian companies reached European levels in their production, which – in a country poor in raw materials – operated in high-value-added sectors. Examples of these are Tungsram and Orion in the manufacturing of electronic equipment sector, or the Weiss Manfréd Works and the Ganz factories in machine construction (Romsics, 2017).

Since the beginning of the 1920s trade relations of Hungary changed substantially. At the end of the 1920s Austria was still Hungary's most important foreign market (accounting for 29 per cent of exports), however in the 1930s Germany became the largest export market and Italy also gained in importance. On the import side, the change in product composition clearly reflected the increasing competitiveness of the domestic industry. The import structure shifted radically from finished industrial products to raw materials. 1920, only 22 per cent of imports were raw materials and semi-finished products, while nearly 78 per cent were finished products. In 1930 imports of raw materials and semi-finished products rose to 74 per cent, while the ratio of finished products fell to 26 per cent (Szakács, 2000).

The World War II put a stop to economic progress. Wartime economy was introduced, production inputs were reallocated to industries producing for the army. When fighting took place in the territory of Hungary in 1944–1945, production declined to half the level reached in 1938–1939. The fall was especially high in agriculture and manufacturing industry. During the war, some 40 per cent of the national wealth, equivalent to around four years of GDP was lost, and war reparations amounted to another 2.5 years of GDP (Bokor, 1955).

Between the two world wars it was extremely difficult to reach and maintain sound macrofinancial balances given the substantial shocks the economy was hit by. However as foreign financing wasn't available from time to time, the government and the private sector had to accommodate fast. At the beginning of 1924, Hungary managed to obtain a significant amount of loans from the League of Nations, albeit under quite unfavourable financial conditions. The conditions for lending also included the need to achieve budgetary balance within two years. To improve the budgetary situation, direct taxes, income and property taxes, excise taxes and customs duties were significantly increased. The increase of tax revenues was supported also by the economic growth. The fiscal balance was already restored in the 1924–1925 fiscal year and maintained in the second half of the 1920s. During the depression of 1929–1933 the budget deficit and government debt started to increase due to declining tax revenues and increasing export subsidies, but government managed to return to balanced budget in the second half of the 1930s (Matolcsy and Varga, 1938).

The availability of foreign financing strongly influenced the current account deficit. To restore production capacities after World War I investment had to be boosted and its financing need was enormous. However foreign financing became available only

in the second half of the 20s. Thereafter the import demand of the growing economy led to large current account deficit, which was increased further by the high interest payments on international loans. In the Great Depression the international financial system collapsed and foreign financing for Hungary was again not available. The current account became balanced after a huge adjustment of trade flows (Kaposi, 2010).

Despite the external shocks fiscal policy managed to find the right balance to ensure the growth of the economy. However, this fragile balance was destroyed by World War II. Government debt increased to about 50 per cent of GDP in Hungary by 1943. External borrowing was not an option, so the Magyar Nemzeti Bank printed money to cover the general government's expenditures, which led to high inflation. The purchasing power of the currency collapsed after the war, and Hungary suffered one of the fastest inflation rates in global history (Botos, 2016). Macrofinancial stability was destroyed completely.

Despite the swings of economic growth in the two decades following the 1920 trauma standard of living increased substantially, especially in the urban area. This was less due to economic growth. In the industrial sector, because of the Great Depression, real income did not reach the pre-war level even in the latter half of the 1930s. However living conditions improved because of the many achievements of modern social policy implemented in the second half of the 1920s. From then on, 80-90 per cent of the urban working class received sickness and accident insurance, and in 1928, compulsory old-age, disability, widowhood and orphanage insurance for urban workers was introduced.

One of the outstanding achievements of the 1920s was the reform of Hungarian education, linked to Kunó Klebelsberg. The most important achievement of public education was the eradication of illiteracy. In 1940, 92 per cent of the population over the age of 6 could read and write, which was an outstanding result compared to the surrounding Eastern European countries. The standard of contemporary secondary education was recognised as high, and at the same time, the number of secondary school graduates grew (Gunst, 1996). In 1938, nearly 6 per cent of the adult population had completed secondary school. This ratio was only slightly lower than in Germany and slightly higher than in France.

Public health reform began also in the 1920s. It started from a relatively advantageous position as after the new borders were set in 1920, about five sixths of the doctors settled down within the new borders of Hungary. Between the two World Wars, the number of doctors and hospital beds increased further. Due to better health care the number of deaths caused by infectious diseases declined substantially, and life expectancy at birth increased from 42 years to more than 55 years (HCSO, 1996).

ECONOMIC DEVELOPMENT DURING THE SOVIET ERA

After World War II a socialist economic model was introduced in Hungary based on state ownership and complete state control of production and prices. The new international economic cooperation was set by the Soviet Union, and that totally changed

the role of Hungary in the global economy. The new economic model led to the end of the agricultural and light industry traditions and to the forced development of heavy industry, which did not have a raw material base.

The soviet economic model suffered from severe shortcomings. The model discouraged individual performance and preferred equality to efficiency excessively, hence it was unable to produce long-lasting economic results. Economic growth was hindered by the absence of market coordination, the lack of incentives to innovate and to put efforts into boosting productivity. Companies received hardly any profits from their innovations, while their losses were covered by the state (soft budget constraint). The rigidity of the system led very low efficiency, but because of state control the consequences could be masked temporally. Inflation was prevented by officially fixed prices, while unemployment was countered by inefficient employment, i.e. 'unemployment within the gates'.

The inefficiency of the socialist economic model was so apparent, that even the socialist governments introduced cautious reforms. From 1968, the command economy system was slightly eased with the introduction of the New Economic Mechanism. Part of the after-tax profit could be managed by the companies, and companies could decide on some investment projects, although major investments were decided definitely upon by the state. Another important measure was the creation of a limited market for consumer goods and means of production. The prices of about 30 per cent of the products became non-regulated, although the price of basic foodstuffs, raw materials and services continued to be set by the state (MNB, 2016). The reform had some early success. However, after some negative feedback from the Soviet Union the new measures were withdrawn in the mid-1970s. Over the course of the 1980s the state implemented some new reforms related to the tax system, private ownership and the banking system. However, these reforms lacked an integrated concept and were supported by political leaders half-heartedly. Finally, under economic and social pressures and due to its inability to adjust, the socialist systems collapsed.

Macrofinancial balances in the socialist were strongly influenced by the inability of the economy to adjust and socialist governments' priority to continuously increase households' income. The reconstruction of the economy and the enormous investment into the heavy industry created a substantial financing need and eventually put a strain on maintaining macrofinancial balances in the soviet era. However, after the socialist economic system was introduced macrofinancial imbalances became harder to quantify. In the system based on nearly complete state ownership, the general government deficit and government debt became concepts that were hard to interpret, because it was not easy to draw the line between the general government and the system of state-owned companies. Relative prices were distorted to support heavy industry to the detriment of light industry, services and agriculture, which created new forms of imbalances not detected by traditional statistical measures (like shortages).

However, the socialist governments' priority to continuously increase households' income to avoid social tensions was harder and harder to reconcile with sound macrofinancial balances. This became apparent in the 1970s, due to the increasingly un-

favourable change in the terms of trade (primarily due to sudden oil price increases). Although the oil price shock affected the socialist countries with some delay, as the price of the Soviet oil exports only started to increase from 1976, the socialist economies were unable to adjust. Due to these unfavourable changes in trade prices and to the uncompetitive exports, from 1974 significant deficits emerged in the trade balance and also in the current account (HCSO, 1989). Due to the strong interdependence between the economy and the state, the above was reflected in the increase in government debt as well, which rose from 30 per cent of GDP to 71 per cent during the decade. The debt was almost entirely external, and more than half of it was denominated in US dollars and German marks (in fact, some of it was lent on to other socialist countries). Hungary's accession to the IMF in 1982 was primarily motivated by the interest in remaining able to borrow from Western investors. In the 1980s, the amount of loans outstanding was increased not only by real economic developments, but also by poor financial decisions (the appreciation of the outstanding loans and their high interest rates).

Accumulated macrofinancial imbalances contributed to the collapse of the socialist system substantially. The simultaneous, and permanently high deficit of the current account and the general government budget could not be maintained financially. Furthermore, due to the unsustainably increasing debt the artificially low level of consumer (especially energy and gasoline) prices had to be abandoned as well, which led to increasing inflation. To restore macrofinancial balances a substantial adjustment was needed, but due to its inevitable social consequences it could not be executed politically within the socialist regime (Honvári, 2013).

Steady increase of living standard while avoiding significant inequalities within society was the main promise of the socialist system. However, it became apparent that state control and maintaining excessive equality decreased efficiency in such an extent, that it decreased the standard of living actually. Furthermore, especially at the first half of the soviet era state control extended far beyond economic policy (like the abortion laws of the Ratko era), which decreased the quality of life substantially. The retaliation after the revolution in 1956 led to the emigration of 200 000 people and had many detrimental consequences on living standards in various ways (HCSO, 1996). Putting this aside in some aspects standard of living improved gradually. From the 1960s, households were already able to save an increasing portion of their disposable income, which was initially reflected in savings for housing and later in the rise in financial wealth. Urbanization was also substantial, although government could not address housing problem adequately. In the 1960s and 1970s around 60,000 – 90,000 flats were built annually, but two thirds of these were built privately. The quality of flats remained low, in 1969 nearly two thirds of the population still lived in homes without modern utilities. The rise in life expectancy also stopped at 69 by 1966, and only exceeded that level at the turn of the millennium. Starting from the end of the 1970s, partly due to the surge in oil prices and partly as a result demographic factors, the standard of living stopped rising. Real earnings started to decrease, which could only be offset by increasing the benefits provided by the state. However, the gap between

the living standard of Western Europe and the soviet bloc became increasingly apparent even before the fall of the socialist system.

RETURN TO MARKET ECONOMY

The three decades after the collapse of the socialist bloc can be divided into two sub-periods. The first two decades can be taken as a prolonged transition period, which was made by government policy mistakes even longer. However, despite the failures Hungary reintegrated to the European economy and in 2004 joined the European Union stabilizing its geopolitical position. In the third decade the government and the central bank managed to implement a new successful convergence strategy, and economy started to grow rapidly.

From transition crisis to the Great Recession

After the collapse of the socialist bloc, in 1990, Hungary held free, democratic elections for the first time in its history and Prime Minister József Antall formed a government. The public expectations were high, the trust in democracy and market economy was strong, that they will deliver rapid development and quick convergence to the Western countries. However, the transition proved to be more prolonged than expected. Economic policy applied a rapid transition to a market economy, the so-called shock therapy. Trade was liberalized, tariffs and export subsidies were decreased. The environment of companies changed rapidly, giving too little time for economic agents to adjust. Hungary lost its East European trading partners, while it was not competitive vis-à-vis the Western economies. The transition led to deep economic crisis and 1 million jobs disappeared. The decline of the household income was somewhat mitigated by fiscal transfers to households for a while, but this led to ballooning fiscal deficit. In the mid-1990s the government implemented measures to restore macrofinancial balances, including fiscal tightening, devaluation of the exchange rate, higher import duties. These tightening measures lowered economic growth further.

Fortunately, the efforts to reintroduce the market economy started to bear fruits. As Hungarian labour was skilled and wages were low, foreign direct investment flowed into the economy. Companies became more integrated into the European economy and export started to grow rapidly. By the late 1990s, the share of the European Union became dominant in Hungary's foreign trade. Hungary's geopolitical position was also strengthened by the NATO accession in 1999 and the European Union in 2004, which ensured the stability needed for long term economic progress.

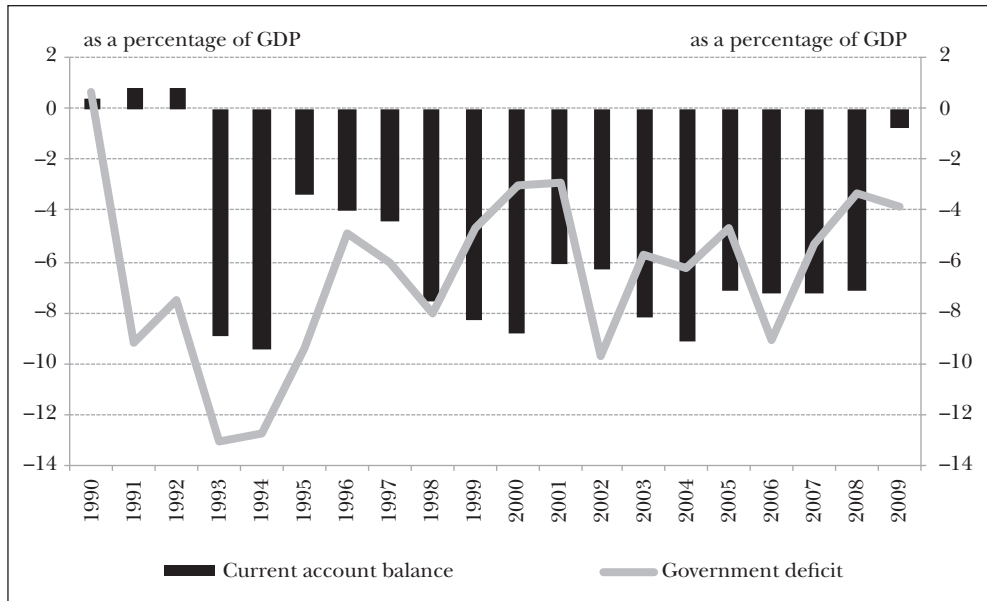
Foreign companies settling in Hungary played an important role in economic growth and modernisation, but at the same time they contributed to the development of a dual economic structure. Foreign-owned large corporations were competitive with access to the whole world's export markets, whereas the productivity and competitiveness of Hungarian-owned small enterprises lagged behind. The huge productivity gap became permanent, which indicated structural weaknesses of the economy.

The first years of the new millennium saw Hungary as the economic front-runner of the CEE region, but by the mid-2000s the state and households could only maintain economic growth from external funds, paying the price in the form of simultaneously high budget and current account deficits and mounting external debt. All of this led to the stoppage of economic growth already after 2006. In addition to low employment and subdued investment activity, also high indebtedness in foreign currency became a serious structural problem. As a result of the policy mistakes of the 2000s, the global financial crisis of 2008–2009 found Hungary in a very vulnerable position. Hungary, which had been a front-runner in the region, became one of the weakest countries of the region.

During the 20 years following the regime change the most important reason for the weak relative regional performance was the inability of economic policy to reach and maintain sound macrofinancial balances. Equilibrium and economic growth could only be achieved to the detriment of one another. During the first years of the transition, the economic recession reduced imports, resulting in a balanced current account, but the budget deficit grew further due to the fall in tax revenues. In the CEE region, Hungary switched to a market economy with the highest level of government debt, and the crisis of economic transition increased the debt ratio from 66 per cent in 1990 to 90 per cent in 1993 (P. Kiss and Szapáry, 2000). Following that, the economy showed signs of recovery as GDP expanded, while the debt ratio declined. At the same time, however, the current account deteriorated. To restore balances the government devaluated the forint and increased administered prices in the mid-1990s (Szapáry and Jakab, 1998). Inflation remained high for years (declining to below 20 per cent only in the late 1990s). Around the millennium, economic policy simultaneously achieved an improvement in financial equilibrium and accelerated economic growth, but this period ended with the drastic increase in the budget deficit from 2002. Serious twin deficit evolved again by the mid-2000s; government debt and the foreign debt of the whole economy grew simultaneously.

Although the first 20 years following 1990 saw an overall improvement in the standard of living, there were strong fluctuations in parallel to economic cycles, and widespread development only evolved in the 2010s (Matolcsy, 2015). The political transformation caused strong social shock instead of the expected freedom and welfare. As a result of rapid market liberalisation, deregulation and privatisation, a large portion of the domestic industry and enterprises disappeared, and around 1 million people lost their jobs, many of them permanently, while real wages declined considerably. Consumption started to increase again in 1993 and real income in 1994, but then government measures to restore balances restrained further improvement (Matolcsy, 1996). Starting from 1995, real wages declined by 16 per cent in two years, and per capita consumption fell by nearly one tenth. Following that, households' income and consumption rose steadily until 2006, but after 2002 this was accompanied by increasing government debt and household loans. The fiscal austerity package in 2006 reduced the standard of living again, even prior to the outbreak of the financial crisis. Following that, due to the financial and its mismanagement the number of un-

*Figure 5: Current account balance and government balance
as a proportion of GDP in Hungary*



Note: Fiscal deficit data show the current methodology. Contemporaneous data indicated smaller deficit for 1990–1999.

Source: 1990–1999: P. Kiss and Szapáry, 2000; 2000–2009: MNB

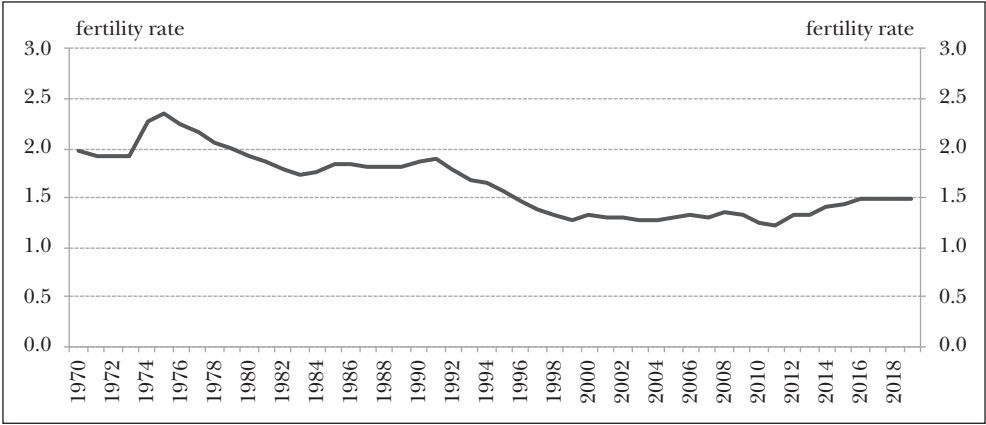
employed grew by around 150,000, while the real earnings of employed declined. The rise in the instalment of households' previously accumulated foreign currency-denominated loans endangered housing of large number of foreign currency debtors.

The swings in economic development and households' income, the loss of job security and the growing unpredictability and uncertainty of everyday life had a detrimental impact on the fertility rate as well. Total fertility rate started to decrease already in 1980s, but its decline accelerated in the prolonged transition period. The fertility rate plunged to 1.3 and remained low creating a new, long-term challenge for Hungary (see Figure 6).

Convergence with sound macrofinancial balances

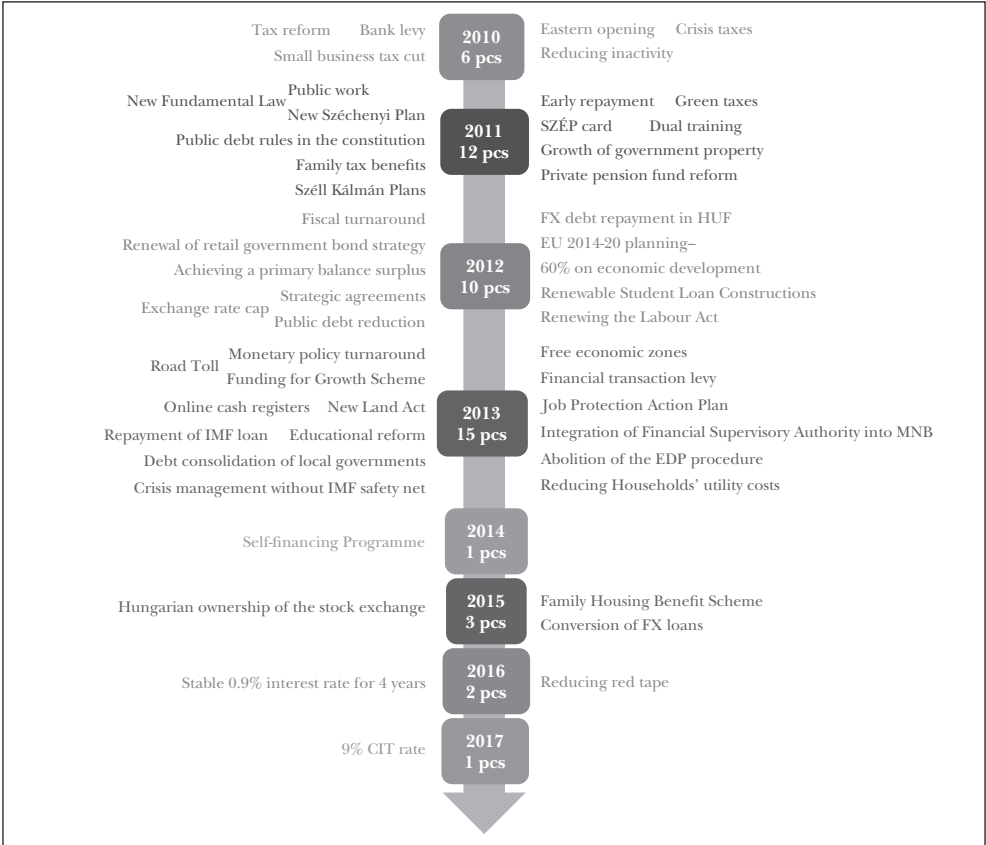
The new economic policy approach started in 2010 aimed at the simultaneous achievement of economic growth and equilibrium and regarded the increase of employment as a crucial factor. As a result of fiscal reforms after 2010 and monetary policy measures from 2013, Hungary embarked on the path of growth and convergence. Next to ensuring macrofinancial balances government took an active role to enhance competitiveness of the economy. Since 2010 many new measures have been launched and implemented, especially in the first half of the decade.

Figure 6: Fertility rate (1970–2019)



Source: HCSO

Figure 7: 50 reform measures since 2010



Source: Baksay et al., 2020

Due to the supportive public policy the average growth rate of the Hungarian economy was 3.8 per cent between 2013 and 2019. This was 2 percentage points higher than the average of the European Union and led to a quick convergence (Matolcsy and Palotai, 2018). By the end of the decade, the investment rate had become one of the highest in the European Union, projecting that the high growth period will continue. By the end of the decade, the level of Hungarian economic development exceeded 74 per cent of the level of the EU average and surpassed the levels of Poland and Slovakia.

The general government deficit and other indicators of macro-financial stability improved significantly after 2010. With the necessary adjustment of the economy, the current account already started to improve during the crisis, followed by rebalancing of the budget from 2012 as a result of new types of fiscal reforms focusing on both economic growth and equilibrium (Matolcsy and Palotai, 2016). Starting from 2013, there was a turnaround in monetary policy. Maintaining the priority of the inflation target the central bank reduced interest rates, encouraged lending in a sound structure, supported the transformation of households' foreign currency loans into forint-denominated loans and contributed to the financing of the economy. During the decade, both government debt and external debt declined steadily, with net external debt falling to around 10 per cent of GDP. The almost completely balanced state of the economy is further reflected by the low inflation, which has been close to the 3-per cent central bank target since 2017 (Hajnal and Várhegyi, 2019).

The government's choice to give absolute priority to raise employment was important for the inclusivity of economic growth and raising standards of living. In 2010, the proportion of working people within the population in Hungary was the lowest in the European Union, but in the next ten years employment expanded by some 800,000 people, and thus Hungary reached the EU average. The increase in employment was followed by the rapid increase of real wages in the second half of the decade, hence more and more people benefited from the economic growth. In the 2010s, Hungary experienced the largest decline in the proportion of social groups that face the risk of poverty and social exclusion. Furthermore, due to high growth and rapidly increasing financial wealth of households, inequality remained moderate in international comparison.

The new housing policy of the government aimed to raise standard of livings through ensuring affordable housing. The problem of housing was dated back to socialism and continued after the political transition. Both lack of housing supply and lack of affordable financing contributed to the insufficient number of new homes. In the 2010s the government introduced new targeted subsidies to support housing, while the central bank strengthened consumer protection and launched new regulations to ensure the fairness and competitiveness of the mortgage lending market.

In the realm of raising living standards the support of families became the focus of public policy. Many new family-friendly programmes were introduced and cash

benefits for families with children are among the highest in Europe. However, the demographic trends proved to be quite challenging to alter. Although fertility rate started to increase, it is still far away from the 2.1 level targeted by the government on the medium term.

SUMMARY

Hungary's attempts to reach the Western European level of economic development failed many times during the last hundred years. In this paper I investigated, why the convergence was hampered. By identifying the mistakes in the past, we may avoid repeating them in the future.

During the last hundred years the lack of convergence had external sources most of the time. The first half of the period, following the trauma of the Trianon treaty, and between the two world wars was used for successful reconstruction, but the outbreak of the Great Depression led to protectionism and the collapse of international finance, which put a stop on the progress of the Hungarian economy. After World War II the great powers agreed on their European sphere of influence and Hungary became member of the soviet bloc. Planned economy was implemented, what ruled out convergence for another four decades.

After the collapse of the soviet bloc market economy was introduced and Hungary reintegrated into the European economy, which provided a historical opportunity to converge. However, the transition period was more prolonged than expected because the adoption of new technologies, the reallocation of resources and implementing new regulations took time and economic agents had to adjust. Government policy mistakes made the situation even worse by letting macrofinancial imbalances to grow for the sake of short-term economic growth. Hungarian governments had to face from time to time that permanent convergence is not feasible without sound macrofinancial balances.

Finally, during the last decade Hungary started to use its historic opportunity well. Government recognized that policies should enhance competitiveness, safeguard macrofinancial stability and ensure the inclusiveness of economic growth simultaneously. To new approach proved to be successful, and after 2013 the economy started to converge rapidly. The Hungarian economy is in better shape than ever and government have enough room for manoeuvre even during global shocks to maintain economic progress.

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Csaba Varga

Civil Society Associations vs. So-called Non-governmental Organisations



Summary

Domestic language use makes a distinction between organisations established on the basis of the internal needs and initiatives of civil society, and non-governmental organisations, the latter understood as formations created and operated as local agents of international networks, from foreigners' intent and funding. Although their presence in the world is nothing new, the current large volume of such organisations is the product of globalism and the pursuit of global control is the cause of their wide spread, extent and network-like set-up and operation. The one-way direction from the starting point of the influence towards the target areas evokes the situations of classical colonisation, although using the soft and hybrid tools adapted to our era. For this reason, as new forms of foreign intrusion and intervention, they should necessarily deserve the national security attention and approach that was once evoked by the former forms, regardless of how this can be achieved in today's legal situation. However, the lack of distinction and the inherent conceptual ambiguity already *a priori* show the intention to hide the genuine features of the latter.

Keywords: civil association, NGO, network, global control, undermining governments, destabilisation

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In a state, the population – population, people, nation, civil society, including minorities as part of them – is always given. By comparison, political party representation is always random – even if it feeds on nothing but its population's present, past and future aspirations, while its composition and diversity are given by its structure, formed from many strands in the field of daily events, tensions and solutions.

After the fall of the dictatorship that settled on the country after a nearly half-century-long military occupation, the dominant political directions in our region added up, so to speak, in a logical order. According to its main features, this is how the intention of a *radical break*, on the one hand, and possible preservation, on the other, developed. With the end of the role of the former superpower, the direction of the radical break with the previous regime was further divided according to what would serve as a focus or compass in rebuilding Hungary: the country's more or less taunted and interrupted internal own tradition and national interest, which wanted to survive and we wished to vitalise, or the unconditional connection to the external foreign force and world of values, and alleged community of interests (in which we absolutely believed at that time), embodied in the former official enemy of our former occupier. Obviously, these possibilities did not manifest clearly at that time, and has not ever since. They in themselves do not constitute more than a mere logical potential, and moreover, the fact of our belonging to the West and its awareness, often questioned by our enemies, has been the minimum of domestic aspirations for centuries. After all, politics is not only the art of the possible, but also the need for the wisest compromises possible. This means that any direction rarely appears in a pure or exclusive form, and most often these directions overlap to a greater or lesser extent and in one way or another.

CIVIL SOCIETY AND ITS ORGANISATIONS

Well, in the case of normal development, a *civil society* functions uninterrupted, gradually giving way (stimulating momentums, and at the same time setting directions and giving impulses, depending on social desirability and support) to party political formations that attempt to implement civil society *desiderata* as a state action, parliamentary or governmental, majority or minority forums, according to the outcomes of elections, and then are further shaped at the discretion of the latter.

The essential relationship, however, is throughout the message that unfolds from the depths of the ancient empirical wisdom of *ubi societas, ibi ius*: the first and final reality, and the medium to be served, is society itself, including the human being, endowed with the dignity of *imago Dei*; while compared to this, the state is nothing more than a historically developed – and, in our experience, increasingly formalised and institutionalised – tool.

However, the collapse of the dictatorship forced on Hungary by foreign powers, which was a collapse triggered by the exhaustion of freely available resources rather than a fall due to conscious overthrowing factors, i.e. certain people's merits, inevitably dictated a path different from the above pattern. Because the activities of the *already* emerging party-like formations hastened and steered it, and in its current stage and condition, it expressed the collapse of the dictatorship, much before civil society

itself could be revived in its visible size, extent and in possession of reserves, and could be organised into its own forms.

The consequences – which were, of course, met by the intelligentsia's betrayal (Benda, 1927), practically inevitably repeated at every historical turning point, which rightly earned the distrust of the rest of society – have so far been given: *civil society* actually has not come into existence.¹ And what was created in its place is – *nolens, volens* – was a Hungary, which seemed to be covered by already established political parties, or in other words, this civility was created as a background, a society divided by party politics, or rather more, activated by these established parties. After all, both the possible directions and the directions to be followed have already been determined by these political parties and behind them by the *press*, acting in their service and by background comprising academic and university *intellectuals*, who mostly also play a servile role. In this way, non-governmental organisations were compelled to adopt some kind of *correlation* (or sometimes outright *alignment*) in their commitment to values as well as in the aftermath of daily political scores (not accidentally seen as apocalyptic with regard to the nation's fate).

Given the dangers threatening the future, naturally, and this must be emphasised, whatever has been achieved on a national level should not be underestimated. Yet, it is not yet a civil society in the classical sense of the word. Rather, it is a necessary product of the given antecedents, which, however, were – or perhaps have been – far from the optimum.

For this reason, it is a self-evident consequence that even our most widely perceived *national affairs* (from the chances of our survival as Hungarians to our educational priorities, to our healthcare system, to the international recognition of our scientific and artistic achievements or to our tourism organisation, in other words, in any specialised matter) could only be perpended and formulated in such a polarised fission. A claim made by one of us may immediately be accompanied by denial from another. Moreover, in many areas, not even the germ of often the slightest consensus can unfold, because it is no longer the logic of co-operation in a civil society that prevails here, but competition between the parties. However, we do have fundamental national interests, national issues, and among them matters to be discussed on a professional basis and yet are social issues, which our entire society is directly interested in discussing and resolving as far as possible. And, of course, there is a long line of actually partial and professional matters anyone can naturally make a contribution to when they are conceptualised and considered, but as these provide the civil society foundations of government policies, they can best be articulated with direct professionalism by the professions concerned. After all, one of the key national issues is that we should consider as such is that even if they are competing alternatives, the individual occupations and professions should at last formulate the optimum future visions of their own field.

I believe that the most influential step in the realisation and in the creation of a civil society was taken not so long ago by the movement of so-called civil circles.² I hope that it will sufficiently develop, in which case it would have a good chance to play not only a socially integrating but also a socially fulfilling and maturing role in local and

professional implementations, genuinely based on civil society. It can be part of any kind of self-organisation, as anyone can participate in it, enhancing and broadening its impact. On the other hand, of course, the party-politicum, and thus governmental action, can also promote the flourishing of a genuine civil society in Hungary in full. In our attunement to resistance to the state – which has so far been recognised as mainstream, and which was generated most markedly by the *Constitutional Court* of the first decade, treated as the *a priori* privileged and pampered child of our re-fashioned state just to grow from a servant to an insolent despot, when it absolutised the individual's rights and protection against the state, as (being one-time dry-as-dust geeks with a mostly professorial background) they thought that the opportunities of the state should be intractably restricted and controlled with suspicion (i.e. it should be treated almost as an adversary, Varga, 1995; 2008; 2013, pp. 73–215) – we usually belittle the expertise of the incumbent governments, despite the fact that they are the most generous buyers of knowledge and simultaneously, they are in possession of the most substantial knowledge through their specialisations.

Well, it is where civil society self-organisation is most encouraged, where this is made available to the public throughout the national knowledge base. In other words, where materials ordered or produced for any national (political or professional) cause are made available with a dedicated library/publisher background.³ Because although the basic units of social self-organisation and the institutional system of the state Moloch are separated from each other in responsibility, competence and procedure, they are united into a unified, ultimate functional community to exchange information and impulses with each other, encouraging or weakening a possible suggestion. Of course, part of this is that the state, with its own means, supports multifaceted and multidirectional social self-development, and thus especially, civil society self-organisation.

THE SO-CALLED NON-GOVERNMENT ORGANISATIONS

In my understanding, the so-called NGOs [non-governmental organisations], encouraged from abroad and financed in part or in full from abroad, completely differ from the above image of civil society (see, for example, Hann and Dunn, 1996). If their legal regulation happens to be the same as the previous ones, it can hardly be anything else than a case of either a conceptual generalisation that turns out to be erroneous, or a case of conceptual indistinguishability according to a legal criterion.⁴ However, the former is not necessarily the case, but, as described below, the resulting situation is nevertheless down right purposeful, while the latter simply does not exist. For example, Hungarian language also sharply distinguishes civil society organisation from the so-called NGO. Moreover, as a term, the latter did not emerge in England, Western Europe or the United States, which are rich in civil society organisations and historical roles, but only as a technical concept, actually as a classification category in the United Nations Charter (1945), and as an umbrella term for the external institutions which may be contacted by the Economic and Social Council of the United Nations under the authority of the latter document.⁵

The most certain common point in the literature and scientific and theoretical processing of this mass of institutions, now officially called NGOs, which are mostly gigantic organisations, is that they consider the name for their subject-matters uncertain and ambiguous, and even the actual subject itself non-defined and downright impossible to define. The outburst claiming that “non-governmental organisations” is, as a term, actually misleading is not ungrounded.⁶ However, it immediately turns out that this does not come by mere coincidence, some stupid misunderstanding or an erroneous procedure, as “The term NGO is used deliberately to create an illusion of innocent philanthropic activity” (O’Connor, 2012). In the games played by the great powers, when it comes to a sufficiently overwhelming interest – because of a serious territory occupation and/or profit-making opportunity – it is not uncommon for politics, finance and business, and the so-called science and press, in other words, the genuine forces that ultimately dominate society, to take completely co-ordinated action, and, moreover, with intelligence support, with the naturalness as if a combination of coincidences precluded any other alternative. And its predator nature – the literature calls it *neocomprador imperialism*, if it is mentioned at all (e.g. Petras and Veltmeyer, 2001; Hours, 2002)⁷ – is striking exactly in the alleged model democracies of the Western European and Atlantic world.⁸ For in the present case, too, the name is not simply a matter of consciousness, but of the hiding of the real nature of something in the different nature of something else, and with this, the deliberate and purposeful falsification of both. “Actually, NGOs do not represent civil society; they represent interest groups of varying size and often with quite specific agendas. Nevertheless, donors, scholars and international institutions have developed a habit of treating NGOs as if they were civil society” (Holmén and Jirström, 2009, p. 441).

And indeed, this mass of phenomena, as the so-called “third sector” between the state and the market, has now generated a huge body of literature, which itself is almost embarrassed by the mass and diversity of formations and the actions arising from them, and still manoeuvres in its material (definition, the separation of activities, the characterisation of social weight, etc.) so that the reader does not encounter any single adjective or statement that would be relevant to the subject of this study (typically such as e.g. Salamon et al., 2003).

After all, the phenomenon is not new; what may be new is at most its legal representation or, more precisely, the concealment of its essence in a consciously used form. Its driving force was the same as that of *colonisation* once, and of any extension of power and *conquest* since the beginning of the world. It is no coincidence that a leading politician directly affected by its influence exemplified, “If we replace the term ‘civilising role’ with ‘democratisation’, then we can transpose practically word for word what the newspapers were writing 100 years ago to today’s world” (Putin, 2006). Because already at that time this was process was, and has been ever since then, so to speak, one-way, calibrated from the centre of great powers to the peripheries, as “systematic asymmetry” has existed and remains unchanged between the pathways (Steinberg and Wertman, 2018, p. 3): from Western Europe and North America, the ever-expanding and radiating impact to all parts of the world has since intensified,

while the vector sum, at most, in reverse order within itself, has changed to North America and Western Europe.⁹ The impression of being an outsider, and thus the feeling of having non-native interest, is therefore not accidental: “The question is would you rather live in a world controlled by outside interests and forces over which you have little if any input or control, or in a world controlled, at least to some extent, by local considerations” (Sam [VA] commented (July 18) on Steinberger, 2018)

Civil society organisations pop up in masses, because the conditions of our time are favourable for their establishment. But NGOs are also created in characteristically excessively high numbers as seemingly mixed phalansteries mingling in the masses of the former, because their loose, sporadic, yet complementary and reinforcing set-like nature and their organisation into real, although not directly perceptible networks best serve the background purpose. It is no coincidence, then, that today’s NGOs, as “heirs of the missionaries”, have expanded indefinitely, and are capable of penetrating anywhere with ulterior motives. By a less literary, but more faithful mirror translation, we right away come to a much tougher characterisation, because, according to the same author, by “missionary penetration [...] [t]oday's NGOs are elephantine, serpentine, and Byzantine” (Roelofs, 2006).¹⁰ In short: well-organised networks covering all the targeted parts of the world (for the concept, see e.g. Ward et al., 2011; Lazer, 2011), which work exactly like covert agencies. As at first glance they are both organisationally uniform and yet not; but their co-ordination can be accurately read from their functioning, their funding reveals their being foreign agents, and both of the previous suggest their hierarchy, which breaks down its intended globalisation into destinations; in summary, therefore, their substantial grounding by the foreign funding centres according to their targeting, and the extent of their local deployment mainly dependent on this funding – and their comparatively surprisingly low, so to speak, sporadic and marginal local support. Therefore, ultimately, their own identity is nothing more than “foreign agents threatening sovereignty and national identity” (Steinberg and Wertman, 2018, p. 8). at least as far as their fear of this very accusation and their rhetoric, which promises transparency against this accusation, and as a possible antidote.

This explains why the other, inherently harmless, and even downright positive-sounding features of NGOs are, upon rethinking their own purposes, significant, as no matter how “coherent, targeted and co-ordinated activity” (Századvég, 2020) characterises them, they serve, for the most part, as local agents of mostly internationalised networks, and the essential precondition for the latter, i.e. embedding in a given place, is the exploitation of the opportunities arising locally,¹¹ in other words, the creation of local variants with the involvement of those in possession of local knowledge.

Because – in today’s typical occurrences – these are primarily initiatives aimed at mobilising some kind of dormant civil engagement not from within, but merely the means of intrusion from abroad and the influence of foreign interests. An analysis, not born of Hungarian antagonism, but made of the phenomenon of this worldwide organisation capitalising on today’s globality, establishes that these are, in fact “Trojan horses: designed to appear as gifts, but containing secret trap doors through which hidden forces can enter the country and covertly undermine the governments” (Cor-

bett, 2015). And if they are intended for an underlying purpose, they are already operated by the professionalism of the initiates as a specific closed society – despite the fact that the banners of this closed society (as we have experienced in the Bolshevik practice of propaganda terminology),¹² as well as the university sciences taught by them in Hungary, carry the manifesto of the *open society*. All of this in itself explains why it is lawful for them that “NGOs often have weak grassroots contacts and [...] they are neither democratic nor as transparent as one would like them to be” (Holmén and Jirström, 2009, p. 443). Their approach is that they are “buying up and thus transforming public debate and global politics outside the normal democratic process” (Phillips, 2020). Accordingly, their most common goal is to artificially rearrange these social forces by loosening and disintegrating the forces arising from within, and thus to introduce an artificially produced mechanism of influence into social and political processes.¹³ The end result is what the dictionaries of American interventionism describe as “destabilisation” (e.g. Korybko, 2015). Thus, they require national security attention even in their infancy, and, if necessary, such treatment, possibly a response that reaches the boundaries of administrative intervention or criminal justice tools.¹⁴ After all, again referring only (albeit more and more exclusively today) to typical occurrences, there is always an undoubtedly pleasing *agenda*, which is the coat of arms or the banner of a specific initiative or institution-building on the part of these so-called NGOs; however, behind the free versions of these (or even more so, the rearrangement efforts of the slogans selected because they are likeable by the recipient group¹⁵), the logical sequence comprises the following steps, which, depending on the status achieved, reveal the underlying goal immediately after the required heavy scripting and practice: first the attempt to exert influence, then the intoxication of its successful testing, and finally the implementation of the underlying interest¹⁶ – which, in these cases, is hardly anything other than an intrusion of power from this external force.¹⁷

And even if this is the case, despite the apparent benevolent neutrality of our government, we cannot be proud to have it written down somewhere that in our region – and thus also in our country – “the history of post-communist transformation is therefore, to a great extent, the history of the Soros foundations” (Åslung in Dahrendorf 2000, p. 233; Åslung, 2002, p. 438).

This story, in addition to its direct message about the current government’s role as a sovereign custodian in state affairs and, in our case, its failure to fulfil this role, is clear in itself by exploring the nature of the NGO’s world, as it exemplifies that according to the rules of the global game achieved by the globalist forces, even a single person can keep the world at bay, and by designing the right trajectory and making the right shift adjustments in stages, he can set a fate for the latter that will prove virtually irreversible after reaching a certain level.¹⁸ Speaking of intervention and/or its standards, the term *soft*, and when it comes to the battle tactics applied to achieve this end, the term *hybrid*, refers exactly to the possibility of intervention and to artificially making the state or national community vulnerable, defenceless and alterable at will.¹⁹ Law expresses itself in freedoms; liberal pressure widens them unfettered; and in this respect, community self-defence is hit hardest of all. After all, in a game like this, everything is a matter of

even personal ability; social feedback and receptivity are no longer relevant criteria in this respect; and here is the realised end result: a world dominated by arbitrary NGO activities can be the result and product of the ambition of a single person.

Our brave new world has crystallised the power of money and those who possess money, with their experience advocated in this circle that “what in most cases would take the social movement to achieve, they can achieve single-handedly [...]. Indeed, a single billionaire philanthropist can leverage social investment to change international norms”.²⁰ This corresponds not only to the terminology that widely refers to one side of the phenomenon as an enabler in the literature, but also to the popular response – “George Soros is the epitome of corruption: penetration and distortion of the political process by obscene wealth” (David [Brisbane] commented (July 18) on Steinberger, 2018) –, which defines its subject matter precisely by personal ability to buy and buy out, viz. by acknowledging that “money is a big part of our ability to exercise influence”.²¹

Thus, if the previously described civil society organisation and the type of NGO just described here – and not only despite their fundamentally different qualities not only from the current governments, but also from the general public – fall into the same legal category, it may be very different from, or the result of, the fact that at the time of drafting the law the latter did not yet exist, or at least did not appear in a mass of systematic organisation from foreign agencies, or simply a product of political blackmail – referring to a structural feature in their current function also denotes the Anglo-American naming practice with the most primitive classification from ancient times, i.e. that they are not part of the officiality of a government. Structurally, from the point of view of legal discrimination and categorisation, this hardly differs from the fact that, in a consciously extreme example, the legislator, for fear of an ever-roaring chorus, could only speak of man alone, without distinctions in terms of age, gender and capacity for action. (Of course, I might add, who knows what else the majestic rule of Western globalism, which has now become a fundamental criterion, may still bring train? The ambivalence, the legal ambiguity, and the indefiniteness are well illustrated by a recent article that concludes the depressing situation in South America with a classic German idea from Goethe: “the best slave is the one who thinks he is free”.²²)

Nevertheless, the proliferation of single-stemmed and single-purpose NGOs in our country does not correspond to the truly humanitarian, and therefore people-centred NGO variants of the United States and Europe, which only make pressure within their own framework, and have spread widely indeed, in large numbers in the past 50 years especially in the third world, i.e. in Africa, East Asia and South-America. After all, the literature based on their generalisation reports exactly the kind of features that, given the above, can make us wonder because in our country they do not exist. An example is that “a non-governmental organisation (NGO) is also a non-for-profit, voluntary citizens’ group” (Kantrowitz).²³ The additional features include that “They only have to be independent from government control, not seeking to challenge governments either as a political party or by a narrow focus on human rights, non-profit-making and non-criminal” (Willetts, 2002, p. 1).

Nevertheless, such and similar substantive ambiguities, however, have not yet provoked either politics, science, or the press leading the way in exploration and investigation in certain directions and case types to put their resolution on the agenda – perhaps precisely because it is not in the interest of any of the actors. Moreover, as a decision-making body of the Council of Europe in our narrower landscape, the Committee of Ministers declared almost a decade and a half ago that “NGOs should be free to undertake research, education and advocacy on issues of public debate, regardless of whether the position is taken in accord with government policy or requires a change in the law”.²⁴ As a result, in principle, the so-called *boomerang effect* (e.g. Keck and Sikkink, 1998) prevails without constraints: in other words, created or genuine domestic internal problems are brought to the international arena through appropriate NGO mediation, in the framework of the “naming and shaming” procedure (Keck and Sikkink, 1998), more precisely through the “mobilisation of shame” (Keck and Sikkink, 1999), in order to force a change that is in line with the current international mainstream.²⁵ It is no coincidence then that it is worded at the most casual, pious allusions, for example, that the wide range of activities also gives rise to a wide range of borderline situations, “However, by today’s standards as embodied in the UN Charter, subverting with the intention of overthrowing foreign governments law is a grave violation of international law” (Roelofs, 2006). And the occasional news claiming that their own experts – through regulation by lobbies – demand so-called stricter regulations in the field of the registration of foreign agents is also sporadic, weak, and certainly unsuccessful (Századvég, 2017, p. 9; Atieh, 2010; Smith and Kelner, 2014) because “even democratic states in an era of universalisation set limits on activists’ external ties” (Jalali, 2008, p. 164).

CONCLUSIONS

My conclusion here and now can only be one: as it follows from the lessons of history, ultimately every nation is as happy as it can be in its values and interests with the aspirations of its state. More precisely, as much as its own spontaneity, self-organisation, and ever-immeasurable and depressing mass of leisure time (since, just remember: the so-called third sector serving it is an increasing branch in employment and in using public funds, and an increasingly influential factor in disintegration, deviance, and moreover, criminality) can be used for joyful actions and deeds that harmonise with the above, in the unceasing zeal of encouragement for good. In my own understanding, there was such an age in Hungary, during the last – interwar – period of peace.

But I hope that we will experience a new age of peace among our people, among all of us, as a result of our further efforts, and on one of its poles, on our side, with our civil society, we will be able to leave a lasting mark on our descendants.²⁶

NOTES

¹ It is no coincidence that the Hungarian political analyst of the 1956 Hungarian revolution, who evaluated the civil society self-organisation as the most important moment in it (Lomax, 1976; Lomax and Kemény, 1986) in his late, already bitter, study (Lomax, 1997), described the death of civil society, or more precisely the fact that, so to speak, it had never actually been born.

² In previews, I remember the thrill when, during my government service – as a member of the Prime Minister's Advisory Board in the government of József Antall – when during a visit to Hódmezővásárhely, I realised in the course of conversations that instead of affiliations to the various parties involved in the skirmishes of the capital city or of the government, those people defined themselves as an affluent local community, and as an integral part and one of the creators of a European community that has opened up to them and was also accessible for them.

³ Just to give a single example, in Hungary, the communist regime in the state intended to save costs, provide control and ensure public use at the same time, and consequently, all state-funded translations, i.e. practically all translations, as everything was state-owned and nationalised, were ordered from a single agency, and tear-sheets were provided in designated specialised libraries, in the case of law and political sciences, for example, at the Institute of Political Sciences and Law of the Hungarian Academy of Sciences, where – until the recent irresponsible liquidation of this huge body of translations – the translations of soviet studies written with the aim to set up a council system were stored together with papers describing the various methods of coercive interrogation by the dreaded ÁVH (cf. https://en.wikipedia.org/wiki/State_Protection_Authority), and French studies summarising the experience gained in their terror in Algeria.

In Washington, for about a century the Library of Congress Congressional Research Service has been responsible for providing a complete history and documentation of legislative matters. In France, a publishing company under the Prime Minister's direct supervision, *La documentation française*, is responsible for publishing summaries and analyses in all areas of government and public administration that is of public interest, represented by 13,000 books in their national library. Currently, this state institution has 21,000 publications (including reports, books, maps, statistics and more, and in addition, 18 journals covering each topic), and any of them is freely available for purchase and study.

Essentially another aspect of the same issue is the recommendation I first made to our then Prime Minister at around 1992 (and then again to the same – current – Prime Minister), namely that the records of our successive governments and of the parties within the orbit should be stored in collections that simultaneously operate as research centres in Hungary. The exemplary German foundation solution was already known to us from the co-operation with their Hungarian branches (https://de.wikipedia.org/wiki/Parteinahe_Stiftung). This is also a party archive (“Jede politische Stiftung unterhält das Archiv der ihr nahestehenden Partei”). I have also drawn the attention of our government to the American institutions called presidential libraries (see https://en.wikipedia.org/wiki/Presidential_library), which has about 400 million pages of text, 10 million photos and 100,000 hours of audio-video recordings in its 13 collections so far, when I brought back a huge body of documentation back in 1993 about their organisation from the head of their central headquarters in Washington. However, in Hungary, unfortunately, no progress has been made in this; and so I subsequently handed over the bulky file compiled of all this to the Library of Parliament. I ironically note that, in principle, the question of the fate of political background papers was raised most sharply at the time of the scandal when Prime Minister Winston Churchill's grandson offered for sale the entire legacy of documents considered as a personal asset; cf. Brazier, 1996.

⁴ It is fundamental knowledge for a lawyer that things can be regulated and factualised if they can be described with sufficient distinction, and, moreover, the factuality in question can be proved with sufficient clarity by a relatively simple and quick procedure. With regard to immigrants from the various territories of the former Commonwealth, a whole series of initiatives for the regulation of the so-called race relations and tensions, which had been forced exactly by left-wing circles, failed or became unenforceable in England for this very reason, to the point that after so many failures this otherwise tenable case became temporarily uncomfortable (see Allott, 1980; Varga, 1992).

⁵ “The Economic and Social Council may make suitable arrangements for consultation with non-governmental organisations which are concerned with matters within its competence” (<https://treaties.un.org/doc/publication/ctc/uncharter.pdf>, ch. X, par. 71).

⁶ Because “The term »Non-Governmental Organisations« is actually a misnomer. The NGOs are financed and directed by the various imperialist agencies, the imperialist governments and the comprador regimes”, writes Mudingu, 2006 as a quasi-communist criticism.

- ⁷ It should be noted that the originally Portuguese “compradore” once meant the indigenous service to colonial enterprises in East Asia while in today’s quasi-Marxist use of the term it is usually the service of alien imperialist powers. For such and similar approaches, see e.g. Petras, 1997; Iadicola, 2011; Douglas-Bowers, 2012 (which outlines the institutionalisation of the National Endowment for Democracy, the Freedom House, and the Amnesty International as the underlying institution for the U.S.); Kofas, 2016 (which discusses the adverse experiences of Russia, Ukraine, India, and China); and cf. even Sternberg, 2010.
- ⁸ Cohen, 2000 and Varga, 2007 discuss a case precisely from the practice of the United States, which emerged a few decades ago and fortunately failed.
- ⁹ Cf. e.g. www.encyclopedia.com/social-sciences/dictionaries-thesauruses-pictures-and-press-releases/centre-periphery-model and https://en.wikipedia.org/wiki/Core-periphery_structure.
- ¹⁰ It should be noted that the author’s tough critical distance is a result of a few years development, as previously, e.g. Roelofs, 2003, he had assessed this subject more positively.
- ¹¹ In other words, the unspecified, worldwide generality of routine, or “business-as-usual,” would be the end itself, since the existence of such NGOs rests on the exploitation of the conditions and opportunities always given then and there; cf. Mendelson and Glenn, 2002, p. 245.
- ¹² During my stay at Lund as visiting professor I realised with dismay from the 1973 liquidation stories of Medvedev, which I obtained in 1977, that the accusations made by the Bolsheviks were, for the most part, projections of their own repressive practice.
- ¹³ What Greenhill calls outright provocative behaviour (Greenhill, 2008).
- ¹⁴ However, in contrast to the intelligence literature, which, together with espionage, discusses not only sabotage, but also the activity discussed here, this topic is no longer in the columns of the Hungarian journals of either the national security division (see e.g. <https://folyoirat.ludovika.hu/>) or of the military national security division (see e.g. www.knbsz.gov.hu/hu/publikaciok.html), or, unlike its predecessor, today’s *Belügyi Szemle* (Home Affairs Review) (<https://belugyiszemle.hu/hu/belugyi-szemle-foldal>).
- ¹⁵ American analysts reports on Potemkin NGOs (Hemment, 2012) and the “neocolonial hegemony” of the National Endowment for Democracy (Sussman, 2006), which was founded for actions in foreign countries as a US Congress funded *soft power organization* in 1983, at a time when the disintegration of the soviet world power became visible. Its president, Allen Weinstein admitted openly that “A lot of what we do today was done *covertly* 25 years ago by the CIA.” Moreover, the overt interventionism practiced today as soft imperialism has more successes on easier ways, due to its benevolent image (Ignatius, 1991; Blum, 2000, p. 180). Corbett, 2015 opines in similar terms on the US Agency of International Development as well.
- ¹⁶ According to Yilmaz, 2012, “democracy promotion” projects are never self-contained: they are merely complements to the so-called “development” and “dialogue” projects, which are also predominantly American, and their designers often support them for the most part by a strong intelligence/military background.
- ¹⁷ “Appropriation” is therefore accompanied by “resistance”; see Petric, 2012. Carothers, 2006, p. 64 himself, although his writing seeks to rebuild the self-evident American position that has exposed itself and has thus become disliked by the world as a suspicion of interference, admits that in his practice so far, “democracy promotion” has always entailed the provocation of “regime change” under the threat of “US military intervention”.
- ¹⁸ As a reformist alternative to the radical (“revolutionary”) change of law, which was given a special extra hue and topicality in the early 1980’s by the tension between the socialist political regime, already made sclerotic by its own conditions, on the one hand, and the relatively wider elbowroom that might have been opened by the so-called New Economic Mechanism, on the other, cf. Varga, 1986.
- ¹⁹ While a multifaceted overview is given of NGOs, including criticism and doubts about legitimacy, the description given at https://en.wikipedia.org/wiki/Non-governmental_organisation defines the basic term as intervention-like concept from the outset: it seeks to have an effect on “the lives of other people [...] through activism and services”.
- ²⁰ DeMars, 2005, p. 169, and the quote is from sociologist Paul Schervish, in Kampeas, 2011.
- ²¹ The first president of the Open Society Foundation (1993–2012), Aryeh Neier, was the one who recently (in Stahl, 2015) made clear what was otherwise naturally known to everyone.

- ²² Goethe, 1809, Book II Chapter 5: “Niemand ist mehr Sklave, als der sich für frei hält, ohne es zu sein”, quoted by Pastor, 2019.
- ²³ www.apa.org/international/united-nations/acronyms.pdf.
- ²⁴ Recommendation CM/Rec(2007)14 of the Council of Europe Committee of Ministers to member states on the legal status of non-governmental organisations in Europe (Adopted by the Committee of Ministers on 10 October 2007 at the 1006th meeting of the Ministers’ Deputies) (www.osce.org/files/f/documents/7/0/33742.pdf, par. 12).
- ²⁵ In any case, blackmail by shame has become a new and common element in the exercise of international official relations, more precisely, its distortion. As, among others, Badie, 2017 sums it up, “In international relations some states often deny the legal status of others, stigmatising their practices or even their culture. Such acts of deliberate humiliation at the diplomatic level are common occurrences in modern diplomacy. In the period following the breakup of the famous ‘Concert of Europe’, many kinds of club-based diplomacy have been tried, all falling short of anything like inclusive multilateralism. Examples of this effort include the G7, G8, G20 and even the P5. Such ‘contact groups’ are put forward as if they were actual ruling institutions, endowed with the power to exclude and marginalise. Today, the effect of such acts of humiliation is to reveal the international system’s limits and its lack of diplomatic effectiveness. The use of humiliation as a regular diplomatic action steadily erodes the power of the international system. These actions appear to be the result of a botched mixture of a colonial past, a failed decolonisation, a mistaken vision of globalisation and a very dangerous post-bipolar reconstruction.”
- ²⁶ The first version of this extended and completely reworked article was given a lecture on October 13, 2017 in Kecskemét (Varga, 2017), and with additional literature it was published as Varga, 2018.

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Vince Szalay-Bobrovniczky, Péter Kecskés

The CSO Sector in Hungary and Certain European Particularities



Summary

Civil life works well and is highly active in Hungary, as presented by the authors supported by statistical data. In terms of their activities, organisational sizes and locations, associations and foundations in today's Hungary give an extremely diverse picture. Year by year, the financial opportunities available for the civil sector increase and resources are provided for the proactive performance of their tasks. Overall, state aid, which has increased to more than 2.5 times of its original amount since 2010, has been able to effectively support the favourable developments that have taken place in this sector, and this helps the lives of many of us, making them more useful and productive, precisely because of the diversity of civil activities. Compared to other countries in the region, we can see that the legal and organisational framework of civil autonomy is ensured at a high level in Hungary, and in terms of content, community building is of paramount importance in everyday life.

Journal of Economic Literature (JEL) codes: D71, L3, L31

Keywords: CSO sector, civil autonomy, community building, foundations, associations

VINCE SZALAY-BOBROVNICZKY, Deputy Secretary of State responsible for Civic and Social Affairs at the Prime Minister's Office, PÉTER KECSKÉS, Head of the Department responsible for the area of civil society within the same organisational unit of the Prime Minister's Office.

One of the key characteristics of civil society organisations is that they do not exist for themselves, but that in essence, they have been brought into being by needs outweighing the individual possibilities of the persons and organisations that established them and there is always some kind of intent behind their establishment to serve the community. Such intent may be to serve one or more communities, or just to express their will and sense of cohesion.

The associations and foundations serving truly meaningful purposes that actively take part in building communities and achieving community goals with societal value and which thus create significant value are especially important to the Hungarian Government. In many cases such organisations have a considerable number of members who are embedded in the local community and who are known by the people locally and perhaps even nationally, and are often helped by them in the CSOs' work as volunteers. (Presently some 400,000 volunteers are working in CSOs across Hungary.) The civil society organisations and communities in question are thus organisations and communities that it is good and worth belonging to. Such civil society organisations often take a load off the shoulders of the State or local governments and are able to provide considerable assistance locally with their activities and work.

Whether an activity concerns families, social affairs, healthcare, leisure, youth, sport or any other useful and valuable activity, CSOs in effect help participating members and their smaller or larger circles of acquaintances, as well as make their lives more comfortable and liveable. Their added value and their usefulness to society are thus indisputable.

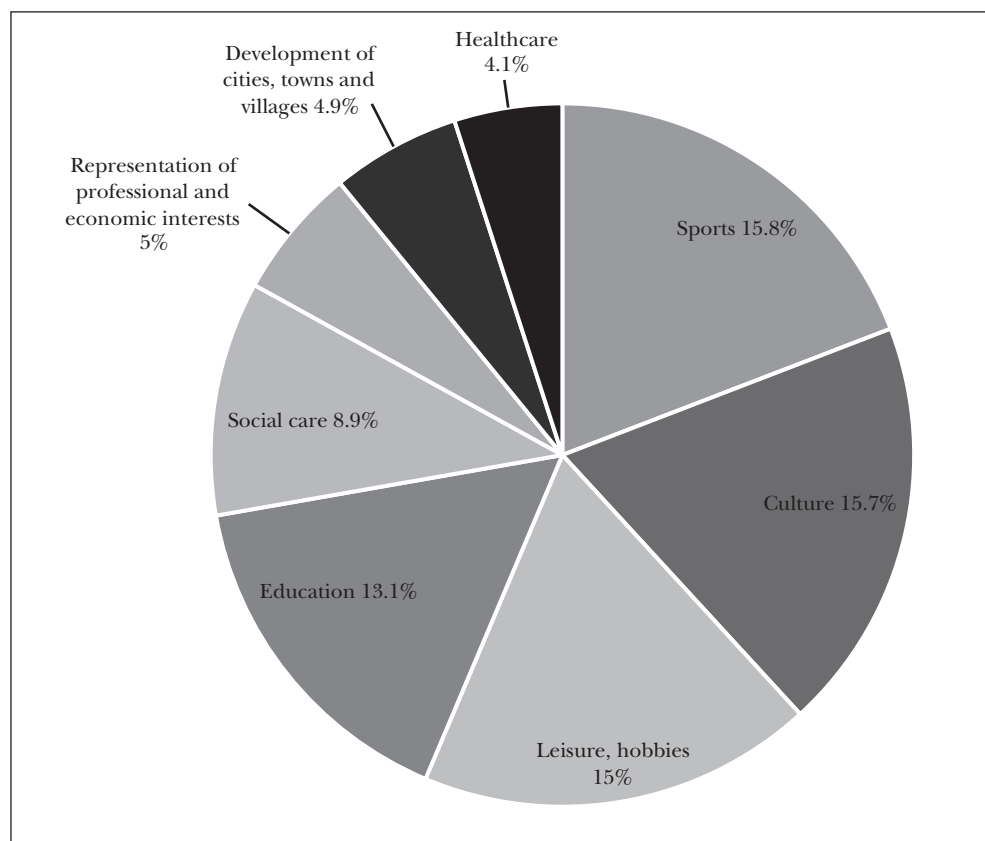
According to the Hungarian Central Statistical Office's (KSH) most recent data (from 2018) the number of civil society and other non-profit organisations in Hungary is 61,491, where the number of classic civil society organisations (foundations, associations) is 53,758. The ratio of civil society organisations in Hungary with their registered offices in Budapest is 21.7%, those with registered offices in county seats and towns is 51.7%, while those with registered offices in villages is 26.6%. The number of civil society organisations operating in villages has been steadily rising since 2016.

Civil society organisations are involved in a variety activities with the following areas covering close to 86% of their activities: sports (15.8%), culture (15.7%), leisure, hobbies (15%), education (13.1%), social care (8.9%), development of cities, towns and villages and representation of professional and economic interests (4.9-5%), healthcare (4.1%) and environmental protection (3.4%).

By now, only 0.3% of the organisations are active within the area of politics (the figure for 2017 was 0.5%), while the ratio of organisations involved in legal protection has remained 0.9%. Other activities of CSOs cover the areas of environmental protection, public safety and civil protection, economic development, religion and research.

The annual revenues of the classic CSO sector have been on the rise since 2010. Based on data from 2018, State aid has shown an increase of 30.3% compared to resources in 2017 and at the same time private support has also risen by 21.2%. The extent of State aid flowing into the classic CSO sector increased from HUF 144 billion per year to HUF 370 billion per year, that is, over two-and-a-half fold between 2010

Figure 1: *The activities of CSOs in 2018 (%)*



Source: *By the author*

and 2018. Revenues from abroad have shown an increase of 42% compared to figures from 2017, where revenues from EU programmes and aid increased over two fold and revenues from non-profit organisations, churches and parties have shown an increase of 9.7%.

Table 1: *The annual revenues of CSO sector (Data in HUF billion)*

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenues from core activities and management	156	167	168	167	176	185	178	179	181	213	235	250
State aid	131	143	145	144	138	151	160	175	202	240	284	370
Private support	97	97	101	109	128	147	182	196	187	166	165	200
Total revenue (State +private +core activities+management)	384	407	414	420	442	483	520	550	570	619	684	820

Source: *By the author*

Some 12 different types of State aid are known. These include pro rata budgetary support, support provided from central funds or social security funds, support provided through corporate tax or income from VAT reimbursements. Civil society organisations may also receive resources from State-owned companies, such as Szerencsejáték Zrt, which, for instance, supported the National Cultural Fund of Hungary with HUF 9.2 billion in 2018. (Revenues from gambling play an important role in supporting the CSO sector primarily in Scandinavian countries, but we will touch upon this later.)

Two special forms of State aid provided to classic CSOs are the National Cooperation Fund (NEA) and the option to dispose of 1% of the personal income tax (SZJA). The NEA is supervised by the Prime Minister's Office as the CSO fund of the Hungarian Government, thus it is the only source of budgetary financing that accepts applications from CSOs exclusively. Ministries and local governments also support CSOs abundantly, but funds operated by them may also be applied to by public institutions.

The NEA is a form of CSO financing established under "Act CLXXV of 2011 on the right of association, non-profit status and operating and supporting civil society organisations" (CSOs Act) that supports the operation and professional activities of CSOs and where CSOs may apply not only for grants to fund their operational costs and professional programmes, but where CSOs are also eligible for State aid based on donations they have collected. Independent NEA bodies appointed for four years make decisions concerning 85% of the NEA envelope, while commitments have been made concerning the [remaining] 15% based on individual grant applications approved by the Minister heading the Prime Minister's Office since 2019. (The NEA and thus its envelope for individual grants was assigned to the Ministry of Human Capacities until 2018 and accounted for 10% of all resources. The law was amended in 2019 to set the rate at 15%.)

In Europe, the option to offer 1% of one's personal income tax was first introduced in Hungary. Private individuals paying personal income tax in Hungary may instruct how 1% of their tax should be used based on Act CXXVI of 1996 "on the use of a specified amount of personal income tax in accordance with the taxpayer's instruction" since 1997. It is also possible to offer 1% of one's taxes to a recognised church since 1998, thus the current system, which allows 1+1% of the personal income tax to be offered, has been operational in Hungary for 22 years. Each year, instructions may be given concerning the use of 1+1% of one's taxes up to 20 May, that is, the deadline for submitting personal income tax returns: every private individual may offer 1% to a registered CSO and another 1% to a religious community with a technical number or the National Talent Programme. The advantage of this system is that citizens are able to provide targeted resources directly to certain organisations preferred by them without imposing any financial burden on themselves. Several European countries have found this initiative to be advantageous and by now there are options to offer certain parts of one's taxes in Czechia, Italy, Spain, Poland, Latvia, Macedonia, Moldova and Slovakia, among others.

It should be noted that an amount corresponding to 1% of the (total) current personal income tax is transferred to the CSO sector under all circumstances, a part

according to the taxpayers' instructions directly, and the "remainder" through support from the NEA.

85% of the support granted by the NEA is awarded through calls for proposals under the provisions of the CSO Act in order to ensure the independence of the support scheme. In part representatives selected by CSOs make up the five boards, each with nine members, which prepare the calls for proposals of the NEA, assess the applications received and verify the achievement of the supported objectives from a professional perspective. The activities supported by the five boards cover the entire CSO sector.

Since 2015, the appropriations of the NEA have depended on the total amount of the offers of 1% of personal income tax under Section 58(5) of the CSO Act. The NEA's resources are equal to the difference between the amount that could have been offered to CSO beneficiaries in the second year prior to the given budgetary year and the amount actually allocated to them. The table 2 shows the total financial appropriations of the NEA from 2012.

Table 2: Appropriations of the NEA

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total financial appropriations of the NEA (HUF billion)	3.38	3.38	3.38	5.406	4.896	5.267	5.256	5.928	7.723

Source: By the author

The boards conduct a substantive assessment of the greater part of the support granted through calls for proposals and then take a decision. In the case of certain calls for proposals (simplified calls for proposals, pro rata calls for proposals) only the form is checked and every application that is submitted in valid form wins until the envelope is depleted. Among others, the CSOs operating in the following fields belong to the specific boards:

- Board of social environment: Public education, science and research, vocational and adult education, cultural activities;
- Board of mobility and adaptation: Security of life and property, public safety, volunteer firefighting, leisure, hobbies and sports;
- Board of national cohesion: Cooperation within the Carpathian basin, fostering of religious activities, other cultural activities (music, dance, folk music, folk dance);
- Board of social responsibility: Grant-giving, social services, care for the elderly, rehabilitative care, protection of nature and the environment;
- Board for the future of future generations: Education, child development, child and youth protection, health promotion, drug prevention.

Approximately 10-12 thousand applications were submitted annually to the NEA in recent years and of these, approximately 5-6 thousand applications won. Every board provides an opportunity in some form or other to CSOs of Hungarians living outside of Hungary (for example as co-applicants) to submit applications.

In Hungary, civic life has considerable traditions steeped in history. The first CSOs were established as early as the mid-19th century by count István Széchenyi and thriving civic life could be witnessed between the two world wars. This process was broken during the communist era, but following the change in the regime the process regained its strength.

In terms of figures, the 61,000 CSOs currently operating in Hungary place Hungary in the upper third of the European average, but a few figures should provide a comparison to be able to place Hungary in the proper context: while in Portugal, which has an almost identical number of inhabitants as Hungary, only 17,000 registered CSOs are active, this number is 135,000 in the Czech Republic, which has slightly more than 10 million inhabitants, and 115,000 in Norway, which has close to 6 million inhabitants. Both of these figures, which are considerably higher than the Hungarian figure, are presumably due to reasons of how their societies are organised, that is, in these cases we are faced with “bottom-up” societies, while Hungary has been more statist traditionally. For instance, in Norway almost every political leader started their careers at an NGO and these organisations are supported as abundantly as possible in a country that is quite rich anyway, resulting in most politicians returning for some time to these civil society organisations once their active years are over or after their political parties have handed over power.

Regarding the number of civil society organisations, we must mention France, where an outstanding number of 1.5 million registered organisations are active. This means that there is one CSO for every 45 citizens. Regarding the (country) with an outstanding figure in our region, Czechia, this figure is close to 80, while it is 160 for Hungary.

Concerning the management of a State fund, there are barely any other European countries which have a State fund reserved for civil society organisations comparable to the NEA, with the exception of Poland, for example, and the particular, but efficient system achieved by Latvia, which is operated somewhat differently from that of Hungary.

An institution similar to the NEA, the Council of the National Freedom Institute – Centre for Civil Society Development (NIW-CRSO) was established in Poland in 2017, which disposes of approximately HUF 5 billion annually and operates through five different programmes. Besides the NIW, the Polish National Foundation should also be highlighted: between 2016 and 2027, this governmental civic foundation may spend 45 billion on supporting non-profit civil society organisations operating in the public interest.

Latvia has in effect out-sourced the tasks carried out by the NEA to a public foundation (Society Integration Foundation – SIF), the professional supervision of which falls within the remit of the Prime Minister’s Office. Eleven members were appointed to the governing board of the public foundation, including five ministers, five NGO members and one advisor – seven members must vote the same way for the SIF’s decision to be final, thus seen from another perspective, at least one NGO is needed to support the State’s will. By contrast, in Hungary the Council and the boards of the

NEA are completely independent – regarding 85% of its resources – no public authority may fiddle with their work under the law, however, the Prime Minister's Office takes decisions concerning the remaining 15%.

Based on the foregoing, there is no central State-owned civic foundation in most European countries that is similar to the NEA in Hungary, but this should not be construed as either a positive or negative feature of their support schemes. The fact of the matter is that in Europe various governmental bodies provide considerable support to foundations and associations without a central State-owned fund, but this work is primarily carried out in a decentralised manner. Accordingly, specialised ministries with national competence usually have CSO funds and this is the same in the case of States with federal systems and their provincial governments: each provides appropriate resources to the CSOs operating within their remit or specialisation. For example, in Germany 700 different calls for proposals provide resources to CSOs.

As we have indicated above, the NEA, or the CSO fund of the Hungarian Government will be able to provide close to HUF 10 billion to the CSO sector next year, but considerably more funds flow to foundations and associations within the Hungarian system annually: the amount allocated by the State within the sector was HUF 370 billion in 2018. By comparison let us indicate a figure from this region (Czechia), as the support granted there was the equivalent of HUF 215 billion in the same year and let us take a look at Sweden, the modern age cradle of civil society, where an amount that is equivalent to more than HUF 400 billion was allocated within the sector in 2018. All this shows that Hungary has no reason to be ashamed of its amounts either, as Hungary is able to meet a challenge coming even from richer western States.

Civil society organisations' income isn't capped either in Hungary or generally in Europe, as they may accept as much in resources as they wish, but they must naturally render their accounts strictly. Luxembourg is an interesting exception in this respect as well: based on the traditions of the Napoleonic Civil Code, private civic initiatives are not encouraged, thus for instance in the Grand Duchy only the State may establish non-profit foundations. But they also have their separate ways regarding capped incomes: a donation or aid to a CSO that exceeds EUR 30,000 is dependent on political approval, as the Minister for Justice of Luxembourg must counter-sign it.

In essence, Hungarian law and practice do not make a distinction between support according to the specific areas of civic life it is provided to, that is, sports, education, culture or other activities. No doubt the general classification of larger civil society organisations carrying out tasks that are especially in the public interest under a separate budget line (such as the National Association of Large Families) is also a political/philosophical decision of the Government and the Government has made this decision because they do not wish to keep these organisations in a kind of uncertainty but rather strive for certainty in order to ensure that tasks in the public interest are carried out. However, in Hungary it is generally not the "importance" of a specialist area that determines how support is allocated, but rather the requirement that the given organisation must perform community work, must create a community and must operate such community – from this perspective it is thus irrelevant how the real or perceived social "use-

fulness” of an organisation could be graded, the most important factor is supporting a community of people. Even though the Hungarian principle could in many respects be detected in other parts of Europe (primarily with regard to smaller organisations), in most Western European and Northwestern European countries explicitly political priorities are increasingly playing a part when funds are allocated. Thus, in many countries, social integration, that is, the integration of immigrants already living in the country and the integration of newly arriving migrants are important factors. In these countries the area of legal protection also has special importance and in most cases those organisations fulfil a role and receive considerable resources (for example Amnesty International, Transparency International, Helsinki Commission, a classic example in Hungary is the Hungarian Civil Liberties Union (HCLU)), which basically do not receive budgetary funds in Hungary because their activities in Hungary are very political in nature and they oppose the conservative governing forces in a sharp, campaign-like manner. It should be noted that this is not a Hungarian peculiarity, many other Central and Eastern European countries relate to these organisations in a similar manner, as they are acting as the outposts of peculiar political interests in those States as well.

Interesting examples of possible methods for offering one’s personal income tax can be found by comparing European countries. As we have seen, in Hungary, one percent of one’s personal income tax may be offered to a registered church and another one percent may be offered to an active CSO. By contrast, two times 0.7% of one’s personal income tax may be offered in Spain, the recipient of one may only be the Catholic Church and the recipient of the other may be an institution of the State, thus the latter 0.7% is directly rechannelled to the Government, even though it originates from the State and thus from the taxpayers. Another notable example is Lithuania, where 2% of one’s personal income tax may be offered to CSOs, and another one percent may be offered to a political party.

We have already said a few words of the diverging and peculiar system of State aid provided to CSOs, thus we have spoken of income originating from diverse tax funds or social security. In several countries the State revenues of gambling considerably contribute to supporting CSOs. This practice has evolved in particular in Northern Europe, thus in Finland, Norway and Estonia, but also in the somewhat Northern country of Poland, where CSOs receive 4% of gambling revenue compulsorily. Szerencsejáték Zrt. from Hungary is not part of these “statistics” because it does not qualify as a State-owned company, but rather as an economic entity. All the while, as we have already indicated, the Hungarian Szerencsejáték Zrt. provides resources abundantly to the CSO sector; thus, in addition to the 9.2 billion received by the National Cultural Fund of Hungary in 2018, the sports sponsorship scheme received 8.7 billion and the Hungarian National Film Fund received 6.4 billion. The later funds spend the resources they receive to a lesser or greater extent on CSOs.

In summary, it should be highlighted that in Hungary the CSO sector’s operation, as well as its financing is colourful and wide-ranging. The financing of specialised areas is balanced, but at continental level there are considerable differences in approach, in Hungary in particular community building is the most important aspect,

while in many places in numerous countries across Europe ideological attitudes are more decisive: legal protection, integration and the assistance of migration.

Being of public utility is also an important question everywhere, as CSOs are able to take off a considerable burden from the shoulders of the State and local governments. Certain European countries reward this civic function especially well, there is even a country where a non-profit foundation may only be established by the State (Luxembourg), but this is rather the exception.

Financing models are quite diverse, but in each case the State takes part to a great extent in the support of the sector, specifically for the reason we have stated above: what the State is unable or unwilling to do itself, another smaller unit achieves better and thus providing resources for such unit is ultimately profitable and practical for the State. Although it is not typical of most European countries, it is an important Hungarian particularity that CSOs are able to apply for operating resources in addition to professional support. This is an honest approach as it takes into account that achieving the programmes requires a back office: technical equipment for the organisation, human resources or offices and – in Hungary – the NEA, the CSO fund of the State – among others – provides for a broad range of these.

So many countries, so many rules. Based on our assessment each European system bears certain national characteristics (historic characteristics, regional traditions mingled with historic characteristics or even determinisms dictated by the modern age), but each is democratic and in conformity with EU and local legislation.

The regulation of CSOs in the European Union falls under national competence and this is as it should be. The sector contributes in a significant manner to societal cohesion, but is not of pan-European importance and effect. Therefore, unless a State should apply incomprehensible and senseless restrictive measures against CSOs, we recommend that Brussels should enforce the principle of subsidiarity that is always proclaimed but selectively applied: in other words whatever a larger unit does not want or is not able to carry out, should be achieved by a smaller unit. The Hungarian law concerning the transparency of CSOs (Act LXXVI of 2017 on the transparency of organisations receiving support from abroad), which made it compulsory for CSOs receiving over HUF 7.2 million of financing from abroad to publish data concerning the support they received, was much criticised and was then condemned by the Court of Justice of the European Union. They were subject to no other obligation in addition to this, they could accept any resource, they simply had to comply with transparency requirements. We add that in Italy in the case of foreign resources exceeding approximately HUF 4 million the source of the support must also be published (Section 1(125) of Act 124 of 2017) (to be sure, the source of the support could be foreign or domestic) and – as we have described it above – in Luxembourg, for example, support slightly exceeding HUF 10 million is decided upon by the Minister for Justice, in other words support for CSOs may be capped, if politics so wishes.

Based on the foregoing – as we have implied – we recommend generally enforcing what is prescribed in the basic treaty for the CSO sector, in other words competence lies with the Member States.

David A. J. Reynolds

The Price of Illusion and the Power of Meaning: Helsinki, Hungary, and the Holy Crown



Summary

Whereas the Helsinki Final Act's impact in the Soviet bloc is usually defined by the resistance and pressure inspired by 'basket three' human rights clauses, the part of the accord that the Soviet Union desired was at least as significant, especially for Hungary. The Soviets presumed that formal Western acknowledgement of the post-war settlement – a long-term foreign policy – would ensure its permanence. But the acceptance of post-war borders actually imperilled Soviet control in Central and Eastern Europe because it accentuated the contradiction between the *de facto* subjugation of independent states in the region and their *de jure* independence, while enshrining the latter, thereby strengthening the hands of those within these states who wished to extend and expand their independence from Moscow, economically and culturally. A key example and test case of this process was the fate of Hungary's Holy Crown, which had been in American custody. Employing both primary sources and secondary texts, this new analysis contends that it was precisely what the Soviets had hoped for in a European Security Conference that proved most damaging to control of its sphere of influence, and that, in Hungary, the return of the Holy Crown represented exactly the goal of restored sovereignty that Helsinki endorsed, despite Soviet intentions to the contrary.

Keywords: Helsinki, Helsinki Final Act, Hungary, Holy Crown, Central and Eastern Europe

INTRODUCTION

The cost of an illusion cannot be gauged until it is affirmed by others. Especially since the tide of the Second World War's European theatre had turned against Germany, the Soviet Union began to establish coercive control over the lands of Eastern and Central Europe. And even as the Soviets consolidated that domination in the post-war world, they insisted that no such coercive control existed. Hypocrisy of this kind is, of course, not unusual. In the 1941 Atlantic Charter that would come to publicly define British and American war aims, Churchill and Roosevelt claimed that "they respect the right of all peoples to choose the form of government under which they will live" – an abstraction that would continue to be primarily honoured in the breach of it. But we would be wrong to view the post-war Soviet public stance vis-à-vis Europe as mere deception. In fact, it established a corrosive contradiction that was never more dangerous to its authors than when it was accepted.

This contradiction between rhetoric and reality rested partly on that Anglo-American talk of national self-determination, since, despite beginning its war by dividing up Poland with Germany and invading the Baltic states, the Soviets would hitch the international legitimacy of their eventual war against Hitler to this thin idealism. The Yalta and Potsdam agreements between the three victorious powers gave lip service to those liberal democratic principles of the Atlantic Charter. And this unlikely coalition not only brought the Soviets within the affirmation of ideals in which they had no interest, it also ensured that their initial subjugation of Eastern and Central Europe was aided by the jurisdiction they shared over occupied territory with Britain and the U.S. For example, it was under the authority of the Allied Control Commission that the Soviet authorities stripped Hungary of its remaining industrial and agricultural resources between 1945 and 1947, while forcing the coalition government into repressive actions such as the banning of many Christian associations in 1946 (Kenez, 2006).

Once peace treaties were signed in February 1947 with former Axis allies under Soviet occupation – Hungary, Bulgaria, and Romania – the Allied Control Commissions ceased, nominally restoring these countries' independence. But this was precisely the stage at which Soviet policy within its European sphere shifted from the promotion of communist-influenced "people's democracies" to the imposition of nakedly totalitarian communist regimes. From this period, parties that were rivals to the Communists – both within and without coalition governments – were persecuted to the point of destruction. In Hungary, this meant an assault on the Independent Smallholders Party (Független Kisgazdapárt), which nearly 60% of Hungarian voters had supported in the first post-war election. On 25 February 1947, the Smallholders' General Secretary, Béla Kovács, was detained by Soviet authorities on the specious charge of organizing an anti-Soviet terrorist group. While Kovács would remain in prison until the 1956 uprising, another prominent Smallholder, György Donáth, was sentenced to death in April, and, in May, the Prime Minister Ferenc Nagy was bullied into resignation and exile.

Thus while Hungary suffered the depredations of an internationally-authorized Soviet occupation, it retained at least a modicum of political plurality and social lib-

erty, but its nominal restoration to the community of independent states was accompanied by its decent into total political subordination to Moscow at the hands of a Soviet-directed cadre of Communist Party officials. Likewise across the region, the establishment of one-party communist rule served the consolidation of Soviet control. Had such control been a temporary measure, this gap between *de jure* and *de facto* might have slipped into obscurity. But it was a key element of Soviet geo-political strategy, and, therefore, international recognition of the permanence of the post-war settlement – which most crucially included the division of Germany – became the primary aim of Soviet foreign policy. This, in turn, counter-intuitively tied the maintenance of a façade of Central and Eastern European independence to the Soviet-oriented status quo.¹ They emerged together, and the latter relied on the appearance of the former for its credibility.

It is for this reason that eventual Soviet success in formalizing the permanence of the post-war settlement was dangerous for the maintenance of Soviet hegemony, which it was presumed to have secured. As long as Soviet dominance over Central and Eastern Europe rested merely on the cold hard fact of its continental military power, which none of its former western allies came close to challenging, it could rely on the grudging acceptance of a pragmatic and stable situation. But once brought into the supposed legitimacy and light of international legal and diplomatic recognition – as occurred with the Helsinki Final Act of 1975 – the gap between rhetoric and reality relentlessly tore at the post-war settlement because what was being recognized was not the pragmatic actuality of Soviet dominance but the illusory independence of satellite states. With its public illusions confirmed by its enemies, the Soviet Union could now only do one of two things: denude its power by acting in conformity with a theoretical independence, or damage its legitimacy and credibility by contradicting what it had just persuaded the West to affirm.

THE HELSINKI PROCESS AND ITS MOTIVATIONS

“Rarely has a diplomatic process so illuminated the limitations of human foresight”, Henry Kissinger later reflected on the Helsinki discussions and agreement. Soviet calls for a European security conflagration, which would become the Helsinki process, had resumed in earnest with the 1966 Bucharest Declaration emerging from the Political Consultative Committee (PCC) of the Warsaw Pact. Even here, the logic of Soviet aims was garbled by the inclusion in the Declaration, at Romanian insistence, of a demand for the withdrawal of foreign troops from European countries. Such a demand had some resonance due to Soviet hopes of using a European security arrangement to exclude the United States from the balance of power on the continent. But this aim also ensured that the declaration was rebuffed by the country both strategically and economically most important to Communist Europe, West Germany, whose government refused to countenance a European Security Conference (ESC) without its American allies. Therefore, the call was renewed by the PCC in March 1969’s Budapest Appeal, without excluding the U.S. “The main achievement of the meeting”, at which the

Appeal was issued, according to historian Csaba Békés, “was the acceptance by all parties of the Soviet-Hungarian proposal that there should be no preconditions for the convening of an ESC” (Békés, 2008).

At this point, however, the Nixon administration mostly shared Moscow’s perspective that any formal recognition of the post-war settlement at an ESC could only benefit the Soviet Union. Nixon and Kissinger initially regarded the potential talks as, at best, a means of promoting stability, and, at worst, a distraction from the real Cold War diplomatic priority of Mutual and Balanced Force Reduction (MBFR) negotiations. Despite this scepticism, however, the administration also forged an approach to the Soviet sphere that would expose the contradictory Achilles heel in the Soviet drive to solidify the status quo. “Ultimately, a workable system of security embracing all of Europe”, Nixon significantly argued in the February 1970 report to Congress on foreign policy, “will require a willingness on the part of the Soviet Union to normalize its own relations with Eastern Europe”. What the administration was expecting of the Soviets was also increasingly what it, and in particular the State Department, was seeking to do. As historian László Borhi summarises, “The State Department established three basic principles for the Soviet bloc: each state would be treated as a sovereign entity; the United States would establish permanent economic relations with them; and, finally, they would be integrated into the political affairs of Europe as a whole” (Borhi, 2016, p. 268).

Such an approach was dangerous for the Soviets because it inspired conflicting impulses. Brezhnev, as he proved in 1968, was committed to protecting the internal and external integrity of the Warsaw Pact, particularly where it faced the non-communist world in Central Europe. On the other hand, these communist countries would increasingly rely on trade with the West, and simply could neither afford to shun closer contact with their Western European neighbours nor rebuff every concession that would be demanded in return. Both complementing and complicating this need was that it was not only congruent with the American desire to individualise its relations with Central and Eastern Europe, but also with the new *Ostpolitik* pursued by West Germany under Willy Brandt as foreign minister from 1966, and as chancellor from 1969. But Brezhnev presumed that he could simultaneously match the West German desire to normalize relations, retain Soviet authority in Central and Eastern Europe, and secure the permanent acceptance of the post-war settlement. But none of these elements proved compatible with the others. Furthermore, the crushing of the Prague Spring had accentuated a connected unsustainable dichotomy – national leaders of satellite states relied for their power on Soviet support, which was also the means by which their popular legitimacy was undermined.

Could a European communist state economically rely on the West, while remaining politically subordinate to Moscow? And could the ‘borders’ of communist Europe be consolidated at the same time as they were increasingly perforated by East-West contact? The Soviets gambled that this was possible precisely because of their high expectations that the same arrangements which secured economic co-operation would settle the territorial issue, and that settling the territorial issue was synonymous with buttressing the political status quo. This in turn relied on their own self-delusional in-

sistence that it was external pressure, rather than internal dissent, which most threatened their sphere of influence.

The contortions that these aims and assumptions created are well manifested by the fate of Walter Ulbricht. East Germany's hard-line leader had been the most bellicose within the Warsaw Pact during the Prague Spring, advocating an invasion of Czechoslovakia long before Brezhnev was willing to countenance it. One might have thought that his apparent vindication in August 1968 would strengthen his uncompromising position. Nevertheless, exactly two years' later, Brezhnev overrode Ulbricht's objections by signing the Moscow Treaty with West Germany, in which the Soviets accepted that the West Germans would recognize the inviolability but not the unchangeability of Europe's borders, including the intra-German frontier and the Oder-Neisse border with Poland. The Soviets were, in other words, seeking to secure East Germany's existence as an 'independent' state in a way that the state's own leader objected to. Within a year, the Soviets had secured Ulbricht's removal from power (replaced by Erich Honecker), while the Moscow Treaty paved the way for bilateral West German treaties with Poland (December 1970), East Germany (December 1972), and Czechoslovakia (December 1973).

Although West German and American diplomats certainly also overestimated the short-term impregnability of Soviet power within their bloc, they were more alive to the dangers posed to Soviet hegemony by *détente*, precisely because of the leverage it would provide to further realise the *de jure* independence of Central and Eastern European states. Nixon's Secretary of State, William Rogers, stressed that "the Department of State was prepared to accept the status quo," as historian Stephan Kieninger describes it, "but at the same time it forcefully pleaded for fostering 'national independence and liberalization in the East.' In essence, accepting the status quo should be the first step in the process of overcoming it (Kieninger, 2010, p. 104). For all the opposition that Brandt's *Ostpolitik* inspired from the CDU in Germany, this was also the German chancellor's calculation. West Germany, in Carsten Tessmer's assessment, "sought a *modus vivendi* on the basis of recognition of the 'existing real situation' in Europe, including Soviet hegemony over the East bloc. But this *modus vivendi* should also leave open the option of overcoming the status quo. The Soviet Union, in contrast, was interested in legalizing the European status quo" (Tessmer, 2003).

THE OPPORTUNITY FOR HUNGARY IN DÉTENTE

The phenomena of so-called liberalization and national independence in Communist Europe were, of course, far from synonymous. Romania, the nation-state which gained American favour by securing more independence from Moscow than any other member of the Warsaw Pact, was also the most brutally repressive regime on the continent. In some ways, the reverse assessment could be made of Hungary. Its national aspirations had been repressed under Soviet hegemony, with both former territories and millions of ethnic Hungarians remaining under the thumb of Romanian, Czechoslovak, Soviet, and Yugoslav regimes. While Ceaușescu trumpeted his ethno-national principles – and implemented them through his genocidal policies

against the Hungarians of Transylvania – Hungarian nationalism was beyond the pale in Hungary, only to be whispered in certain oppositional and dissident circles. At the same time, the political necessities of a post-1956 communist restoration had enabled Kádár, after the initial persecution of remaining dissent, to establish his domestic legitimacy on the basis of both relative economic vitality and the restraint of excessive repression. Both of these circumstances meant that Hungary had more to gain from American and West German policies of détente than most other communist states, as well as room for manoeuvre.

Indeed, Hungary's primary goals for its bilateral relations with the United States touched on both the economic and the national. Hungary sought Most Favoured Nation (MFN) trade status, which would release U.S.-Hungarian trade from many impediments, while it also advocated for the return of the Hungarian Holy Crown – the most potent symbol of traditional Hungarian sovereignty – which had been in American custody since the final days of the war.² Hungary's struggle to achieve these aims would form a test case of both the wider process of détente, particularly alongside the Helsinki talks that commenced in 1973, and the parallel ability of Central and Eastern European communist states to forge nationally-specific relationships with the West. How would this work? And would the consequences coincide with American, Soviet, and Hungarian motivations?

Before U.S.-Hungarian discussions could turn in earnest to these matters, other lingering issues required attention. Firstly, Cardinal Mindszenty's fifteen-year asylum at the American embassy in Budapest came to an end – following lengthy negotiations between the U.S., Hungary, the Vatican, and Mindszenty himself – when he was driven to Vienna on the morning of 28 September, 1971, before being flown to an audience with Pope Paul VI. The noble Cardinal would remain in exile from his beloved homeland until his death four years' later. Secondly, long-outstanding American financial claims on Hungary dating back to both the war and post-war nationalizations, which had retarded Hungary's ability to obtain credit from the U.S., were settled by a March 1973 agreement.³ The Hungarian government committed to pay \$18.9 million in twenty annual instalments of \$945,000. Péter Vályi, who led the Hungarian delegation in Washington D.C., attempted to include an American commitment to Hungarian MFN status within the deal, but Kissinger did not wish to see Hungary bypass Romania in that process, and Vályi had to be content with a letter attached to the agreement, in which Rogers stated that "the Government of the United States... agrees to seek authority [to extend MFN status to Hungary] from the Congress".⁴

During both negotiations, as well as the landmark visit of Secretary of State Rogers to Budapest in July 1972, Hungarian officials raised the return of the Holy Crown. "The Hungarians had hoped to get the artefact back after they agreed to sign the claims agreement of 1973", Borhi explains, "and asserted that it was hard to understand what further grounds the United States had for withholding it". But even though Hungary regarded full normalization of American-Hungarian relations as impossible without the Holy Crown's repatriation, the U.S. side consistently claimed that further progress needed to be made before this happened. While this bilateral process continued, the Helsinki talks shifted the diplomatic plates beneath their feet, with the

Final Act agreed and signed by thirty-five governments, including all member states of both NATO and the Warsaw Pact.

THE HELSINKI FINAL ACT AND ITS CONSEQUENCES

Despite Soviet satisfaction at the signing of the Helsinki Final Act in August 1975, it has become commonplace to regard it as an unwitting Trojan horse within the Soviet bloc because of the ‘basket three’ provisions of the Act relating to human rights and civil liberties. The Soviets had viewed these promises as meaningless affirmations of vagaries exchanged for concrete gains. And this certainly proved mistaken. The Act’s “human rights principles, human contacts provisions, and follow-up mechanism”, Sarah B. Snyder concludes, “spurred an explosion of dissident activity in Eastern Europe, eventually leading to the development of a trans-national network committed to reform in Eastern Europe and the Soviet Union”. They “offered Soviet and Eastern European opposition figures important leverage in their protests against communist regimes”, while, furthermore, bringing political and religious liberties “under the purview of international relations, supplying justification for external observers to question the Soviet Union and Eastern European countries on their human rights practices (Snyder, 2020a, p. 179).

But, as we have suggested, precisely what the Soviet Union did prize Helsinki for was also not the triumph it was presumed to be. Bear in mind that many Western critics vociferously shared Moscow’s presumption. President Ford’s soon-to-be-challenger for the 1976 Republican nomination, Ronald Reagan, said that the American approval of Helsinki was a “stamp of approval on Russia’s enslavement of the captive nations,” while the influential former Under-Secretary of State George Ball opined that “it is one thing to refrain from starting World War III over Prague; it is quite another to drink toasts to the division of Europe. On the 1976 campaign trail, Democrat nominee Jimmy Carter described Helsinki as a “tremendous diplomatic victory for Leonid Brezhnev” (Snyder, 2020b, pp. 70–71).

It was not, of course, entirely unreasonable for some Western observers to share the Soviet assumption that affirming the post-war borders of Europe was also a seal of approval upon its political division and situation. There was a recognised connection between diplomatic recognition and international legitimacy. And, in the case of Soviet-dominated European states, there was an understandable sense that the more the post-1945 status quo was acknowledged, the more likely it was to become permanently entrenched. Such a view was also encouraged amongst American politicians by the pressure of Central and Eastern European émigré groups, who often adopted a zero-sum attitude, wherein any recognition of the communist present was a betrayal of the hope for a non-communist future.

But what this missed – and here the promoters of a muscular Western position were entirely in tune with the paranoid obsessions of Soviet foreign policy – was that the primary threat to Soviet and communist rule in Central and Eastern Europe had always been, and would continue to be, from within, not without. Everything the Soviets ‘gained’ in the Helsinki Final Act’s first basket of agreements was predicated on

the opposite assumption, which encouraged them to perceive achievement in what actually contradicted the means by which they had consistently secured their European sphere of influence.

“The participating States regard as inviolable all one another’s frontiers as well as the frontiers of all States in Europe and therefore they will refrain now and in the future from assaulting these frontiers”, declared the Final Act. “The participating States will respect the territorial integrity of each of the participating States.” Specifically, this meant the repudiation of invasion. Signatories agreed to refrain from actions “against the territorial integrity, political independence or the unity of any participating State, and in particular from any such action constituting a threat or use of force”. Therefore, “participating States will likewise refrain from making each other’s territory the object of military occupation or other direct or indirect measures of force... No such occupation or acquisition will be recognized as legal.” Most comprehensively, the Final Act affirmed that “participating States will refrain from any intervention, direct or indirect, individual or collective, in the internal or external affairs falling within the domestic jurisdiction of another participating State, regardless of their mutual relations”.

As Kissinger – who is less sceptical of Helsinki in retrospect – points out in his memoirs, “a pledge of inviolability of frontiers posed a much greater restraint on the power possessing the largest land army... After all, the only [European] borders that had been violated during the Cold War were those of the Soviet Union’s neighbors at the hands of the Red Army. The captive nations of Eastern Europe understood this much better than some in the Western democracies.” The Final Act committed signatories to “respect each other’s right to define and conduct as it wishes its relations with other States in accordance with international law and in the spirit of the present Declaration”. But it had also, at West Germany’s urging, added that “frontiers can be changed, in accordance with international law, by peaceful means and by agreement”. Furthermore, states “also have the right to belong or not to belong to international organizations, to be or not to be a party to bilateral or multilateral treaties including the right to be or not to be a party to treaties of alliance; they also have the right to neutrality”. Kissinger understandably argues that “if the clause had any operational meaning, it vitiated the Brezhnev Doctrine of 1968, whereby Moscow justified its use of force against Czechoslovakia as a means to maintain the unity of the socialist camp”.

No wonder, as Kissinger continues, “The East European satellites were telling [the Ford administration] privately [that] the Final Act would increase Soviet inhibitions against military intervention and thereby enhance their capacity to conduct a national foreign policy” (Kissinger, 2000). And gaining room to forge an independent foreign policy was an essential component of, in general, widening national independence, thereby turning the Soviets’ own bluff into reality through their insistence on solidifying the geo-political status quo. Therefore, as Soviet leaders celebrated the fulfilment of a three decade-long policy priority – even publishing the entire Helsinki Final Act in *Pravda* – its satellite states were emboldened, under the aegis of a document that had Moscow’s explicit blessing, and with the assistance of U.S. and West German policy, to pursue the greater realisation of their nominal independence.

THE HELSINKI SPIRIT AND THE HOLY CROWN

In this context, the potential return of the Holy Crown was of particular significance in signalling and representing this widening of national independence within the Soviet bloc; a factor that was almost entirely ignored by the domestic American opposition to a return. That opposition – in parallel with criticism of Helsinki – two-dimensionally judged that the return would be a boost to communist rule and the present Hungarian regime, which, as well as misunderstanding the diplomatic moment, underestimated the potency of the Holy Crown, which had over many centuries frustrated the attempts of specific rulers to co-opt the royal regalia for partisan or self-referentially temporary purposes.⁵

It was just two weeks before the Helsinki Final Act was signed that the Hungarian government made its first official request to the U.S. government for the Holy Crown's repatriation, on the occasion of the new American ambassador, Eugene McAuliffe, presenting his credentials. Then, a few weeks later, McAuliffe sent a telegram to the State Department, urging a systematic review of U.S. policy regarding the Holy Crown, which he called both "the touchstone of relations" between the two countries and "the single important psycho-political issue that concerns all Hungarians everywhere". In a wide-ranging review of the issue, McAuliffe pondered if a return would "enhance measurably nationalistic feelings among the non-communist populace and thus undercut 'proletarian internationalism'".⁶

And, despite his previous dismissiveness toward Helsinki, President Carter put the weight of his administration behind both its logic and the forces it had put in motion. Secretary of State Cyrus Vance was especially instrumental in ensuring that the issue of the Holy Crown was dealt with according to the "long-range goal of encouraging greater autonomy, national identity, and Western orientation in Eastern Europe" (Borhi, 2016, p. 301). As Nicholas Andrews, an expert on the region and the Director of the State Department's Office of East European Affairs, argued in a March 1977 memorandum, the "return to the Hungarian people of this paramount symbol of the Hungarian nation and its independence will concretely support our long-range goal of encouraging greater autonomy in Eastern Europe".⁷ A month later, McAuliffe wrote to State that the United States had "an interest in seeing Hungary developing into a more independent entity, more responsive than ever to well-being and legitimate self-interest of its people", and, therefore, that the U.S. government should "make a decision now to return the Crown to Hungary". By contrast, retaining the Holy Crown, he continued, "threatens to retard their further development".⁸

This line of argument, firmly represented by Vance, was ultimately persuasive to President Carter, despite the delays secured by the scepticism of his National Security Adviser, Zbigniew Brzezinski. Calling the Holy Crown "the paramount symbol of Hungary's nationhood and Western Christian tradition," Vance asserted in a June 1977 memorandum to Carter that "morally and legally it is indefensible to continue to withhold from the Hungarian people their most important symbol of nationhood. Return of this symbol of Hungary's independence and Western, Christian tradition",

he continued, “will concretely support our long-range goal of encouraging greater autonomy, national identity and Western orientation in Eastern Europe”.⁹

Essential to the aim of encouraging independent national expression within Hungary through this policy was the idea emphasized by Vance that the Holy Crown was not being returned to the current regime, but to the Hungarian *people* or *nation*, which are synonymous concepts in Central Europe (where the nation is expressed in the formation of a state, not defined by it). The Hungarian government readily agreed to American suggestions designed to ensure this impression, including the display of the Crown in a public and open place not associated with the regime and the involvement of the Catholic church in its formal reception. Indeed, in early December, two months after Vance had informed the Hungarian Foreign Minister Frigyes Puja (on October 1) that the U.S. government had definitively decided on returning the Holy Crown, Kádár told the new U.S. ambassador, Philip Kaiser, that he, in Kaiser’s words, “agreed with the President’s emphasis on the fact that the return of the Crown was a people-to-people act. The Hungarians were ready to receive it in this spirit”.¹⁰

But opposition to the return within America,¹¹ further unleashed after the joint U.S.-Hungarian announcement on 15 December 1977, persisted in regarding the repatriation of the Holy Crown as merely providing legitimacy to the regime (which was of course congruent with the previous U.S. government position). Indeed some within the Carter administration shared this view. But the presence of the Holy Crown in Hungary did not legitimate the current government – particularly in the context of a regime that had repudiated Hungarian tradition and was built on the foundation of an ahistorical republic. Instead, the Crown affirmed the legitimacy and survival of Hungarian sovereignty beyond the reach of temporary setbacks and contemporary contingencies. The Holy Crown could not logically or credibly affirm a regime that made no claims of authority based on Hungary’s royal heritage, but it could lend credence to a definition of the Hungarian nation reaching before and beyond its current subjugated situation. In fact Ferenc Nagy, the Prime Minister removed from power by the Communists in 1947, now supported the return, insisting (in Borhi’s summary) that “no communist could derive legitimacy from the Holy Crown since it had ceased to have any constitutional significance when the republic was proclaimed in 1946. Moreover, its return would not change the Hungarian people’s misgivings toward their government” (Borhi, 2016, p. 310).

In President Carter’s view, “the presence of this treasured symbol will serve to strengthen the attachment of the Hungarian people to their Christian origins, to their cultural and historical heritage and above all, their national independence”. Naturally, there was no magical effect, and the regime that represented the Hungarian nation as it received back the Holy Crown was still the one built on the betrayal of 1956 and the execution of Imre Nagy; Soviet battalions still besmirched Hungarian territory. And, even as it sought to carve out further Hungarian autonomy from Soviet domination, the Hungarian communist regime could certainly not claim a smooth or untainted connection between itself and the good of the nation, as much as it tried. One could not begrudge any Hungarian unable to countenance a return under such

circumstances, with Kádár's Politburo confidante György Aczél proclaiming that "the only rightful owner of the crown is the Hungarian people, the *socialist Hungarian nation*" (italics added) (Szerencsés, 2018).

Nevertheless, the Kádár regime's legitimacy had been cobbled together with the assistance of historical silence, not the complex acknowledgement of national (as opposed to proletarian or revolutionary) continuity. Rather than cement any permanent communist ascendancy or affirm Soviet hegemony, the Holy Crown's return to Hungarian soil pointed to something that the Communist Party could neither crush nor co-opt. It was also a tangible and meaningful symbol of the slow uncoupling of Hungary from Soviet control – economically, politically, spiritually – which was aided and affirmed by the very Helsinki process and principles with which the Soviets sought to confirm their power.

Increased contact between Hungary and the West – with Hungary gaining American MFN status in July 1978 – was no more able to perpetuate the communist regime than was the return of the Crown. It was Hungary that became the first to widen the perforations in the Iron Curtain into a gaping hole during the summer of 1989, proceeding to end four decades of communist rule over the negotiating table. In July 1990, a few months after the first free elections in Hungary since 1946, parliament voted overwhelmingly to place the image of the Holy Crown at the top of Hungary's national coat of arms. On New Year's Day of 2000, the Crown was transferred from the National Museum, where it had mostly resided since 1978, to Parliament, where it remains to this day. Two decades after the regime change, and nearly a century since the Holy Crown had last adorned a King of Hungary, 55% of Hungarians, in a public opinion poll, chose the Holy Crown (with options open and none suggested in the question) as the object or building which most symbolized Hungary. The second most popular response was the Hungarian tricolour at 17%, and even a plurality of self-identified adherents of the political left selected the Holy Crown (Délmagyar, 2011). We may allow ourselves the gift of hindsight and declare that it was the communist regime which was in a dependent not a defining position – as the fleeting must be before the enduring – when it received the Holy Crown in 1978. "Hundreds of thousands soon came to admire the Holy Crown", Géza Jeszenszky, foreign minister of Hungary from 1990 to 1994, recalls regarding the Crown's return. "Hungarians, falling to their knees in front of it, chastened from the effects of Communist brainwashing, shed the complexes of national inferiority and shame and the disparagement of national inheritance and traditions" (Péter, 2003, pp. 501–502).

NOTES

- ¹ The notable exception to this was Estonia, Lithuania, and Latvia which had been annexed to the Soviet Union.
- ² The Holy Crown was in American custody along with other coronation regalia: the orb, sceptre, sword, scabbard, and mantle.
- ³ Unintentionally, debts related to flour sales in the 1920s were not included in this agreement: an oversight that was remedied in 1976.

- ⁴ Hungarian People's Republic Settlement of Claims. March 6, 1973, *U.S. Justice Department*: www.justice.gov/sites/default/files/pages/attachments/2014/06/25/hungary_ii_as.pdf; Borhi, 2016, pp. 275–78.
- ⁵ Most recently, Ferenc Szálasi was unable to accrue any legitimacy for his puppet government under German occupation, despite taking his oath of office before the Holy Crown in October 1944.
- ⁶ Ambassador Eugene McAuliffe, Telegram 3098. September 24, 1975, www.wikileaks.org/plusd/cables/1975BUDAPE03098_b.html.
- ⁷ Memorandum From the Director of the Office of East European Affairs, Department of State (Andrews) to the Assistant Secretary of State for European Affairs (Hartman). March 24, 1977, National Archives: <https://history.state.gov/historicaldocuments/frus1977-80v20/d136>.
- ⁸ Telegram from the Embassy in Hungary to the Department of State. April 22, 1977, *National Archives*: <https://history.state.gov/historicaldocuments/frus1977-80v20/d139>.
- ⁹ Memorandum from Secretary of State Vance to President Carter. June 3, 1977, *Carter Library*: <https://history.state.gov/historicaldocuments/frus1977-80v20/d142>.
- ¹⁰ Telegram from the Embassy in Hungary to the Department of State. December 12, 1977, *National Archives*: <https://history.state.gov/historicaldocuments/frus1977-80v20/d159>.
- ¹¹ In one of the most notable acts of opposition, former Vice Presidential nominee and future Presidential nominee, Senator Bob Dole sought an injunction against the decision, which was denied by the U.S. Tenth Circuit court on 31 December, 1977.

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Regional Dimension in Knowledge Production in Hungary



Summary

Knowledge flow is described by two contradicting theories. One of them claims that knowledge can only be put in practice if in addition to written elements, its tacit parts can also be transferred. This is why proximity and a common culture matter, and RDI (research, development and innovation) intense activities tend to spatially concentrate. According to the other theory, governmental RDI expenditure is a good way to reduce regional gaps. In this paper EU's Horizon 2020 research funding framework data is analysed and efforts are made at deciding which theory is confirmed by them. Should the leaders in innovation have a different RDI policy than those with poorer RDI results? An overview is given of the main policy debates that form and influence national and supranational research, development and innovation policy frameworks and subsidising systems. The current state of the Hungarian RDI sector is described and conclusions are drawn on subsidisation policy in light of the H2020 data.

Journal of Economic Literature (JEL) codes: D7, D83, O3

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INTRODUCTION

Innovation has been completely rearranging the world economy (e.g. Romano and Trau, 2017). Even if a country does not keep pace with innovation, it cannot fend off the adverse effects of development, but it will be unable to enjoy its advantages. That is why countries spend an increasing amount of money on innovation. Below is a summary of the main policy debates on RDI funding.

Approximately USD 1,600 billion is spent a year on funding R&D, including corporate R&D, in the world. However, it is difficult to relate genuine business profit to these funds. Funding is one of the major instruments accessible to governments for steering science and innovation systems. Governments spend a lot of public money on sustaining a wide academic sector. Initially, the authors of this study presumed that project evaluation is a fine-tuned tool in the service of economic growth. But the first research which tried to develop new indicators on pre-existing databases was conducted merely a decade ago.

The evaluation of the publicly funded corporate RDI programmes often contains a theory of “other benefits” or “social benefits”. It seems natural even in high-level policy papers to evaluate the corporate R&I programmes on terms other than the benefit produced for the beneficiary. Is not future profitability the key evaluation criterion in most cases?

The consequence is an interesting contradiction. Although all programmes are evaluated as highly successful, and the impact on GDP seems to be very high, overall, the funding schemes are considered as insufficiently effective. For this reason, the policy-makers focus on refundable sources, and financial instruments gain increasing ground. From our perspective this is a bypass, an effort at circumventing the problem instead of penetrating into it and reorganising it.

Governments provide support of a level of 10-20 per cent of business R&D expenditures in most OECD countries. The role of the state is likely to remain stable in this regard in the next 10-15 years. However, national and regional governments have a growing economic pressure to reduce public expenditure which may affect their role in the R&D (OECD, 2016). On the contrary, the rising number of interstate conflicts, and its expanding into technological fields may be a trajectory for further state involvement into sponsoring private R&D. So if policy makers aim to stimulate and accelerate (or just maintain) economic growth and development with strengthening research, development and innovation, then just spending more money will not be enough. Something will be needed that converts quantity into quality and this could be the export-oriented approach, or in the field of research it is the participation in international research collaborations and networks.

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to reduce regional gaps. In this paper EU's Horizon 2020 research funding framework data is analysed and efforts are made at deciding which theory is confirmed by them. Should the leaders in innovation have a different RDI policy than those with poorer RDI results? An overview is given of the main policy debates that form and influence national and supranational research, development and innovation policy frameworks and subsidising systems. The current state of the Hungarian RDI sector is described and conclusions are drawn on subsidisation policy in light of the H2020 data.

POLICY DEBATES ON R&D FUNDING

A country achieves long-term growth if it invests in human capital, knowledge or innovation. These resources have a spill-over effect and they spread through out of the entire economy and contribute to the growth (Romer, 1990; Jones, 1995, p. 761) criticises Romer for the implication of a “scale effect” in his model. This means that an increase in resources of RDI (money, personnel, etc.) should increase the level of growth. This is not true, however several countries look like behaving so.

What policy makers expect from RDI funds is to have impact on GDP growth (Shibata et al., 2008; Macilwain, 2010). Public RDI policies are not directly attached to GDP growth expectations, however these expectations are lying behind these policies.

Public RDI policies are justified by market failures, positive spill-overs and negative externalities (EC, 2017b). “The standard market failure rationale for business RDI support is that firms tend to underinvest in RDI on account of its costs and uncertainty, the time required to obtain returns on investment, and the possibility that competitors can capture knowledge spill-overs” (OECD, 2016). Vanino et al. (2019) summarise the rational for public support to company's RDI activities. The main reason is that it has an effect on knowledge and value creation. He identified four mechanisms:

1. Public support will increase liquidity and financial slack
2. Through cost-sharing, it reduces the required investment and de-risks private investment
3. Where there is a market failure innovation may have market-making objectives to address particular social or economic challenges
4. Public R&D and innovation support can play an enabling or bridging role, helping firms to access otherwise unavailable new or pre-existing knowledge.

GDP growth is a positive spill-over from this point of view. The Lamy report (EC, 2017b) says that EU is not good at commercialisation of research while another EU document states that every euro spent generates 10-30 per cent benefit (see also Hather et al., 2010). Here arises the problem of impact assessment. Bornmann (2013, p. 219) collects the problem of impact assessment, and he concludes that it is impossible to measure correctly the impact of a research, thus it is impossible to show it to the policy makers.

Following the economic crisis in 2008, many governments reinvented the targeted industrial policy. Concerns about the loss of manufacturing capacities, growing competition from emerging economies, and a sciences and technology-driven new produc-

tion revolution have contributed to a surge in interest (OECD, 2016). Concerns about losing something important or falling behind the competitors are rationale in RDI investments as well. This argument relates RDI funding to economic growth again.

While GDP growth expectations are obvious regarding the RDI funding, some research show that the connection is not linear (Jaruzelski et al., 2005) researched the thousand publicly owned companies that spent the most for RDI. They found no connection between the high RDI expenditure and the value of company or income or any success indicator. You cannot buy results for money. But exactly this is what funding agencies are trying: they try to convert state fund to RDI results and profit. This process is not that simple.

There are three big ways of reforming innovation expenditure in a way that are thought to be more effective:

- giving refundable fund instead of the non-refundable,
- changing the funding schemes, and the eligibility criteria,
- changing the decision-making process.

With the refundable sources you reach more mature companies and innovation ideas, than with the non-refundable ones. Both have their own role in the innovation landscape. Policy makers however tends to believe that non-refundable sources are less effective. So they turn to refundable sources, as those provide easy answer on profitability. The other two is always an issue to fine-tune the RDI system.

Thus governments' main reason to support RDI is that they hope to have some economic impact. If a policy maker aims to increase economic growth through research and innovation, then just spending more money is not enough, because better economies sweat better projects. After a while, spending more money will reach not viable projects. This is the theoretical question that we test here.

As a summary, there are three main questions:

- What to expect from R&D funding: economic growth or spill-over effects? (We were already talking about this topic.)
- Is this expectation directly linked to the RDI system, or it just appears indirectly? (We were already talking about this topic.)
- How can the governments reach this goal? (This is in the following chapters.)

TWO CONTRADICTING THEORIES IN THE REGIONAL STUDIES

Is RDI industry a good tool for regional development?

“Innovative activity is not uniformly or randomly distributed across the geographical landscape. Indeed, the more knowledge-intensive the economic activity, the more geographically clustered it tends to be. This tendency toward spatial concentration has become more marked over time, not less. [...] This reality contradicts a longstanding prediction that the increasing use of information communication technology would lead to the dispersal of innovative activity over time. [...] When everyone has relatively easy access to explicit/codified knowledge, the creation of unique capabilities and products depends on the production and use of tacit knowledge” (Asheim and Gertler, 2005).

Tacit knowledge is a key element to understand the importance of spatial proximity. Tacit knowledge is the context, institutional context in which codified knowledge was born. It can be transmitted through face to face interaction between partners who already share some basic knowledge and trust and maybe like each other. Thus, it is hard to sell over long distances. “The skills required for effective knowledge transfer within collective learning process are highly time- and space-specific.” Lengyel (2010) has found that the common culture, societal and technological proximity enhances the spread of innovation. The innovation system of a company is collaboration between different actors, such as universities, research institutes, other companies in the value chain, public agencies. The geographic dispersion of these institutions is also not even, so socially organized learning process is not possible everywhere, as there are no partners to learn from.

In the last decade the success of cities became to the centre of regional research (Filep, 2014; Rechnitzer et al., 2019). RDI is typically present in the cities. Bigger cities are more likely to have some RDI industry. RDI industry is concentrating in hubs, and these hubs need a critical mass which is present only in the cities. Smart is a city if it is technologically leading, there are working a lot of researchers, there is a lot of early users, innovation is part of the city culture. Other studies state as well that behind the success of the developed countries there is a spatial concentration (Filep et al., 2012; Szirmai, 2005).

R&D is thought to be a good tool to reduce regional gaps. EU describes the development with three words: intelligent, sustainable, and inclusive (Europe 2020). Intelligent includes R&D, knowledge production, high value added. The EU takes special attention to this topic as part of its growth strategy. The RDI budget of Horizon Europe will be higher with 50 per cent than the Horizon 2020. The European Regional Development Fund also includes priorities on RDI, as a tool of reducing regional inequalities. Some scientist (e.g. Chandra et al., 2010) also states that the innovation guaranties stable growth and thus predictable welfare. The progress of science and technology is a main driver of sustainable long-term growth (Guan et al., 2016, p. 770).

The theory of intraregional development recognized that for the sustainable economic development it is necessary the existence of stimulating institutions such as universities, research institutions, corporate innovation centres and the well-established supplier's network (Rechnitzer, 1994).

So, there are two contradicting arguments. One argues that the knowledge is local, so it is hard if possible at all to raise R&D intensity in a region just by providing funds. The other argues that if we create opportunities through funding, more and more people will take the opportunity.

HORIZON 2020 DATA THROUGH THE THEORETICAL LENSES

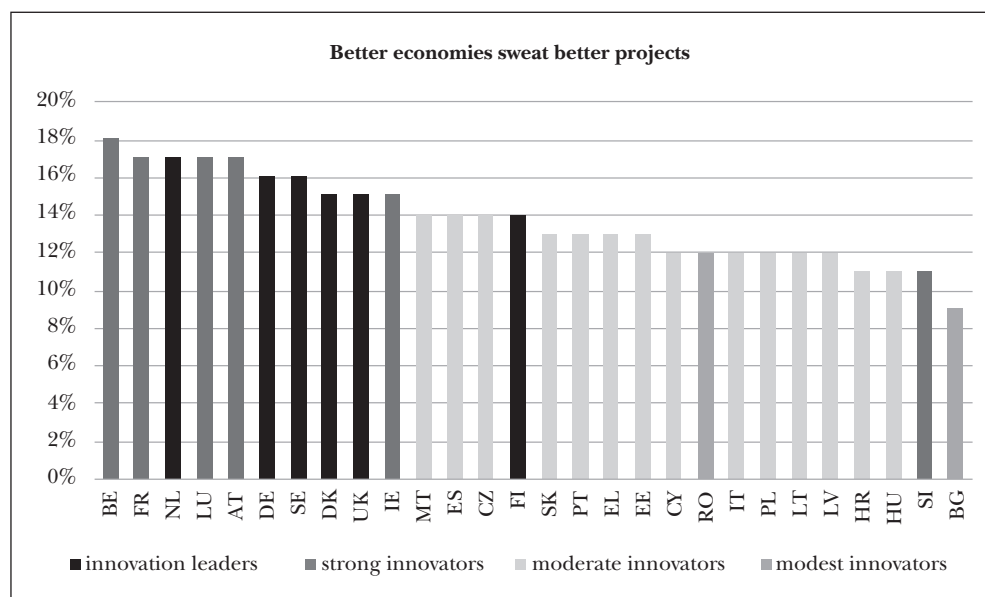
Wealthier countries, countries with good economy have better projects that allure with better results.

Is it true, that better economies have better RDI projects? This question was tested among EU Member States. This would mean that if the knowledge industry is less developed then the RDI funding should be different. If better economy sweats better projects, it is easier to find the best ones. If you have more money than good projects, then you fund some of the average projects with higher risk.

The European Innovation Scoreboard (EIS) measures the innovation performance of the Member States. It is composed by four sets of indicators: framework conditions, investments, innovation activities, impacts. Countries are divided into four groups based on EIS scores: innovation leaders, strong innovators, moderate innovators, modest innovators.

Horizon 2020 finance excellent research. In each country the best projects are submitted to EU level, as it gives a higher prestige, an immediate international environment and a larger innovation network. At the EU level the competition is stronger, and the per cent of selected projects is uneven across countries. We can measure the ability of a country to find out good projects by looking at the per cent of the contracted projects. If we compare EIS scores with Horizon 2020 success rate, we get the supposed result.

Figure 1: EIS scoreboard vs. the ratio of retained projects in H2020



Source: Corda

Figure 1 compares the success rate in Horizon 2020 (2014-2016) and indicates the country ranking in European Innovation Scoreboard (2017). Clearly, the more innovative the economy is the better chances it has to submit good projects.

Are these better economies able to earn more money with these better projects? Reading the Fab-Lab-App (EC, 2017b) the RDI output indicators in the EU are worse

than we can expect from the input indicators. We invest a lot in RDI but we earn very few on it. It means that something is wrong with the policy making. We measure something else that we want, and we make connections between datasets incorrectly.

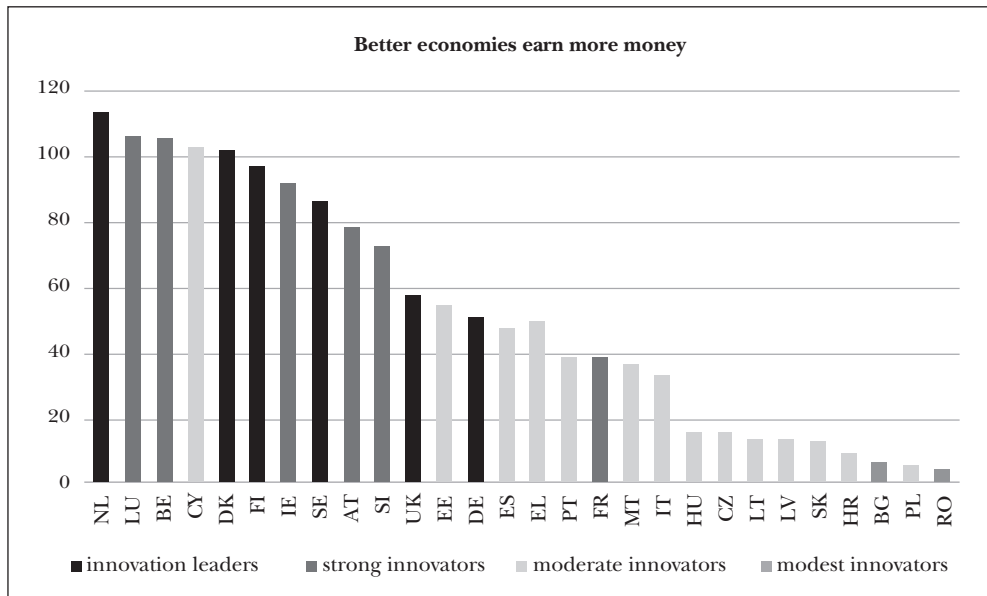
There are three reasons why the EU lags behind the USA in the field of RDI (EC, 2017a, p. 20). 1) There are fewer young leading innovative companies (Yollies), with productivity among the worlds' best. 2) Companies in the EU are less RDI intensive. 3) The companies' sectoral dispersion is different.

Figure 2 shows how much was earned in the Horizon 2020 projects by countries (EUR million) and it is proportioned by million inhabitants, to make the results comparable. The goodness of the economy is also shown by EIS ranking. We can see that with these better projects better economies earn more money.

So, it seems to be a vicious circle, that if you start on a better ground, then you can set up better projects and with these better projects you earn more money.

The same conclusion can be drawn from other data. OECD (2016) shows that licensing income from public research is very concentrated. 10 per cent of total universities earn 86.5 per cent of the total license income earned by all universities in the sample. The numbers are pretty similar among the research organisations. The ability to earn money on knowledge shows regional variation.

Figure 2: Money earned from H2020 (2014-2016; million EUR) / million inhabitants



Source: Corda

This phenomenon is supported by the claims on tacit knowledge discussed above. Tacit knowledge, innovation culture and the skills needed for innovation are the concepts that help us understand this vicious circle.

It also means that in a less developed economy the projects will not be so effective, so there is a higher importance on effectiveness of project evaluation. Not to let a single good project under the threshold.

THE CASE OF HUNGARY

The Hungarian innovation system

The Hungarian government invests heavily in business R&D. The government has the second highest share in direct support for business R&D among 35 OECD and EU-28 countries.

Structure of government funding

The National Research, Development and Innovation Fund (NRDIF/NKFIA) integrates two funds: 1) Research and Technological Innovation Fund (KTIA) and 2) Hungarian Scientific Research Fund (OTKA). The total budget of NKFIA for 2018: HUF 82.1 billion (approx. EUR 260m). There are six operational programmes of the EU Structural Funds, co-funded by the central EU budget, that were available to the Hungarian regions from 2014 to 2020 (Ranga et al., 2015):

- Economic Development and Innovation OP (GINOP): Total budget (2014-2020) Priority 2 (Reinforcement of research, technological development and innovation): EUR 1,687.9 million

- Economic Development and Innovation OP (GINOP): Total budget (2014-2020) Priority 7 (Financial instruments to top up R&I support): EUR 2,553.2 million

- Competitive Central Hungary OP (VEKOP): Total budget (2014-2020) Priority 1 (Improvement of companies' competitiveness and development of the knowledge economy): EUR 202.2 million

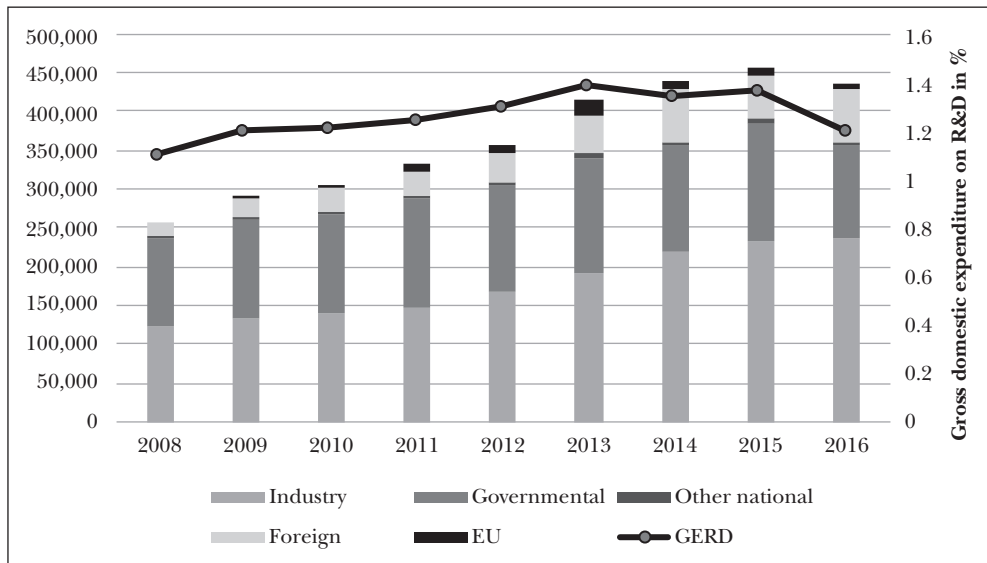
- Competitive Central Hungary OP (VEKOP): Total budget (2014-2020) Priority 2 (Financial instruments and development of services): EUR 44.1 million

- Human Resources Development OP (EFOP): Total budget (2014-2020): EUR 898.3 million; Rural Development Programme (VP): Total budget (2014-2020): EUR 25.3 million

Innovation policy

The innovation policy structure of Hungary is the keystone of the country's strategic development strategy, well-defined in line with the European Union's cohesion and innovation policies for the 2014-2020 programming period. Foreign-owned actors are eligible too for support measures available to every company operating in Hungary (HIPA, 2020).

Figure 3: Structure of the R&D budget and GERD



Source: CSO, 2017

National Research, Development and Innovation Strategy

The “Investment into the Future – National Research and Development and Innovation Strategy 2020” (RDI strategy) was approved by the Hungarian Government in June 2013. The aim of the strategy is to increase RDI investment, which will mobilise the Hungarian economy and strengthen its competitiveness.

National Smart Specialisation Strategy

The Smart Specialisation Strategy (S3) is developed in every Member State within the framework predefined by the EU. Hungary’s smart specialisation strategy was approved in November 2014. It sets the directions for the entire country, along with which research, development and innovation are to be supported in the most sustainable way, with the greatest social profit and the promise of the best financial utilisation rate.

The Strategy sets up six sectoral and two horizontal research and innovation priorities. These priorities encompass domains, areas and economic activities where Hungary has a competitive advantage or has the potential to generate knowledge-driven growth, and are embedded in the calls of the NKFIH (National Research, Development and Innovation Office) that were published for the new programming period 2014–2020.

Sectoral priorities:

- Healthy society and well-being
- Advanced technologies in the vehicle and other machine industries
- Clean and renewable energies
- Sustainable environment
- Healthy local foods
- Agricultural innovation

Horizontal priorities:

- ICT (info-communication technologies) & Services
- Inclusive and sustainable society, viable environment

It was partly from these antecedents that the government started to elaborate a new strategy of Industry 4.0 in 2016 (Irinyi Plan). The aim of the Irinyi Plan is to further increase the share of manufacturing in Hungarian GDP with the support of key industries: the motor vehicle manufacturing (public transport), the defence industry, the construction industry, the textile industry and medical equipment. One of the goals of the strategy is to increase the share of these industries in GDP to 30 per cent by 2020.

Business enterprise sector

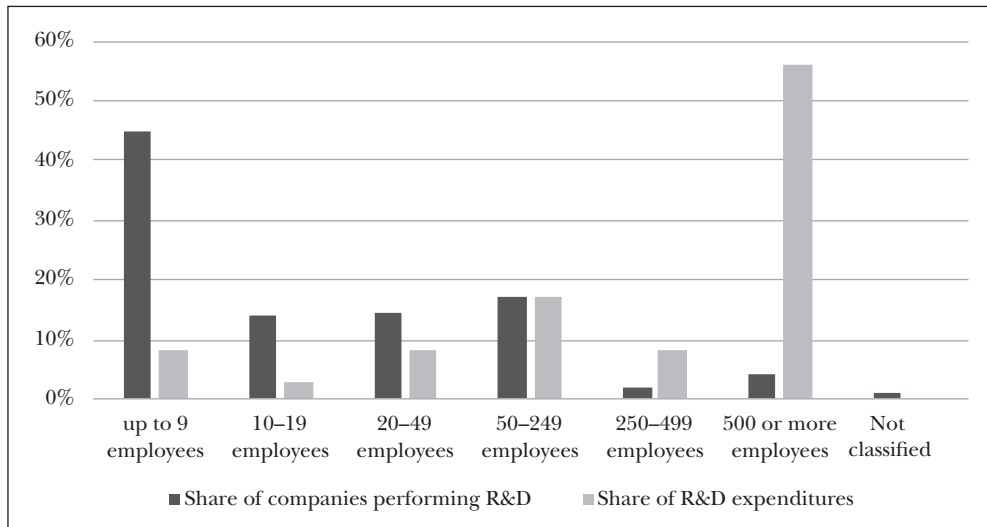
The Hungarian private sector has registered notable increases in R&D activities since the country's accession to the EU. The share of the business sector for the total R&D expenditures reached 56 per cent or EUR 777m (HUF 241b) in 2016. Large companies accounted for 55.26 per cent of BERD, while SMEs depend on external sources of R&D funding, mostly government and the EU Structural Funds. Central Hungary (including Budapest) accounts for the majority of corporate R&D, R&D-performing companies and patents. Pharmaceutical, ICT, machinery and automotive companies make the highest contribution to the BERD.

R&D cooperation with EU

European cooperation in R&D and Innovation is increasing in scope and importance. Most cooperative R&D projects in Europe are carried out within the European Framework Programmes for Research and Technological Development, such as FP7 (2007-2013) and Horizon 2020 (2014-2020). Hungary's performance in FP7 ranked high among newly accessed Member States (EU13):

- 1,602 participants receiving EUR two hundred and ninety million
 - Rank in grant awarded: sixteenth (EU28); second (EU13)
 - Rank in number of participants: sixteenth (EU28); second (EU13)
 - Top collaborative links: Germany; United Kingdom; Italy; France and Spain
- Horizon 2020 (as of 2018)
- 632 participants receiving EUR 179.58 m
 - 200 SMEs (Small and Medium Enterprises) receiving EUR 53.58

Figure 4: Share of companies performing R&D and their R&D expenditures by company size



Source: EC, 2017c

- Ranking in grant awarded: 17th (EU28); 3rd (EU13)
- Rank in budget share: 17th (EU28); 4th (EU13)
- Top collaborative links: Germany, United Kingdom, Spain, France, and Italy

European Institute of Innovation and Technology / Knowledge and Innovation Communities

The European Institute of Innovation and Technology (EIT), established in 2008 with its headquarters in Budapest, is the first Europe-wide institution based in Hungary. The EIT is the EU's flagship institute designed to connect European business and research, and to integrate innovation, research and economic growth in Europe. The mission of EIT is carried out through the so-called Knowledge and Innovation Communities (KICs), integrating European innovation platforms of leading European stakeholders from industry, academia, and policy. KICs established with Hungarian participation:

- Climate-KIC: Central Hungary hosts a regional implementation and innovation centre
- EIT Digital has an Associate Partner Group consisting of two universities (BME and ELTE) and their industrial partners (consortium partners: Ericsson Hungary, Magyar Telekom; cooperating partners: Cisco Systems Hungary, Nokia Solutions and Networks, and General Electric Healthcare).
- KIC InnoEnergy has an Accelerator HUB in Budapest
- KIC Health has a regional office in Budapest and four Hungarian Innostar partners: GE Healthcare, Semmelweis University, University of Debrecen and the National Healthcare Service Centre

Key developments in research and innovation

Low barriers to entrepreneurship resulted in a major increase in the share of international patents from 2000 to 2019. Business enterprises can benefit from indirect support measures: tax incentives for R&D, and through institutional funding in collaboration with public research organisations. Hungary has a proven track record of excellence in its science base and the presence of highly innovative international enterprises, and the government aims to better exploit its intellectual capital, hence the increased willingness to develop and implement demand-side innovation policy measures, such as public procurement of innovation (PPI) and pre-commercial procurement (PCP). Important progress has been made and the country now has a golden opportunity to build on the emerging collective feeling of a “new beginning” for its R&I system. The establishment of the National Research, Development and Innovation Office (NKFIH) integrates the activities of the previous ministry departments responsible for innovation policy. The establishment of the National Research, Development and Innovation Fund (NKFIA) integrates the former Research and Innovation programmes. The establishment of the Innovation Body that consists of nine distinguished members representing both the economic and scientific spheres. New research measures were launched funded by the Operational Programmes (i.e. GINOP, VEKOP, EFOP) co-funded by the Structural Funds.

Analysis of RDI sector performance in Hungary

R&D spending share within GDP of Hungary is 1.53 per cent in 2018. This proportion is much below the EU average. Yet this share shows quite definite shifts in the last decades compared to last decades. Among the Visegrád countries, Czech Republic precedes Hungary, but both Poland and Slovakia perform worse in this regard (see Table 1).

Table 1: Development and Research Expenditures in terms of GDP (2018)

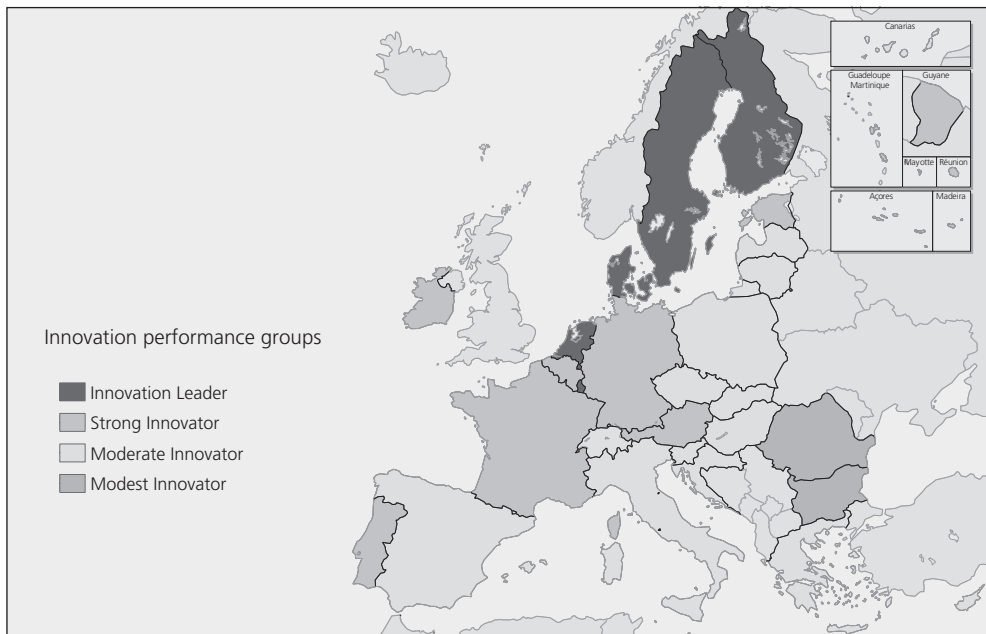
Country	Share (%)
Czech Republic	1.93
Hungary	1.53
Poland	1.21
Slovakia	0.84

Source: Eurostat databases

In the European Union, the growth of R&D expenditures (in defined in terms of GDP) is essential key target. The EU average target is reaching 3.0 per cent in proportion of GDP for 2020; whereas Hungary targeted 1.8 per cent. Considering the fields of science and technology, the big picture of the R&D sector is quite positive, however, also weaknesses can be detected: productivity and patent activity are the outliers, whereas R&D intensity, the value added of the manufacturing and high tech inten-

sity are strengths of the Hungarian economy. Based on the analysis of the European Innovation Scoreboard, the Hungarian Innovation Index was 72.3 in 2019 which is substantially better than in 2012 (64.8). Based on the surveys, among strengths we can identify the innovation friendly environment, the employment and sales impacts innovation and broadband penetration. Regarding the sectoral distribution of innovation activities, we can observe that pharmaceutical sector shows the share of innovative firms highest (63.9 per cent), while the IT and communication sector (50.3 per cent) and the oil refinery sector (50 per cent) can be regarded innovation-intensive economic sectors as well. Average levels are to be found around 30 per cent, the share of innovative firms is above this level in the automotive industry (42.1 per cent), chemical sector (44.7 per cent) and finances, insurance sector (43.6 per cent), just to name a few of the most important sectors (Moldicz, 2020).

Figure 5: European Innovation Scoreboard 2020



Source: EC, 2020

Based on the European Innovation Scoreboard 2020, employment impacts, sales impacts and innovation-friendly environment are the strongest innovation dimensions in Hungary. Performance is highest for employment in fast-growing enterprises of innovative sectors, medium and high-tech product exports, non-R&D innovation expenditures, and broadband penetration. Innovators, human resources and finance and support are the weakest innovation dimensions. Hungary's lowest indicator scores are on Design applications, SMEs innovating in-house, SMEs with marketing or organisational innovations, and R&D expenditures in the public sector.

More than 50 per cent of the R&D spending inflow from the corporate sector in Hungary, whereas the public budget spending typically make up around one-third of the total expenditures. Approximately 17 per cent of the expenditures are received from international sources (as against 15 per cent in 2018). The main actors of innovation are the private companies: more than 70 per cent of the research and development funds are performed by them; both the Hungarian higher education institutions and research institutes spend 13-13 per cent of the total sum on research and development. If we take the source distribution of the corporate research and development expenditures into consideration, we can observe that 70 per cent are from the corporate sector, 17 per cent from international sources and only 13.6 per cent from the public budget. However, it is a remarkable fact that micro and small enterprises (in European categorisation enterprises, where the number of workforce is less than 50) mainly rely on government funds (37.6 per cent) in their research and development spending, while the same ratio is 25.5 per cent in the case of medium-size enterprises (based on the categorisation the number of employees is between 50 and 249) and 3.1 per cent at large enterprises (number of employees is more than 250). Based on strategy of science and technology of Hungary the government established the National Research Development and Innovation Office (NRDIO) in 2014. The NRDIO established the NRD Fund. The fund is financed from several sources: the contribution of the central budget and the so-called 'innovation contribution' of the companies. The innovation contribution is built in the tax system of Hungary and the aim is to support the technological development of the Hungarian economy in a sustainable way. Another special purpose of the fund is to supplement and balance the EU funds.

EU's structural funds focusing on the support of less developed regions in Europe. In the case of Hungary, less developed regions are in the rural areas, while more than two-third of the Hungarian research and development facilities and activities are to be found in the central region (Budapest and Pest county); where GDP per capita is above the EU level. (2017: 139.7%). So, the amount of available funds is reduced in the region where the potential for research and innovation is given.

Regarding international relations and cooperation, the mission of the NRDIO is to coordinate the EU Framework Programme for Research and Development Horizon 2020, which is an 80 billion euros fund available between 2014 and 2020. In the institutional framework of the NRDIO, the so-called National Contact Points were established so that they inform and advise potential grant applicants. The NRDIO also represents Hungarian interests in several strategic, decision-making bodies of the "Horizon" programme, the representation of Hungarian interests in the bodies is supported by a network of specialists and experts.

In the case of a single country we can examine three things:

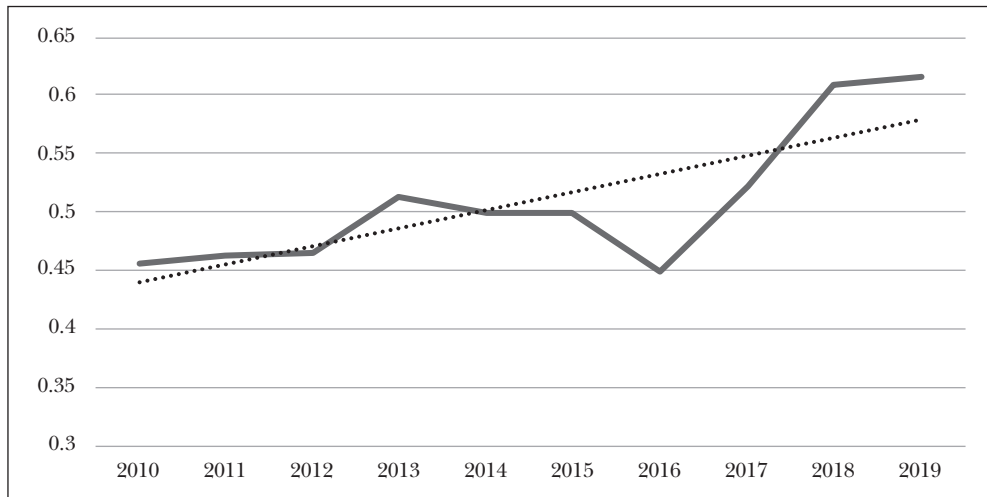
- Did the performance indicators grow?
- Did the country's economy converge to a bigger group of countries or did the advantage remain?
- Did the regions of that country converge?

The performance indicators have been growing in the last decade (2010-2019). The gross expenditure on R&D (GERD) was growing from EUR 1.13 to 2.16 billion. The number of R&D places (private and public) has increased from 2983 to 3555. The number of R&D personnel has increased from 53,991 to 70,589. There are not any performance indicators which have not been growing significantly. These indicators are just quantity indicators.

Measuring the quality of the R&D is always harder especially in the business sector, because most of the performance indicators express cost and not result. What we can say here is that the growth of R&D sector (the source of expenditure) comes from both the public and private sector, but the proportion of the business sector has increased from 47 per cent in 2010 to 52 per cent in 2019. While the public R&D sector (universities, research institutes) are not able to survive without governmental funds, we can hope that the private leg of this sector is less dependent from the public expenditures.

In terms of convergence to the EU countries, it seems clear that there was a kind of convergence; however the Hungarian R&D is still a rounding error in the EU landscape (Figure 6).

Figure 6: Ratio of Hungarian GERD to EU GERD



Source: Eurostat

In the last decade the Hungarian GERD almost doubled. It has increased from 1.13 to 2.16 billion EUR. Meanwhile the EU GERD changed from EUR 247 million to EUR 351 billion. The trend line shows a convergence however it is not linear.

We concluded the previous chapter with confirming the theory of tacit knowledge with data. Thus, we expect that the places where R&D plays an important role should be play even higher role after a decade. We saw the concentration of the RDI processes. On the Figure 3 we see that a convergence is still possible.

A survey of the convergence by Hungarian regions gives a mixed picture. We collected the GERD of the region in 2010 and 2019, and we divided them. The number that we get shows how much more important the R&D is today than it was a decade ago in GDP. The basis was not even. A decade ago there were counties with almost no R&D sector (e.g. Tolna: 0.1%), and counties with relative high GERD (e.g. Csongrád: 1.9%). Hungarian GDP was growing faster than the EU average. In the whole economy there was a convergence. There were counties which performed a high GDP growth so a similarly growing R&D sector plays a similar proportion.

Table 2: How much more important is the R&D sector today in the economy than it was a decade ago? (GERD% 2019 / GERD% 2010)

Region	
Central Hungary	1.4
Western Transdanubia	1.4
Central Transdanubia	2.1
Southern Transdanubia	1.4
Northern Hungary	1.1
Northern Great Plain	0.9
Southern Great Plain	1.2
Average	1.3

Source: Authors' elaboration based on data by the Hungarian Central Statistical Office (KSH)

The Table 2 shows that today the R&D sector plays 30 per cent higher role in the economy than a decade ago, so the convergence of it was higher than the convergence of GDP. It is really interesting that the central and western regions all were growing more than the average and all the eastern regions were growing under the average.

To conclude this chapter, we see that the Hungarian R&D economy was able to catch up to the EU average. The main performance indicators have been growing constantly. Among the regions not only the capital and the central region was able to make its R&D industry grow but a number of regions.

CONCLUSIONS

There were two contradicting theories to be tested on H2020 data. One of them claims that knowledge flow across regions is limited. This is due to the tacit part of the knowledge. The other argues that one can buy innovation results by funding innovation, and this is a good way of reducing regional gaps.

Our data on the EU R&D performance confirms the first one. Thus, one cannot simply buy innovation results for money. Less developed countries need to add something to the research funding system that ensures the flow and accumulation of tacit knowledge. If policy-makers want to attach GDP growth expectations to the RDI

funds, they should incorporate it to the rationale of public support, and the elimination of the obstacles to the flow of tacit knowledge.

In the regions of Hungary, the other theory was found to better describe the data. Convergence is possible, and convergence is not even across the country. Thus the contradiction between the two theories do not seem to have got any closer to a resolution. In the authors' opinion, the Hungarian RDI is sufficiently embedded in the European RDI industry to be able to absorb tacit knowledge.

However, this study has revealed the shortages and missing elements that prevent the dissolution of contradiction between the two theories. The nature of tacit knowledge, or in other words, the evolution of an innovation culture needs to be understood more thoroughly. Thus, the turning of the quantity of RDI funds into quality over time needs to be detected.

The synthesis of the two theories would help RDI funding agencies and policy-makers to understand how RDI funds can best contribute to economic convergence.

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How to Go on University Professors? Or the Minimum Publication Requirement in Social Sciences



Summary

The most recent guideline of the Hungarian Accreditation Committee about the applications submitted by university professors subject to the requirements published in July 2019 entered into force on 1 September 2019. This document establishes new general minimum publication requirements for applicants, supplemented by special requirements for the specific areas. These requirements were necessitated by changes in the international academic paradigm, which encourages the issue of Q1 and Q2 level publications. The purpose of this paper is to examine compliance with these requirements by university professors who received their title in the past three years. The findings show that only 23 per cent comply fully with the general minimum requirements, with a 40 per cent full compliance with the supplementary requirements of the field of economics and business, and a 10 per cent in the field of social sciences.

Journal of Economic Literature (JEL) codes: A10, Z00

Keywords: university professor, publication requirements, Hungarian Accreditation Committee, Scopus

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INTRODUCTION

In June 2019, the Hungarian Accreditation Committee (HAC) accepted its most recent guideline regarding the evaluation of university professors' applications (Resolution No. 2019/5/VII/4. of the HAC on the *Guidelines to the preparation and evaluation of university professors' applications*; MAB, 2019), which entered into force on 1 September 2019. The guidelines set minimum, general and special requirements for academic and university lecturers' performance. These requirements fit into a pattern of significant changes in the international academic community, and lead to a paradigm change in measuring value.

The various international academic fields attract an increasing number of participants, and consequently success and recognition increasingly depend on the number of publications in journals (Wuchty et al., 2007). Today, it is not nearly enough to publish papers in a one's country, because in an increasingly transparent and digitalised world of intensifying competition, the international rankings are set by international publication performance. The model of competition-based financing has also been adopted in Hungary, on each and every step of the ladder of the academic hierarchy. This new system of financing requires, on the one hand, focus on results, and on the other, devoted efforts by all the institutions and employees of the Hungarian system of higher education towards a systematic and transparent evaluation of systems, excellence in the international and Hungarian arena, and for the resources and financial support (Kozma, 2011).

In Hungary academic advancement is based on performance and individual merits. One can work his or her way up the career ladder in the following steps: obtain a PhD degree (Kiss, 2014); habilitate (Dobos et al., 2016); become a 'doctor of the Academy' – referring to the Hungarian Academy of Sciences (HAS), (Zalai, 2006) and finally obtain the title 'Academician' (a full or a corresponding member) (Polónyi, 2010). Selection based on professional merits is based on the HAC's evaluation of applications submitted for a position as a university professors or as a doctor of the Academy (Bazsa, 2017). In parallel with the aforementioned steps, one is also promoted at his or her job as follows: from an assistant lecturer he or she becomes an assistant professor, then an associate professor and finally a university professor, the highest achievable rank in Hungary.

The purpose of this paper is to examine the scientific performance of researchers who have received a university professor's title in the past three years, in light of the minimum requirements of the new HAC guidelines. Then a group of university professors are compared to a groups of "Academic Doctors" and Academicians.

THEORETICAL BACKGROUND

The international scientific change of paradigm is a combination of several processes, including competition-based financing, which is gaining ground internationally and in Hungary (Polónyi, 2012).

Since its 2004 accession to the European Union, Hungary has been an active participant in European common research, in constant transformation and rapid development, which defines the areas the Member States pursue to carry on with their scientific activity through the institutions of the European Union based on similar or identical requirements and values. One of the best known programmes is the Horizon 2020 of the European Commission, financed under the European Research Council's (ERC) research grant system. The most important characteristic of the ERC research grants is their bottom-up nature, which means that researchers compete in their own research fields without restriction, since there are no pre-determined research subjects. The ERC is open for all research fields, including engineering and natural sciences, social sciences and medical studies. Another important characteristic is that it completely relies on international researcher excellence, based on the quality and quantity of the publications registered in the Scopus international database, and the number of linked citations. The international scientific rankings in their systems also build upon these scientific excellence criteria, whose bases are also the publications registered in either the Scopus, or the Clarivate Analytics Web of Science (WoS). These databases set very similar criteria for authors and journals, and evaluate their indexed publications, and for this reason, they constitute an optimum basis for the evaluation of international rankings and research grants.

There are two major examples of Hungarian research grants of nationwide importance which require international researcher excellence. The first one is the Research Field Excellence Programme (Tématerületi Kiválósági Program), and the second is the Frontline – Researcher Excellence Programme (Élvonal – Kutatói Kiválósági Program). Both require that the purpose of financing should be to obtain internationally important research results, and both expect international researcher excellence. The Frontline system is much more similar to the ERC with regard to its purpose and applicants, as it intends to support researchers of the most outstanding results. The set criteria include minimum international publication requirements as a supplement to a professional review. Similarly, experts recommend minimum requirements regarding the habilitation processes (Dusek, 2019; Papp, 2019). In case minimum requirements are set, the role of subjective judgment is reduced by the decisions on research grants (Balaton, 2019).

The common criterion of the requirements of research grants is to have publications qualified by the Scimago Journal Rank (SJR) international journal ranking. An important element of the transition is that the SJR-value of journals (and thus of the publications) is presented on the ranking – within the individual research fields – in four classes of identical thresholds – at the service provider, in the Repository of Hungarian Scientific Works (RHSA, Magyar Tudományos Művek Tára, MTMT) – from the top 25 per cent to the bottom 25 per cent. This is called quartile ranking (Q1: best 25%; Q2: 25–50%; Q3: 50–75%; Q4: 75–100%), and allows – at least theoretically – direct comparison between journals and publications in different fields of science and profession (on the basis of their ranking in their respective fields, Soós, 2017). SJR is a major factor in the systems THE (World University Rankings, Times Higher Educa-

tion), QS (QS World University Rankings), and ERC research grants.

Besides the financing model and digitalisation, another paradigm change that has taken place in scientific publication (Nagy, 2016) is that the scientific discourse has shifted from books (monographies, edited and synthetic books) to the world of journals (Larsen and Von Ins, 2010). This trend began in the field of natural sciences, but social sciences have also lined up and, moreover, certain effects are even observable in liberal arts (Csapó, 2011).

CHANGE OF PARADIGM IN THE EVALUATION OF UNIVERSITY RESEARCH GRANTS

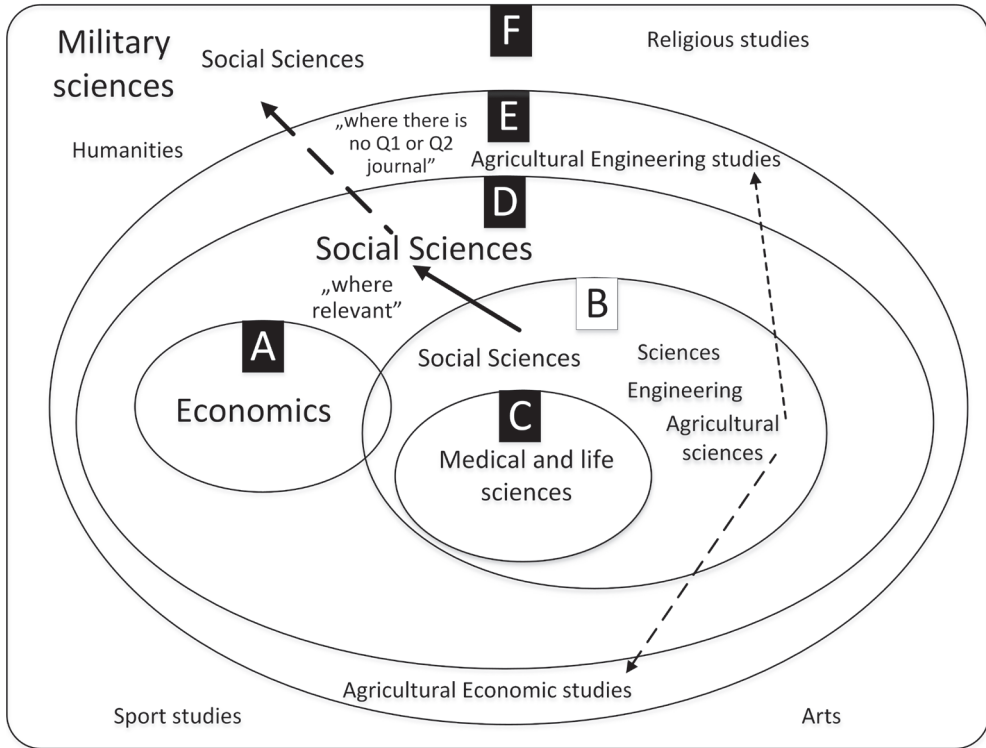
If one reads the call for papers, it is clear that international research excellence is increasingly required, and it is no longer a privilege of a reserve group, but a generally accepted, obligatory requirement for all members of the scientific community (Gazizova et al., 2016). These ambitions are reflected in Resolution No. 2019/5/VII/4. of the HAC on the *Guidelines to the preparation and evaluation of university professors' applications*, published in June 2019, a document concerning university professors' applications, and laying down requirements which had previously been included in only certain excellence programmes. This is a noteworthy change as it is a systematic integration of the requirements of high-standard international journals. The approved document contains both general and specific criteria on academic activities. In addition to the requirements, the guidelines also include elements of the specific traditions and sets of values of the individual fields, which in certain cases results in stricter, in other cases more lenient requirements. Consequently, there are basically two ways of interpretation; one of them is that the general and special requirements are to be considered together, and the fulfilment of both is expected; the other is that the applicant has to prioritise the special requirements where they exist. In this paper the special requirements are prioritised where they are specified besides the general requirements.

Based on Figure 1 the general requirements of scientific activity are as follows (set B):

“The application should present that the applicant has internationally recognised foreign-language publications with scientific results. As a minimum requirement, the applicant should have at least two foreign-language Q1 or Q2 level papers (singular, first or last, or corresponding), or the applicant should be the author of at least one monography published by a recognised international publisher” (MAB, 2019, p. 12).

According to the general requirements set in the guidelines, the minimum requirement is two foreign-language Q1 or Q2 level papers included in the journal ranking of the SJR. The expression “singular, first or last, or corresponding author” refers to papers by key author(s), where the role and the contribution of the applicant in the qualified publication are shown. In STEM (science, technology, engineering, and medicine) fields, in internationally highly qualified papers, it is quite often that hundreds or even thousands of co-authors cooperate (Castelvecchi, 2015). This is why only the papers of key author(s) are accepted for the purposes of research grants. The

Figure 1: Academic minimum performance requirements for university professors based on the SJR categorisation



Source: Authors' own elaboration

definition of papers by singular authors is the easiest; in this case the given publication belongs to only one author. The first author is usually the person who has contributed most to research and the writing of the manuscript. The last author is traditionally the lead researcher who assumes responsibility for the research project and often the key actor of the research field. The role of the corresponding author is to keep contact with the editorial board, as a permanent contact person (Dance, 2012).

The representatives of natural sciences, engineering, and agricultural sciences have undertaken to fully comply with these conditions, so they are listed in set B. Medicine and health sciences marked with letter C have tightened the general requirements by only accepting level Q1 papers, and the applicant is also required to prove their key role.

In social sciences the requirements are special and fragmented, as originally this field was listed in the set marked with letter B, i.e. accepting the general requirements, however, they have made the requirements less strict by adding the phrase "where it is relevant" and therefore now they are listed in set D. Social sciences, in accordance with the nomenclature of the field, include the following: legal sciences and state

administration, military sciences, administrative sciences, media and communication sciences, political sciences, policing and law enforcement sciences, and sociological sciences. In these fields of science, university professor applicants have to comply with the following special requirement: “Publication activity, professional papers: two foreign-language publications written as singular, first or last author (where relevant), published in Q1 or Q2 level journals. In fields without Q1 or Q2 level journals, leading international peer-reviewed journals of the field can be taken into consideration” (MAB, 2019, p. 17).

Beside the general minimum requirements applicable to social sciences, the representatives of business studies have specified additional special requirements (set A). Regulations on business studies are applicable to business and organisational studies, economics, and regional studies as follows: “The applicant has to demonstrate that they have achieved scientific results and published them in internationally recognised foreign-language publications. As a minimum requirement, the applicant should be the author of two foreign-language Q1 or Q2 level papers (and the singular or first author of at least one)” (MAB, 2019, p. 17).

The special requirements set for business studies are interesting because the applicant must have a key role (be the singular or first author) in one of the two expected Q1 or Q2 level papers, but there are no requirements regarding the role of the author of the other paper. Therefore, this wording represents limitation and easing at the same time.

Group E lists the interface fields between agricultural sciences and engineering or economics, where the following special requirement is applicable: “In the interface between agriculture and economics: one paper published in a Q1 or Q2 level journal is equivalent to a study written with no more than one co-author and included in a Hungarian book or to three chapters in a book. In the interface between agriculture and engineering: one of the papers published in a Q1 or Q2 level journal is equivalent to three foreign-language papers published in a journal which has an international advisory body, and is listed by the HAS sectional (journals Board IV, Agricultural Studies); or to an implemented engineering project (patent, know-how, machinery, or technical equipment); or to one foreign-language book or a chapter in a book” (MAB, 2019, p. 14).

Group (F) contains the scientific fields which fully exempt applicants from writing Q1 and Q2 level papers, and replace this requirement by special results which are more in line with their own publication traditions. These include liberal arts, theology, arts, sports, military sciences, and social sciences. As presented in Figure 1, the special requirements are as follows:

“In fields without any Q1 or Q2 level journals, the leading peer-reviewed international journals of the field may be taken into consideration” (Liberal Arts) (MAB, 2019, p. 15).

“[...] the applicant should be the author of at least 30 peer-reviewed papers” (in theology, MAB, 2019, p. 12).

“[...] the applicant should be an internationally recognised artist” (in arts, MAB, 2019, p. 12).

“[...] regular publication in Hungarian and in foreign languages in the field” (sport, MAB, 2019, p. 12).

“Publication and professional papers: two papers published as a singular or first or last author in foreign-language publications published in leading international peer-reviewed journals of the field on military sciences” (military sciences, MAB, 2019, p. 18).

“In fields without Q1 or Q2 level journals, leading peer-reviewed international journals of the field may be taken into consideration” (social sciences, MAB, 2019, p. 17).

The common element in these regulations is that in these fields there are no listed Q1 or Q2 level journals, and therefore other leading international journals, field-specific publications, or works of art are accepted from the applicants. Note that the special requirement set in social sciences allows consideration for “leading peer-reviewed journals of the field” in certain cases. These journals are listed in the rankings approved by the scientific committees of Board IX of HAS, and include journals that do not have any SJR rank but are prestigious. Finally, the special requirement specified in military sciences relieves the applicants from writing Q1 or Q2 level papers.

The special requirements applicable to social sciences are eased at two points in comparison to the general requirements. They were transferred from Group B to Group D because of the phrase “where relevant”, and they were then transferred from the Group D to Group F, i.e. the group with the most lenient regulations, because of the phrase “without Q1 or Q2 level journals”, as this excluded consideration for “leading international peer-reviewed journals in the field”. Note that in accordance with the classification, legal sciences and state administration, media and communications, political and sociological studies have their own lists in the SJR journal ranking system. The three groups of business studies intend to distance themselves from the aforementioned group of social sciences in setting requirements for university professor applicants with their different regulations. In military sciences the regulatory requirement of publications in SJR-ranked journals is disregarded. Similarly, in policing and law enforcement studies, the SJR journal list is not applied, and no special requirements have been set for their applicants. The phrase “without Q1 or Q2 level journals” clearly apply to the latter two fields, and thus similarly to military sciences, applicants are judged in accordance with the regulations laid down in Group F.

RESEARCH

This analysis covers a total of 105 university professors who have received their titles in social sciences in the past three years. Comparisons were made in accordance with the general and special requirements of the guidelines on scientific performance (publication). Compliance with the special requirements of the groups in business studies and social sciences was also examined.

The guidelines do not set the requirements on the basis of the classification given by HAS's scientific committees but according to the classification of scientific fields. Accordingly, the guidelines classify social sciences as follows:

Economic sciences

- Business and organisational studies
- Economics
- Regional studies

Social science

- Legal and state sciences
- Military sciences
- Administrative sciences
- Media and communication studies
- Political sciences
- Policing and law enforcement sciences
- Sociological sciences

Board IX of HAS has the following scientific committees:

- Committee of Legal and State Sciences (LAW)
- Committee of the Economics of Human Resources (CEHR)
- Committee of Business Studies (CBS)
- Committee of Military Sciences (CMS)
- Committee of Economics (ECO)
- Committee of International and Development Studies (SCIDS)
- Committee of Political Sciences (POL)
- Committee of Regional Studies (CRS)
- Committee of Statistics and Future Studies (CSFS)
- Committee of Sociological Sciences (SOC)

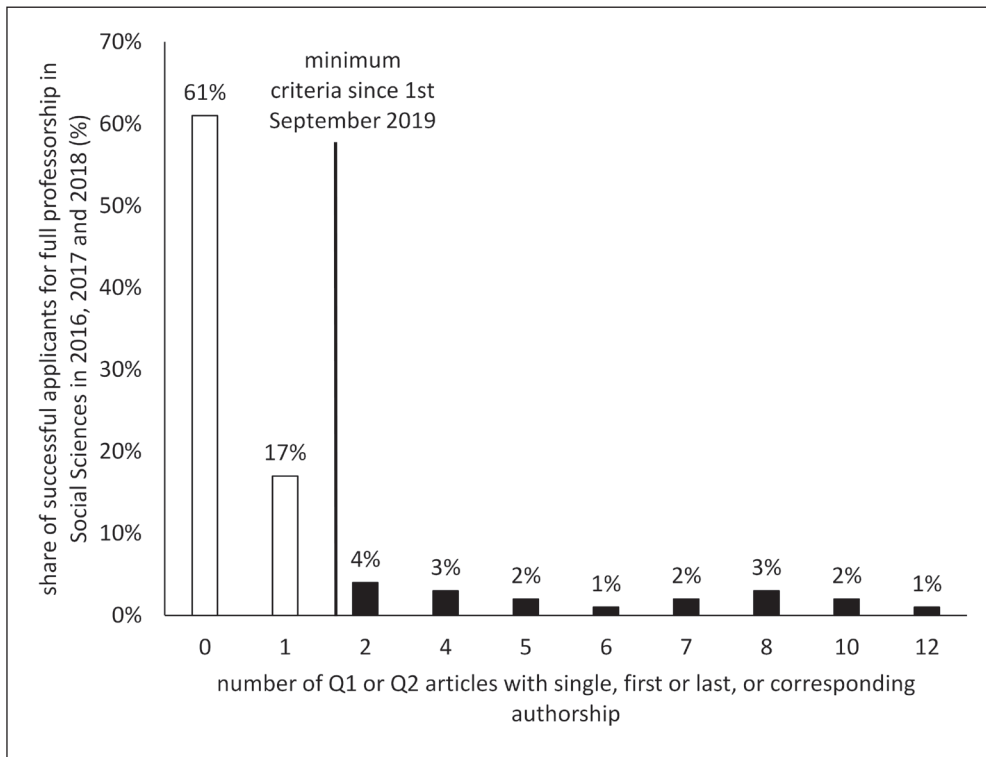
The 215 Academic Doctors and 30 academicians active in the scientific fields registered by Board IX of HAS were added to the above/referenced university professors. The researchers' publication data was downloaded from the Hungarian national reference database (RHSA), mandatorily used and regularly updated by everybody with a scientific degree or position pursuant to Act XL of 1994 on the Hungarian Academy of Sciences. The website including a classification of the members of the General Assembly of HAS, and the CV's were also consulted during the research. The data was analysed by descriptive statistical methods.

The data of Q1 and Q2 level papers required by the guidelines were downloaded from the RHSA system. The system assigns the quartile of a given paper published in a journal depending on the rankings of the given year (except for the current year). In July each year, the RHSA system annually synchronises the SJR quartiles assigned in the given year. In the current year the quartiles of the preceding year are automatically assigned but when the new rankings are published, they are automatically overwritten. As on the Scimago website the quartiles assigned between 1996 and 2018 are found, the papers published in 2019 are assigned the 2018 quartiles. This function has been working since 2016 in RHSA1, and since 2018 in RHSA2.

FINDINGS

Figure 2 gives a general picture of Q1 and Q2 level papers by professors who have received their titles in the last three years.

Figure 2: General minimum requirements relating to SJR ranked papers by university professors (n=105)

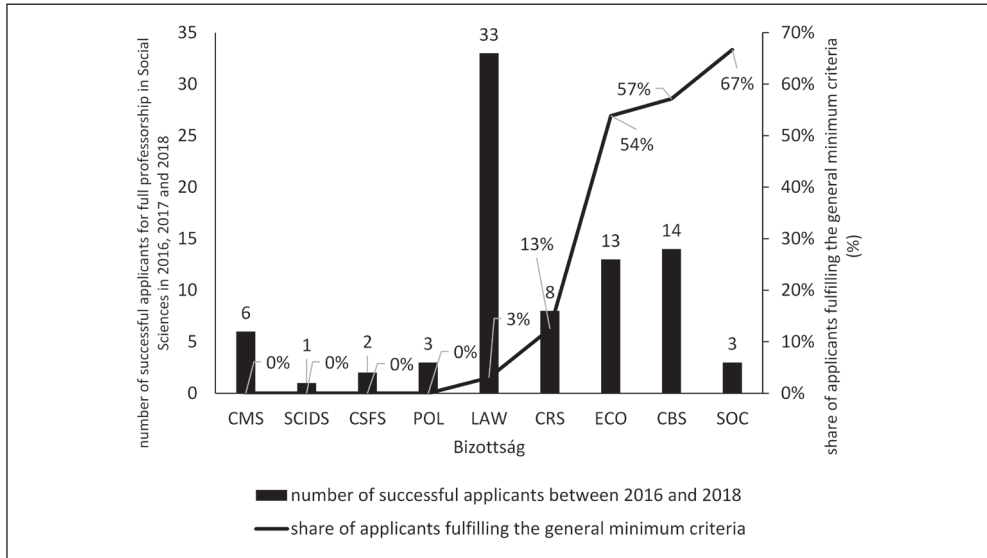


Source: Authors' own elaboration

The figure clearly shows that the ratio of professors who have not published any such paper is high (61%; 64 persons), and a further 17 per cent (18 persons) only have one such a paper per person. Therefore, the ratio of those in full compliance with the requirements is only 22 per cent (23 persons), of them 4 per cent (4 persons) has two such papers per person. The highest number on the list is 12 papers per person, accomplished by a single person. It is clear that before the introduction of the requirements, the number of Q1 and Q2 level papers was less relevant or less criteria were be taken into account.

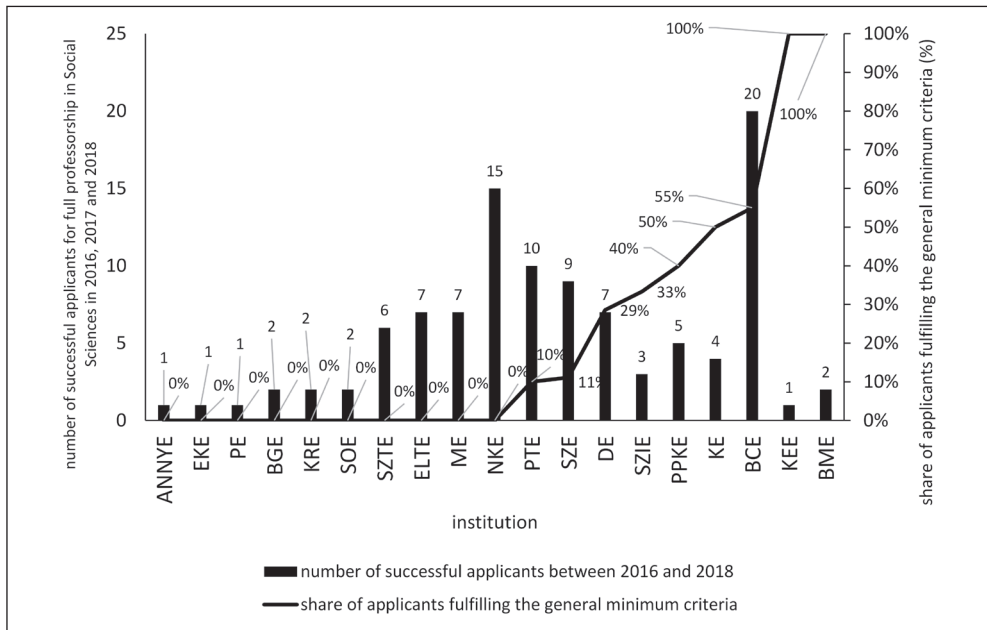
In the analysed sample, 83 are general assembly members in a scientific committee of Board IX of HAS. Figure 3 shows the number of university professors who are general assembly members in each scientific committee.

Figure 3: General minimum requirements relating to SJR ranked papers by university professors, in a breakdown by the scientific committees of Board IX of HAS (n=83)



Source: Authors' own elaboration

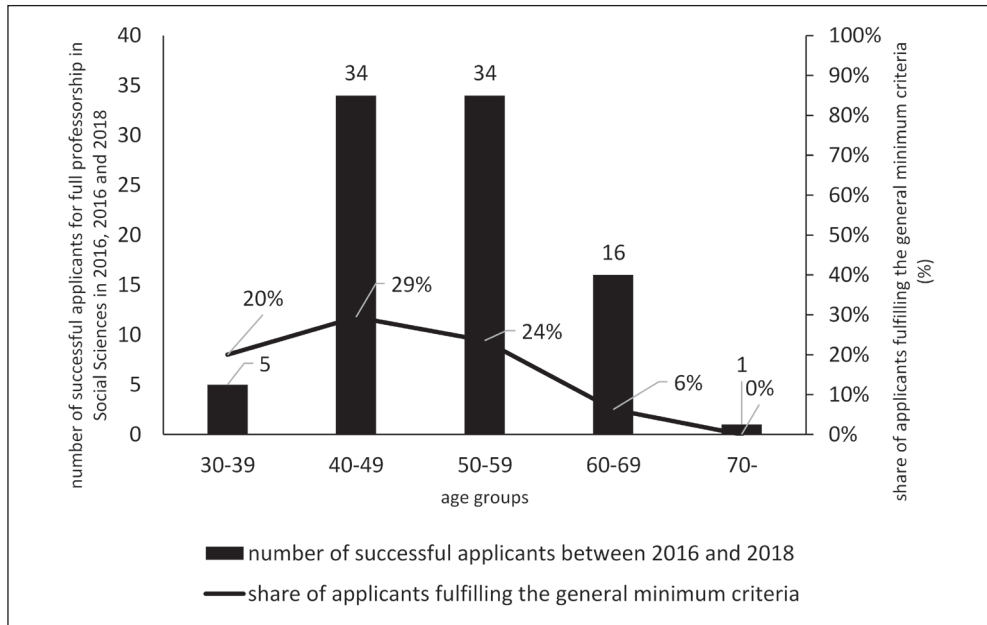
Figure 4: General minimum requirements relating to SJR ranked papers by university professors, in an institutional breakdown (n=82)¹



Source: Authors' own elaboration

Figure 4 shows compliance by the individual higher educational institutions with the general publication requirements. This makes us conclude that these institutions traditionally have considerably higher requirements for international scientific activity by their professors. In the case of the Budapest Technical University, this is explained by the institution's strong ties to engineering and by the fact that the prevailing WoS- and SJR-type international publication performance is a fundamental requirement also for employees conducting research in social sciences (BME GTK, 2018). Among the institutions, BCE stands out as the only university with a higher number of lecturers who have obtained the title of a university professor, including 11 persons who fully comply with the general requirements.

Figure 5: General minimum requirements relating to SJR ranked papers by university professor, in an age spectrum breakdown (n=90)



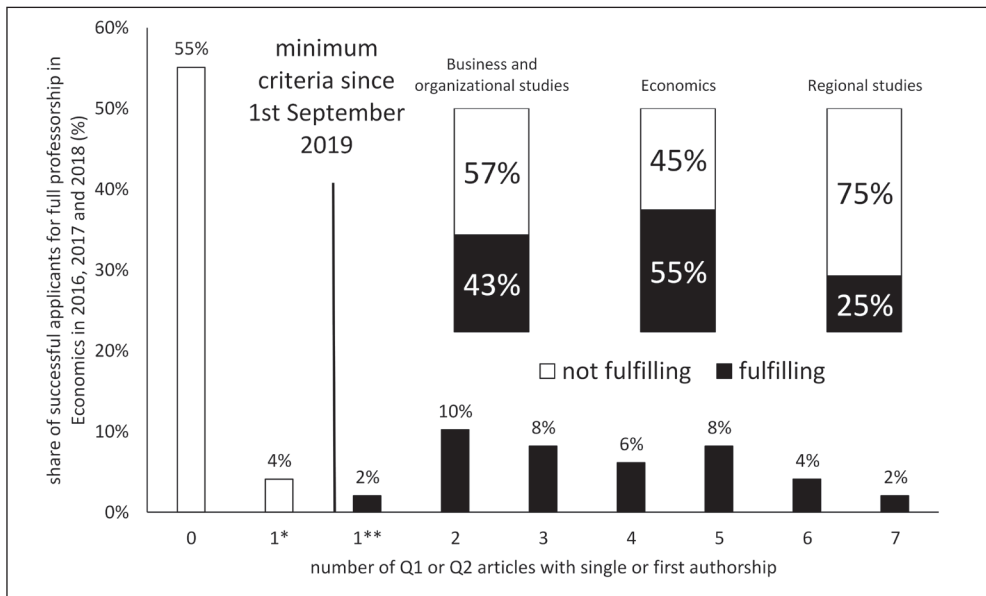
Source: Authors' own elaboration

In the evaluation of scientific achievements, in the qualification of scientists, and in particular, in the funding of research and the evaluation of the relevant applications, more recently there has been a marked shift across the world towards a quantitative approach, along with a definite trend in favour of publishing articles and references in journals at the expense of scientific books (Csaba et al., 2014). The financing of research is in many cases age-dependent (e.g. research entry initiated by junior researcher, post-doctoral junior excellence grant), and furthermore, performance is mostly subject to publication in journals, and this partially explains that publications in SJR-type journals are characteristic for junior researchers.

Compliance with field-specific minimum SJR publication requirements

Researchers in economic sciences are subject to slightly different requirements applicable in the guidelines on university professors' applications. Figure 6 depicts special requirements, taking the three areas of the field into consideration. The latter are business and organisational sciences, economics, and regional sciences.

Figure 6: Special minimum requirements in economics in relation to SJR-ranked papers by university professors (n=49)



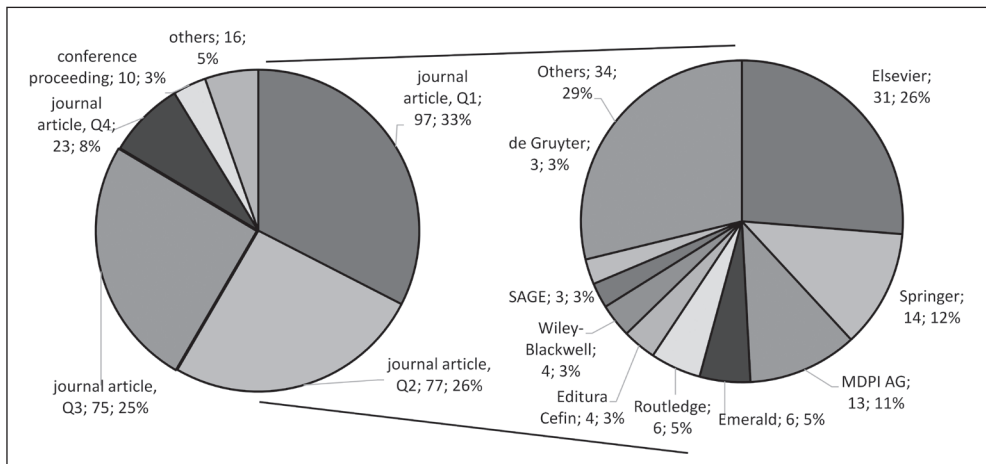
Source: Authors' own elaboration

The analysis of compliance with the special requirements was conducted for 49 university professors in economic studies. The column marked by 1* shows the number of professors who have only one Q1 or Q2 level paper as a singular or first author. The column marked by 1** shows the ratio of professors within the group of the analysed university professors who, besides having one Q1 or Q2 level paper published as a singular or first author, also have another Q1 or Q2 level paper.

Different measures were performed in the three areas. The most populous group is that of business and organisational studies (30 persons), followed by regional studies (11 persons), and economics (8 persons). Of these groups, university professors in economics have the best results.

These ratios can be explained by the special nature of the individual areas: in terms of subject and methodology, economics is the closest to natural sciences and its publishing traditions are similar to those of STEM sciences (Redden, 2018), while the other two areas tend to use the methodology of social sciences.

Figure 7: Publication habits of university professors in economics



Source: Authors' own elaboration

Overall, it is a favourable trend that the university professors who publish papers in internationally recognised journals are more likely to choose Q1 or Q2 level journals; the ratio of the latter is nearly 60 per cent. This allows us to conclude that the basic problem is not the absence of information on the journal to publish in but the fact that proportionately fewer of them intend to conduct research resulting in SJR-ranked publications.

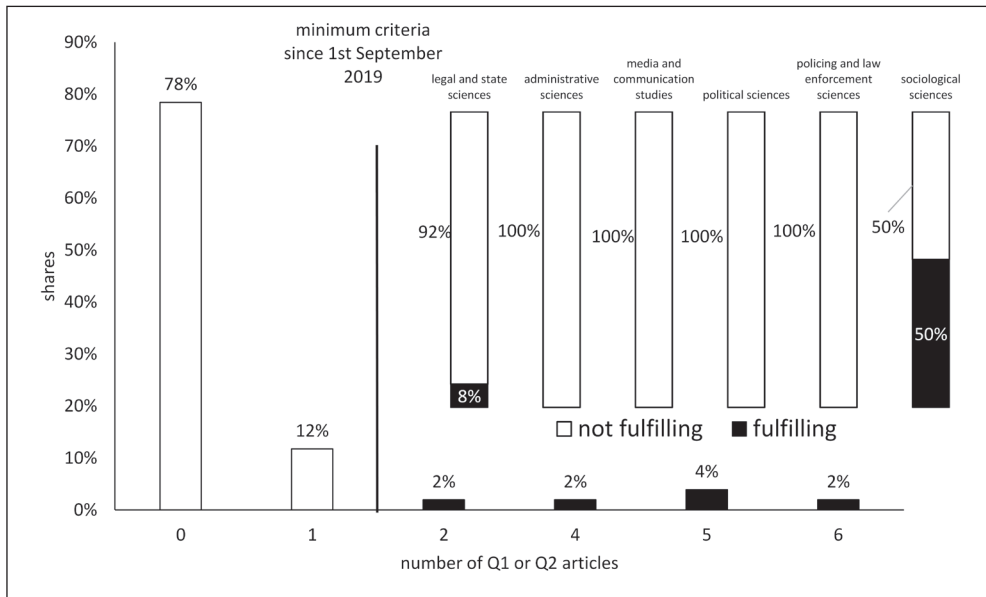
Elsevier, Springer, Wiley-Blackwell and SAGE are the publishers with the highest share (Larivière et al., 2015), which suggests that researchers active in economics tend to publish in journals which are internationally significant and have a large impact and share. It should be emphasised here that the EISZ (Elektronikus Információszolgáltatás – Electronic Information Service) has concluded a national consortium agreement – regarding Open Access publication – with the Springer, Wiley-Blackwell and Elsevier publishing companies. An analysis of the special requirements of the three areas of economic studies was followed by an analysis of the special requirements applicable to social sciences.

The 51 persons involved in research are subject to special requirements in social sciences. In comparison with economic studies, the ratio of those who do not have any Q1 or Q2 level papers is considerably higher (78%; 40 persons), and 12 per cent (6 persons) only have one such paper. Of those in full compliance with the requirements, only 2 per cent (1 person) has 2 papers, 2 per cent (1 person) has 4 papers, and 4 per cent (2 persons) has 5 papers, while the best result (6 papers) was achieved by a single university professor.

In a breakdown by research areas, four of the six groups none of the professors had any Q1 or Q2 level publication. These groups comprise administrative sciences, media and communication sciences, political sciences, and policing and law enforcement sciences, and relatively few (a total of 9) new university professors have received

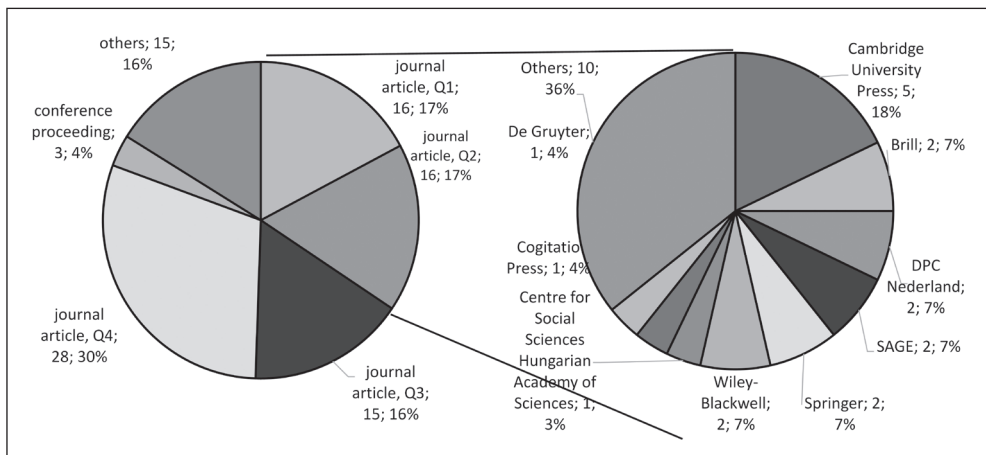
their titles in these fields in the past three years. Legal sciences and public administration is a significantly larger group, including 92 per cent (35 persons) who have not, and 8 per cent (3 persons) who have complied with the special requirements. In social sciences, sociology is outstanding with a compliance rate of 50 per cent.

Figure 8: Special minimum requirements in social sciences relating to SJR-ranked papers by university professors (n=51)



Source: Authors' own elaboration

Figure 9: Publication habits of university professors in social sciences



Source: Authors' own elaboration

As shown in Figure 9, university professors in social sciences also differ from those in economic studies in terms of publication habits. The ratios of papers published in the appropriate journals are 17, 17, 16 and 30 on the levels Q1, Q2, Q3 and Q4, respectively. In addition, conference papers represent 4 per cent, and other publications, such as book chapters, share 16 per cent.. On the one hand, the representatives of social sciences prefer the lower quartiles of Q3 and Q4 level journals (46%), which is non-compliant with the guideline requirements of Q1 and Q2 level publications.

As a result of the shift towards Q3 and Q4 level publications, big international publishers have also lost significance among the surveyed university professors.

An analysis of Academic Doctors and academicians at Board IX of HAS through the general and special minimum SJR publication requirements

The new guidelines of HAC regarding university professor applications, and its new minimum publication requirements are expected to bring about changes not only at the level of university professors. As the levels of scientific promotion, including the obtaining of scientific degrees and job titles, are interrelated, it is presumed that the requirements have an impact on Academic Doctors and on academicians. Presuming that the final goal of all researchers and lecturers is to obtain these two scientific degrees, they organise their work in a way to comply with the relevant requirements. The Academic Doctors and academicians are organised into committees at HAS, and a researcher may simultaneously be a member in several committees. In this case, credits were assigned to them for their publication performance in both committees. In line with the aforementioned, Table 1 summarizes the analysis of the rankings of HAS Academic Doctors and academicians according to the minimum publication requirements declared in the new guideline regarding new university professors.

As shown by the table, both general and special requirements were analysed. A total of 219 Academic Doctors and 30 academicians were involved in the analysis. In terms of ratios, 29 per cent of the Academic Doctors (63 persons) were found to fully comply with the general minimum requirement, while 38 per cent (34 persons) of those in economic sciences fully complied with the special requirements set for economic sciences, and 26 per cent (28 persons) of those dealing with social sciences could fully comply with the special requirements in social sciences. In the case of academicians, 27 per cent (8 persons) fully complied with the general minimum requirements and 38 per cent (5 persons) with the special requirements in economic sciences, and 21 per cent (5 persons) fully complied with the special requirements in social sciences. Similarly to university professors, researchers active in economic sciences complied more than those in social sciences. Also similarly to university professors, in a breakdown by age, junior researchers are more successful in SJR-based publications than senior ones, as the average age of academicians (76 years) is higher than that of Academic Doctors (70 years) (Sasvári and Nemeslaki, 2018).

Regarding special requirements in social sciences, differences are clear between university professors and the scientific committees of Academic Doctors. While in the

Table 1: The ratio of professors with full compliance with the general and special university professor requirements among the Academic Doctors and academics, in a scientific committee breakdown

Academic Doctors and Academics /Committee	Ratio of academicians fulfilling the general minimum requirements	Ratio of academicians fulfilling the special minimum requirements (in economics)	Ratio of academicians fulfilling the special minimum requirements (in social sciences)	Total
LAW	9%	–	13%	45
CEHR	60%	40%	–	5
CBS	55%	55%	–	22
CMS	4%	–	–	24
ECO	38%	35%	–	37
SCIDS	18%	–	18%	11
POL	20%	–	20%	15
CRS	20%	20%	–	15
CSFS	40%	40%	–	10
SOC	49%		49%	35
Total	29%	38%	26%	219
Academicians	27% (n=30)	38% (n=13)	21% (n=24)	30

Source: By the authors

analysis of university professors, administrative sciences, media and communication sciences and policing and law enforcement sciences are excess fields, in the case of Academic Doctors SCIDS is the distinct area, which, however, can only be considered in the evaluation of general requirements in the analysis of university professors. Law and political sciences have a higher number of university professors complying with the requirements than social sciences. In the case of the Academic Doctors, however, social sciences rank the highest with 49 per cent, followed by political (20%), SCIBS (18%), and law (13%).

Although there are fields on the upgrade, and junior researchers are increasingly open to international publication, however, these findings suggest a structural deficiency.

CONCLUSIONS AND RECOMMENDATIONS

This paper analyses the general and special minimum publication requirements specified in the new guidelines of HAC on university professors' applications, with effect from 1 September 2019. The performance of the researchers who have received their titles as university professors in the past three years was analysed according to the scientific measures laid down in the new set of requirements. Based on the low

publication numbers, it has been concluded that there are structural problems and deficiencies.

The most important task is to raise awareness of publication based on the SJR-ranking, as most of the committees involved have a ranking in their respective fields. The appropriate use of SJR makes publication easily calculable, and a strategy can be built on it.

As the guidelines obviously fit into the processes of the international change of paradigm and require the publication of internationally highly ranked papers, universities should make it a priority to set up incentive systems. Consider the costs of publication (APC costs) and the release of Open Access. In addition, it is necessary to encourage lecturers and researchers, perhaps by the adoption of targeted gratification schemes. Governmental decision-makers might consider to launch a nationwide scientific excellence programme based on the already existing international examples.

Finally, it is important to recognise that the new guidelines on university professors' applications define each step of the career ladder. Some of the Hungarian higher education institutions have already specified international publication requirements as part of the habilitation process, and in the long run this will have an impact on the requirements concerning the Academic Doctors and academics as well. In case the current trend remains, the journal rankings of the scientific committees of HAS should be refashioned to place more emphasis on Q1 and Q2 level journals listed by SJR at the expense of other contents. The distorting factors in the scoring system are also clear: the balancing of scores should be modified to encourage researchers to publish in journals in the upper quartile. In this respect, the higher scores for journals ranked in the SJR system, the lesser the penalty for co-authorship (highlighting the role of the first, the last, and the corresponding author), and the qualitative categories in the international journal ranking (A, B, C, D) should be modified so that they are equal with the Q1, Q2, Q3, Q4 quartiles.

NOTE

- ¹ Abbreviations of universities: Andrásy Universitat Budapest (ANNYE); Corvinus University of Budapest (BCE); Budapesti Business School (BGE); Budapest University of Technology and Economics (BME); University of Debrecen (DE); Eszterházy Károly University (EKE); Eötvös Loránd University (ELTE); University of Kaposvár (KE); Central European University (KEE); Károli Gáspár University of the Reformed Church in Hungary (KRE); University of Miskolc (ME); National University of Public Service (NKE); University of Pannonia (PE); Pázmány Péter Catholic University (PPKE); University of Pécs (PTE); University of Sopron (SOE); University of Győr (SZE); Szent István University (SZIE); University of Szeged (SZTE).

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József Golovics, Pál Veres

Intensification of Competition in European and Global Higher Education: The Role of Globalisation and Transaction Costs



Summary

The topic of this study is the intensification of competition in different dimensions of higher education in the European and global space. This is examined in light of globalisation and the concomitant reduction in transaction costs. Changes in transaction costs, European regional integration and the impact of globalisation are discussed in a broader sense, and within the scope of higher education. It is argued that reduction in the transaction costs is both a driving force and a consequence of regional integration and globalisation in higher education, and more specifically, it forces both national higher educational systems and individual higher education institutions into a very sharp system of regional and global interdependence. The challenges faced by less developed regions of the European Union, i.e. the southern and central European peripheries, and the opportunities offered in the European integration processes, have been highlighted and the emphasis is drawn upon them.

Journal of Economic Literature (JEL) codes: I21, F60, D23

Keywords: European Higher Education Area, higher education, globalisation, regional integration, transaction cost

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INTRODUCTION

Education is a sector of national strategic importance. However, this does not mean that the various issues of the educational system can be interpreted exclusively in the context of nation-states. Although national governments are responsible for shaping educational policy, and the educational institutions are mostly maintained and funded by (local or central) government bodies, international actors also have a significant influence on the processes that take place in the educational system.

Education, and in particular, European higher education, is increasingly internationalised, and today national higher educational systems may only be interpreted in the European regional and global space. Note, for example, the international flow of teachers, students and knowledge, co-operation between higher education institutions (HEI), the establishment of frameworks to assist them and improve their transparency, the feed-through of global economic effects, the “following” of foreign patterns (Veres, 2010) or even the emigration of highly qualified people, called brain drain (Golovics, 2019a). Thus, higher education and its stakeholders are affected by external influences at the level of the nation-state, the system, the organisation and even the individual, and the interdependence between regions and the global space is intensifying. The “technical and institutional” basis of this growing interdependence is the dismantling of the barriers to factor flows, interactions and transactions, and the resulting increase in competition.

This study focuses on the integration of national higher educational systems into the European Higher Education Area (EHEA), the specific institutional environment of the European Union (EU) and its consequences, and thus ultimately on the link between higher education and globalisation. (The evolution of the EHEA and the EU is considered as part of the wider globalisation process, or its regional manifestation, and a specific institutional degree.) Globalisation is, of course, a very complex process in itself, and one of its essential elements is the expansion of interdependence (Szen-tes, 2002). As Székely-Doby puts it, the simplest way to define globalisation is to view it as “the increasing integration and unification of markets” (Székely-Dobi, 2007, p. 287). In our opinion, the important driving force and consequence of this integration and unification is decrease in the transaction costs (although in some cases, one may undoubtedly face increase).

Certain aspects of the multifaceted relationship between globalisation and higher education have already been explored. Deli-Gray et al. (2010) and Vaira (2004) focus on the effects of globalisation on the organisational functioning and marketing strategy of HEIs, Rohoncz (2012) reviewed the issues of higher educational competitiveness in the process of globalisation, and Gervai and Trautmann (2014) discuss the change and transfer of values for the two factors. This study focuses on the consequences of declining transaction costs, the different aspects of competition that will intensify as a result, and the challenges and opportunities national systems will face.

According to Furubotn and Richter, “transaction costs” are “the costs of running an economic system or a social system” (Furubotn and Richter, 2005, p. 568). As Wil-

liamson (1985) puts it, they bring a kind of “friction” into the system of social interactions. In this study, however, it is argued that in the process of globalisation, these frictional costs are mostly reduced, and this has a significant impact on the functioning of national higher education systems and the behaviour of stakeholders.

The manifestations of this reduction in transaction costs are assessed through technological development and globalisation and regional integration processes, and then the contribution of these trends to the intensification of competition between higher education stakeholders is discussed in a European and global perspective.

DECREASE IN TRANSACTION COSTS

Technological changes and cultural convergence

One of the most important drivers of globalisation is the revolution and the uninterrupted rapid development of info-communication technology (ICT). In addition to placing production and services on a new footing, ICT development has, in many cases, also helped organise them, by facilitating interaction (communication and transaction). Although it is a complex process with manifold effects, there is general consensus that ICT development has reduced the transaction costs of economic and social operations (Hámori, 2013).

While ICT allows fast and easy communication between the most remote parts of the Earth without travelling, the cost of international mobility has also drastically reduced as a result of development in global transport and freight networks. The latter constitute transaction costs when someone works or studies abroad: note the direct costs of transport or travel (e.g. ticket prices) and the opportunity costs (e.g. travel time), but actually all activities related to its organisation (orientation, search, comparison and communication) have also become easier (Hummels, 2007).¹

An important element in the process of globalisation is the convergence of cultures, which also contributes to the facilitation of international communication and thus co-operation, including the expansion of foreign language skills and the emergence of English as a global language (Crystal, 2012). This is well illustrated by the fact that in 2017, English was compulsory in almost 95 per cent of upper secondary schools in EU Member States (excluding the UK, Eurostat, 2019a), and 64.6 per cent of the population aged 25–64 claimed to speak at least one foreign language (Eurostat, 2019b). These also contribute to the reduction of transaction costs.

Institutions in the regional and global space

According to North (1990), one of the basic functions of institutions is to reduce transaction costs. The development of the mentioned supra-national institutions in the social, political and business sectors should be considered in the context of globalisation and, more specifically, of regional integration processes (Gilpin, 2001). At times they result in the emergence of new structures, while at other times the disman-

ting of the existing barriers, and their aim, in North's understanding, is to facilitate the free flow of the factors of production and to make transactions more frictionless.

Our continent is at the forefront of regional integration efforts. The EU's fundamental achievements include guaranteed free movement of goods, services, capital and people, which, as detailed in the next chapter, also have obvious consequences for the stakeholders of higher education.

The foundations of targeted integration in higher education and the creation of regional institutional structures, such as the EHEA were laid by the Sorbonne Declaration (1998) and the Bologna Declaration (1999). The aim of the establishing the EHEA was to create an easily comparable training system, i.e. a system with low transaction costs. Promoting mobility was among the set goals, and the means to achieve it included, among other things, multi-cycle training, the credit system and the development of other comparable quality assurance, evaluation and certification criteria. Although the resulting structure, called the Bologna Process and the Bologna Training System, and its national implementations (which are far from complete uniformity) have been widely criticised in recent decades (Hrubos, 2018), and there is no doubt that the mostly unified (institutional) foundations make a significant contribution to reducing transaction costs for higher education stakeholders.

In addition to EHEA, numerous other initiatives have been made by both governmental and non-governmental actors to reduce transaction costs in higher education by creating a certain kind of institutional structure. These include the European Qualifications Framework (EQF) for lifelong learning or the International Standard Classification of Education (ISCED). The EQF is essentially an output of the national educational system (based on learning outcomes), a tool for comparing and matching qualifications, and an system of information to help the stakeholders in education make educational and employment-related decisions. The EQF defines 8 levels of output (4 of which essentially belong to higher education) and at each level it determines learning outcomes in terms of knowledge, skills, responsibility and autonomy. National qualifications frameworks are free to determine the number of qualification (output) levels, but are aligned with the EQF in that they are based on learning outcomes.² For each country, the conformity of each national level to a specific EQF level was determined in an EU procedure. Through the latter as an intermediary tool, the output levels of the countries have become comparative, and thus significant information (transaction) costs are saved in mobility for studies or work purposes. Joint training by institutions from different countries and building cascaded training levels for learning mobility, both supported by the EQF and national frameworks, further reduced transaction costs.

Qualifications frameworks also serve as frameworks for lifelong learning. The overlapping levels of training and output also serve as a cost-saving tool for a lifelong "construction" at the level of the individual. The purpose of adult learning may be, for example, to "update" knowledge corresponding to a certain level or to raise the level of qualification, i.e. obtain a new qualification, which entails significant cost savings through crediting prior studies (Veres, 2015). The above applies in both the regional and the global space for both horizontal and vertical "mobility".³

In addition to frameworks, higher education rankings also help to improve comparability. Although extremely different in terms of focus, data use, and measurement methods (Temesi, 2011), they have the fundamentally common goal of measuring performance and ranking higher education systems or their institutions according to some system of indicators. Just as each higher education institution sees different things as its primary task and specialise in different activities, various rankings also prioritise different indicators, and so they are most useful when comparing institutions within the same “category” and trends over time. Although rankings are regularly criticised (Hrubos, 2014), they also provide important information for consumers (potential students, employers), supply-side actors (institutions, their employees, owners) and the government, which is responsible for shaping education policy. In doing so, they facilitate orientation and consequently reduce transaction costs, while also influencing the co-operating and competitive international environment.

Based on all this, the process of globalisation clearly comprises a number of phenomena that reduce transaction costs in themselves. However, they also have an impact on relationships and interactions between the actors.

INTENSIFICATION IN COMPETITION IN THE EUROPEAN AND GLOBAL AREA

Stakeholders in higher education systems, being natural persons (students, teachers, etc.) or organisations (training institutions, employers, government bodies, etc.), interact with each other in the same way as other actors in the social and economic life: they compete or transact. Their transactions primarily include interactions and exchanges between HEIs, between institutions and students, and between institutions and employers. However, it is also clear that due to the large number of actors there may be competition between the parties on both sides of the transactions. A significant part of the competitive situation has now moved to a much wider, European and even global space, and has become “friction-free” and thus relatively cheaper in terms of benefits through the above-described transaction cost reduction processes. This, in turn, attracts more players to the globalising transaction space, and generates sharper competition in every respect between players on the same side of the transactions.

Although, this study basically focuses on stakeholder competition, it is emphasised that co-operation is at least as important in the functioning of a market economy. Not the least because at the end of the day the competitive situations end in co-operation between the HEI and the admitted student, or the employer and the graduate, but previously competing candidates may also co-operate as university students during their studies and after graduation, or even work in a joint team at the same workplace. Note that the other processes of globalisation have also significantly reduced transaction costs at these points of co-operation. To put it simply, in addition to competition, co-operation has also become more frictionless and profit is cheaper to make. As a result, significant co-operation networks have developed in international higher education (e.g. global inter-institutional research collaborations and networks of stu-

dent organisations), but the increasing number of participants attracted also intensify competition.

Competition between candidates

As a result of the factors⁴ presented above, studies abroad have become an increasing reality globally in recent decades at all levels of education. The competition for better places, including training for institutions with higher prestige and quality education, is thus already taking place across nation-state borders. As a result of reduced transaction costs, students face far more competitors at the gates to the desired institution. Thus, it is no longer enough for the “best” of a country to be the best in their home country, as the “best” of other states may appear on the former, quasi-competition less field. However, they can also enter the – international arena, where they may even face the fact that they are no longer necessarily among the “best” any more. Of course, this may have also serve as an incentive to harder work in studies as a positive outcome, but it can also lead to exclusion from higher education. The probability of the latter can be substantially reduced by the fact that supply for the current demand can now be provided in a wider, international space with lower transaction costs.

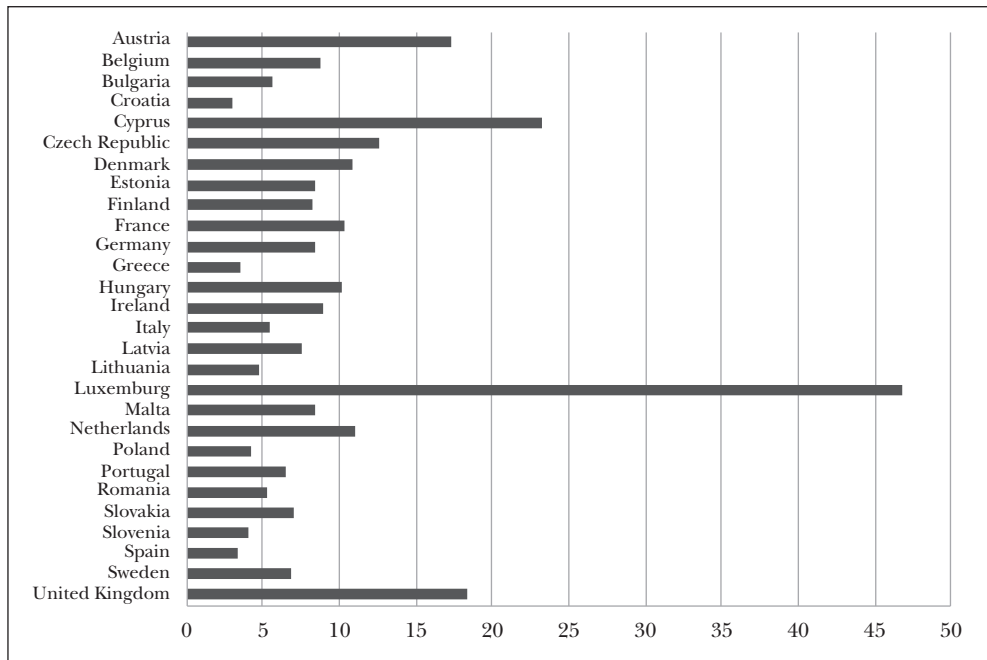
However, international competition is not only for better institutions, but also for a more favourable form of funding. For the vast majority of applicants, not only transaction costs but also training and living costs matter. For this reason, it may be important that these burdens may be borne in part or full by another actor (the HEI, a local or central government, or another organisation).⁵ The most important question in this competition is the criteria and conditions for an applicant to win the best form of funding. In an international context, special attention should be paid to the regulatory approach to foreign applicants. In the EU, the nationals of Member States can participate in higher education in any other Member State under the same conditions as the nationals of the host country, and thus the opportunities for applicants increase exponentially if transaction and training costs are affordable or a sufficiently favourable form of funding is provided (but the same conditions do not apply to social benefits on a mandatory basis).

A large proportion of students in higher education in the EU Member States – almost 10 per cent on average at an EU level – come from abroad.

Competition between HEIs

HEIs also have an interest in having the best students “within their walls”. There are both professional (higher educational standards, better professional results and higher prestige, etc.) and financial reasons (tuition fees and external per capita funding sources). Universities can now compete at lower transaction costs than before. Under these circumstances, universities that can offer a significant number of scholarships are able to attract the best students. This capacity of universities can be improved through tuition, state support and other resources.

Figure 1: Foreign students in higher education in EU Member States (2017, %)

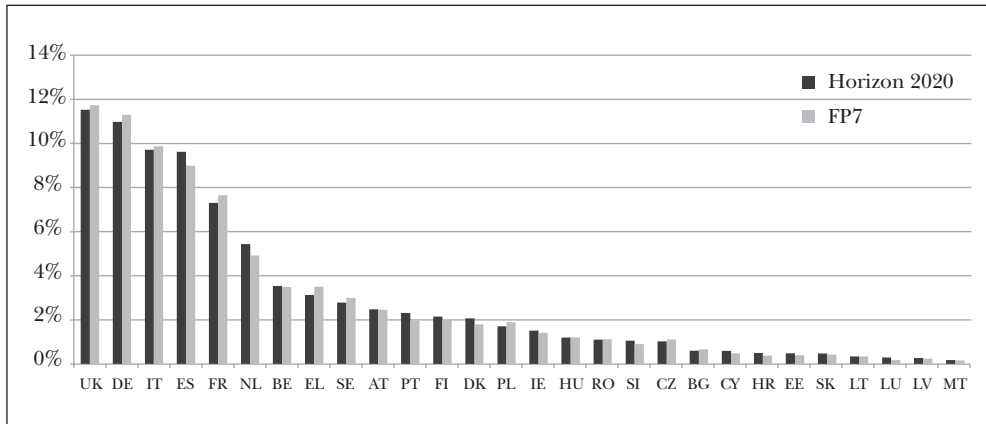


Source: Eurostat, 2020a

HEIs are also in fierce competition for different sources, and to a large extent, they are now doing so internationally. On the one hand, funding can come from the admitted students in the form of tuition fees or third-party funding (per capita public funding or tuition transfer, etc.), however, depending on the profile, access to research resources may also be essential for a significant number of universities. These may come from the government or from non-profit and corporate sectors, and the race for them is also international. In an EU context, we can think of research project resources co-funded with the European Social Fund, or Horizon 2020, which provided around EUR 80 billion for various innovation and research purposes between 2014 and 2020. The highest number of applications was submitted by HEIs (European Commission, 2020). Figure 2 shows that the ratio of countries in the catching-up phase is marginal in terms of the aid awarded.

In addition, HEIs also compete in the regional and global space for employees (lecturers, researchers and other staff) with the highest levels of competencies relevant to their mission. In addition to their institutional characteristics, competitiveness, taken in this perspective, is also significantly affected by the wage level in their country. The assumption of payables by other actors (local and central government, other organisations, or a community) may be important in funding wages and other special cost surpluses. However, overall, the current trends in globalisation have also led to increased competition in this area, including the issue of the “visibility” of a good workforce, the

*Figure 2: Financial contribution by the EU to participants in grant agreements:
Horizon 2020 to FP7⁶*



Source: European Commission, 2020, p. 19

contact costs and language use (taking into account the prevalence of English and the process of “Anglicisation” of training programmes). The various institutionalised options (teacher and researcher applications) may improve the process not only by reducing transaction costs, but also by financing other costs. This has triggered increased teacher and researcher mobility, and diversification in the ethnic composition of the staff of HEIs. To quote a good example: in 2017, 12 percent of the academic staff at HEIs in Germany was foreign (Federal Statistical Office, 2020).

Thus it can be said that – due to the general characteristics of competition – the discussed processes may have a positive impact on HEIs in terms of both performance and innovation capacity. At the same time, as competition is also a consequence of natural selection, the above may also result in the fallout and decline of those who perform weaker. In terms of quality, this can be assessed as a positive outcome. However, given the inequalities in the initial conditions of countries and institutions (such as budgetary constraints) and the different roles and specific local functions of different HEIs, local interests are also severely affected by selection, which does not necessarily exclude those of lower quality, and may be conflicted or even harmed. Subsequently, the latter may have adverse social and macroeconomic consequences for the community concerned.

As a specific feature, the EHEA allows students and HEIs to make choices on favourable institutional and transaction-cost terms on a global scale. For Hungarian higher education, this situation obviously means the loss of many outstandingly talented Hungarian students, but at the same time it can attract excellent students from all over EHEA with competitive scholarship schemes in the region. Therefore, in addition to financing schemes, the strategic task should obviously be the concentration of resources on the development of competitive branches and specialisations with comparative advantages in the region.

It is also important to emphasise that if competition encourages HEIs to make qualitative progress, and this may also be reflected in the improvement of rankings. Thus, institutions also compete indirectly in rankings. A problem or an unnatural development trajectory can be caused by the fact that some universities aim at direct competition and advancement in rankings alone. As an adverse outcome, rankings do not only act as indicators, but also put a pressure on HEIs to obtain positions available in other competitive fields. Thus, even a small change can trigger a cumulative causal process, a positive feedback mechanism, and as a result, the image created by the rankings may deviate substantially from the genuine performance.

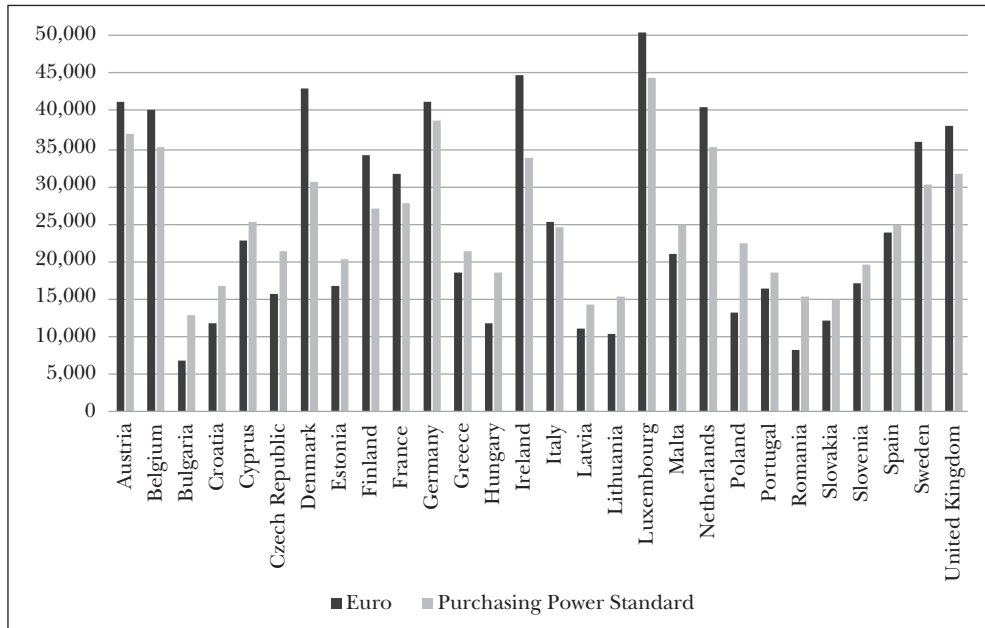
Finally, although reduction in the transaction costs has been discussed through other global processes, participation in the above described areas of international competition can also entail serious (transaction) costs. Entrance to the global and regional space alone requires new expenditures not previously incurred. These may include the costs of international marketing, organising agency relationships responsible for student recruitment, and the multilingualisation of the institution's educational and administrative processes.⁷

Competition in the labour market

It follows from the above that in addition to lower transaction costs, graduates now also compete internationally for jobs that provide higher wages and better working and social conditions. This is especially true in the EU, where the institutional system is specifically designed to offer more opportunities for the individual, but also provide more competitors. The higher the prestige of an institution, the greater the chances of its graduates, if they can effectively present their competencies, if their country has a sufficiently transparent qualification system and migration management institutions that assume part of the (transaction) costs. Reducing mobility costs for working abroad increases chances in competition, but these costs are still significant for the employee and must be offset by the extra return on migration – typically by higher wages (Golovics, 2019b). In this respect, however, the EU is clearly “promising”, especially for the citizens of the Member States that have acceded since 2004. As shown in Figure 3, there are huge differences in wage levels between the old and new Member States, both in euro and at purchasing power parity. This, in turn, may be a natural trigger for international labour flows, which, at the same time, may result in severe losses for the source country in the event of the brain drain of the most talented students and highest skilled individuals (Golovics, 2019a).

Brain drain can affect higher education not only through the loss of graduates and the public resources spent on their training (Golovics, 2019a), but also directly through the departure of employees. The fact that the employment space has also expanded and employment opportunities abroad have become more transparent and accessible should not be disregarded. Retention of the best staff thus imposes additional costs on institutions. For employees, this means that, in principle, there are significantly different (income and other) benefits available for the same performance.

Figure 3: Annual net earnings in EU Member States (2019)



Source: Eurostat, 2020b

This may also put HEIs (and frequently entire countries) with lower benefit potential at a permanent disadvantage – either through losing the best employees or by “overpaying them”. Although the phenomenon primarily affects the academic staff, the importance of key professionals and managers in the service background cannot be overemphasised. Hungary is still in a phase of convergence in the region (as are the countries of the southern periphery and other former socialist countries). The basis for catching up is competitiveness, and higher education has a strategic role. Consequently, the higher education system of converging countries, such as Hungary, must be made competitive as soon as possible in terms of the quality and adaptability of training and its conditions. However, the retention of talent and the attraction of new talent are insufficient. In order to retain the best graduates and attract young talents from EHEA, it is also necessary to create competitive conditions in the labour market.

Last but not least, it should be mentioned that HEIs have a different, indirect involvement in the development of the labour market. Due to the “quality” of their graduates, they also compete for the employers’ recognition. Based on previous experience with graduates, employers can and do have a definite opinion about HEIs and their graduates, up to the point where they can explicitly adhere to graduates from a particular institutional circle. The prestige of a higher education institution provides positive feedback in a specific group of employers, as it also improves the chances in competition. Recognition by employers may be reflected in higher employment rates,

better salaries, other working conditions, but also in lasting, conceptual and financial benefits with institutions (joint educational and research projects, scholarships, etc.). The competitiveness of the graduates of an institution in the regional and global space has a number of additional benefits (e.g. alumni), which also improve the opportunities of the institution as a positive feedback.

SUMMARY AND OUTLOOK

This study reviews the relationship between higher education and globalisation, with focus on the European Higher Education Area. The regional integration of national systems has been significantly facilitated by reduction in transaction costs. Although in some cases globalisation may have led to an increase in the latter, in the process their decline was the predominant cause and effect. This is manifest in higher education in the evolution of general globalisation processes, mostly driven by ICT development, and in the development of global and regional international structures and institutional frameworks. All this had a significant impact on the lives and functioning of the stakeholders of higher education: with the widening of the spectrum caused by globalisation and the parallel reduction in transaction costs, interactions between the actors also entered into a new regional dimension. Through the processes described in the study, competition between the actors has become more frictionless, and it has also become sharper due to the presence of a larger number of stakeholders. The EU, the EQF, national frameworks and the EHEA also provide the most advanced institutional conditionality for interactions – competition and co-operation – globally. And this has an impact on all the stakeholders in higher education, which opens up new opportunities for them, but can also present them with non-negligible challenges. Responses can determine trends and opportunities for future development at the individual, higher education institutional, national and regional levels. It should be emphasised in particular that closing the gap is an additional historical and long-term task for the periphery, i.e. Southern and Central Europe, and higher education has an unavoidable role to play. In line with the findings of Veres (2016), it is emphasised that ensuring freedom and competition in the region is a serious challenge, which involves a risk in conversion, and therefore making higher education competitive should be a priority in national education policies and strategies. With the “softening” of nation-state borders, state entities and sub-state organisations (in this case, universities and colleges) also find themselves in an increasingly uncertain system of regional and global dependence and competition.

Competition is the price paid for freedom. A nation’s prosperity in (convergence to) the EU, and more specifically to the EHEA and to the wider global space depends to a large extent on the ability of higher education and the economy to retain and attract talent. The strategic partnership between the national higher education system and the state, the competitiveness of the higher educational system, has a decisive role in this.

NOTES

- ¹ The COVID-19 global virus crisis has demonstrated the potential of ICT to trigger face-to-face encounters (including in education), and the vulnerability of regional and global transactions. As we have seen, such a health crisis can delay transactions, and thus the performance of the entire world economy within a very short time.
- ² The Hungarian Qualifications Framework distinguishes 8 levels. The 4 upper levels include higher educational vocational training, bachelor's training, master's training and doctoral (PhD) training. The peculiarity of the Hungarian system is that the learning outcomes are defined in 4 categories: knowledge, ability, attitude, autonomy and responsibility.
- ³ Although, the framework is described as an institution that reduces transaction costs, it should be mentioned that its establishment and operation also involve transaction costs. The latter may be termed as a political transaction cost (Furubotn and Richter, 2005). It should be emphasized, therefore, that although the existence of qualifications frameworks entails significant cost savings for competing actors, they do not disappear completely, but are passed on to others, as the creation, operation, development and maintenance of institutions represent a significant workload for those working in administration (government or higher education). It is therefore important to have a comprehensive look at transaction costs and to consider how they are shared by stakeholders, especially transaction actors and communities at different levels (social costs).
- ⁴ With regard to the decision support institutions, it is also worth mentioning the career tracking and career guidance systems that can already be said to be general in the EHEA.
- ⁵ For more information on the types of costs incurred in higher education and cost sharing, see Veres, 2012.
- ⁶ Seventh Framework Programme for Research.
- ⁷ It cannot be overemphasised that the accounting and measurement of transaction costs is not simple, and its effect also significantly depends on distribution between stakeholders. In the case of a converging country still at a significant competitive disadvantage, the involvement of the state in funding costs is particularly important, in order to relieve the direct participants in the transaction.

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Attila Lajos Makai, Szabolcs Rámháp

The Changing Role of Entrepreneurial Universities in the Altering Innovation Policy: Opportunities Arising from the Paradigm Change in Light of the Experience of Széchenyi István University



Summary

The progress made by the entrepreneurial university, which is a newly emerging category in Hungarian higher education after its change of model, has not only deepened relations between universities and the industry and intensified the technology and knowledge transfer processes, but also increased the role of universities in shaping regional innovation policy. This transformation places co-operation between the actors of the regional innovation ecosystem and the relationships between the economic, governmental and academic systems into a new framework. The purpose of this paper is to describe the process of the change in the model through a specific example, and to outline the future possibilities of university involvement in the currently changing Hungarian innovation policy system.

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Journal of Economic Literature (JEL) codes: I23, I25, I28, O31

Keywords: entrepreneurial university, innovation ecosystem, venture capital fund

INTRODUCTION

Since the beginning of the 2000's development in the domestic innovation policy has been strongly influenced by Hungary's accession to the EU, as an external force, because the standards and structures enabling proper use of the available funding have not only influenced the methods of allocating resources, but also the system of policy institutions (Dőry, 2005). The massive regionalisation and decentralisation efforts behind the EU's normative system for the use of Structural Funds, which was also adopted by the Hungarian development policy and incorporated into the current regulations, can be said to be of particular importance. Decentralisation efforts had already appeared (during the period of adopting the Act XXI of 1996 on Regional Development), but they were implemented in the period of using the Pre-Accession Funds (PHARE, ISPA, SAPARD) and during the First National Development Plan (2004–2006). The planning and implementation of innovation policy has been strongly influenced not only by the National Strategic Reference Framework (NSRF, and later the Partnership Agreement) for the programming and use of EU funds, but also by the different strategies and organisational solutions of each political course. Besides the continuous expectation of decentralisation from the European Union, the implementation of the principle of decentralisation and centralisation has alternately characterised innovation policy in Hungary over the past 20 years. Overall, it can be stated that the individual EU budget periods did not provide a unified regulatory and organisational framework. In both of the periods between 2007 and 2013, and 2014 and 2020, there were significant and fundamental changes of direction, which set the surveyed policy on a radically different trajectory. The main features of innovation policy in each planning period were as follows:

1. 2007–2013

- a) Emphasis on decentralisation in innovation policy
- b) Influencing decentralised decision-making processes by sectoral and central interests
- c) Involvement of regional organisations in policy implementation
- d) The centralised nature of policy (and support) decision-making despite a centralised institutional system
- e) Use of the definition of region in an administrative sense in the planning and implementation process; planning and implementation are not based on the concept of innovation ecosystems
- f) Low intensity in technology transfer processes; the Hungarian Academy of Sciences has a significant role, while higher education institutions are relatively less important in shaping innovation policy

g) Shortage of venture capital funds, primacy of tender financing

2. Features, 2014–2020

a) Centralisation paradigm, emphasis on the national economic level

b) Influencing centralised decision-making processes by local interests

c) De-emphasising and effacing regional innovation organisations

d) The centralised nature of policy (and support) decision-making pathways

e) Launching the integration of the concept of regional innovation ecosystems into planning and implementation each programme

f) The strengthening of technology transfer processes and the business attitude of higher education institutions; the Hungarian Academy of Sciences continues to have a significant central role, whereas higher education institutions have a growing regional role in innovation policy

g) The emergence of state-financed or partially state-financed (e.g. JEREMIE-type) venture capital funds.

In spite of subsidies, Hungary has remained among the “moderately innovative” countries and the existing disadvantages have not been eliminated. Plans for a Partnership Agreement related to the budget to determine the EU funds for the period of 2021–2027 and the S3 strategy, which is also a priority for the innovation policy, are currently under way. However, the range and roles of the actors involved in the planning of innovation strategies and interventions described in each document differ significantly from the previous ones. Currently, universities, being the main innovation-organising institutions in each region, co-ordinate implementation of the outputs of regional actors to central governments. (A good example of this is the emergence and operation of the Territorial Innovation Platforms that underpin the new S3 strategy.) However, international examples and the literature show that only entrepreneurial universities, which are well embedded in innovation ecosystems, have a financial interest in co-operation and in the achievement of results, are able to perform third missions, and are suitable for the effective performance of these functions. Change in the university model and the above-mentioned planning process began at the same time in Hungary, and they are both expected to have a decisive impact on the innovation policy in the following years. The purpose of this study is to present the process of change in the university model through a practical example (of Széchenyi István University), and to describe the place and role of universities based on this new footing in Hungarian innovation policy.

CHANGES IN INNOVATION POLICY AFTER 2018:

ENTREPRENEURIAL UNIVERSITIES, AN ENTREPRENEURIAL STATE AND INNOVATION ECOSYSTEMS

Towards the end of the 2014–2020 programming period and of the preparatory work for the new budget period of 2021–2027, there has been a lively debate among the representatives of both the policy and the academic sub-system about the European and national issues of organising and supporting innovation. The shortcomings of the

organisational structures seen in recent years, the effectiveness of the interventions implemented and the consequent not-so-encouraging innovation statistics confirm that there is a need for a radical change in the innovation policy and for the replacement of the usual dogmas and paradigms. The same process has been taking place in the European Commission, as at the EU level similar statistical data (Eurostat, OECD) prove that the goal set in 2013–2014 to reduce the European Union’s lag in the field of R&D and innovation compared to the USA and Asian states, not only has not been achieved, but the gap that existed seven years ago has further expanded between Europe and its competitors. (A special problem was encountered as a result of the Brexit, entailing the secession of London’s innovation and start-up ecosystem, which currently ranks 3rd globally and represents an ecosystem value higher than the aggregate value of the ecosystems of Berlin, Amsterdam and Copenhagen.)

Several solutions have been proposed at an EU level to resolve the situation. Within the frames of academic and political debates, the Commission has selected Mariana Mazzucato’s proposal described as a “mission-oriented research and development strategy”. Briefly, the proposal aims at a targeted co-operation between entrepreneurial states, entrepreneurial universities, and economic actors focusing on innovation and impact based on proactive local community networks through innovation development programmes, and implemented by the bottom-up initiatives defined by central (state and community) actors (Mazzucato, 2018a). The cited publication proposes interventions at Member State level, and in a subsequent strategic document, the author also makes recommendations for a European Community innovation policy for the next seven years (Mazzucato, 2019). However, mission-based planning requires a redefinition of the role of the public sector and use of the concept of economic value, which is done by Mazzucato in her comprehensive theoretical work (Mazzucato, 2018b). Strongly value-based theories, which are based on Keynes’ theories and aim at redesigning the role of the public sector and increasing its significance (including Mazzucato’s theory), have become increasingly popular since the great depression of 2008 (Skidelsky, 2018). Rethinking the role of the state (especially in innovation policy) is represented by the concept of an “entrepreneurial state”, which appears to be a central element in the theory (Mazzucato, 2015). The author presents the operation of an entrepreneurial state through the basic and applied research funding activities of US government agencies, emphasising that this funding function is maintained in the commercial utilisation of the subject of the research by venture capital funds (partially) sustained and operated by the state. Venture capital is commonly seen exclusively as a fund set up by economic actors for long-term investment purposes, although it is not confirmed by either theoretical or empirical research. A good example is provided by Etzkowitz in his highly influential book titled *Triple Helix*, which describes the birth of the world’s first venture capital fund at Harvard University, and then the adoption of the successful model at Stanford University, which highly contributed to the foundation of the subsequent success of Silicon Valley (Etzkowitz and Zhou, 2018). The claim that public equity funds are relatively new institutions and are mainly characteristic of

Far Eastern innovation ecosystems is also incorrect. However, the reality is that the world's first state venture capital fund called In-Q-Tel was created by the CIA in the 1990's (Keller, 2016).

The mission-oriented research and development strategy has also had a significant influence in Hungary since 2018–2019. The new National Smart Specialisation Strategy for the period of 2021–2027 has already been prepared on the basis of this theory. The mission defined by the government (in line with the objectives of the Cohesion Policy) is to create a smart Europe by achieving the following general objectives:

- Strengthening RDI capacities and introducing advanced technologies;
- Digitisation for citizens, companies and governments;
- Strengthening competences and the entrepreneurship needed for S3;
- Enhancing the competitiveness and growth of SMEs.

Besides general objectives, the National Research, Development and Innovation Office (NRDIO), which is responsible for the preparation of the strategy, aims to identify regional strengths in Hungary and to utilise them as effectively as possible. The government plans to develop and then implement the new S3 strategy with the help of the Territorial Innovation Platforms (TIP) established in 2019, thus involving the regional level in the planning process, and creating an opportunity for decentralisation. The TIP structure does not have the previously used NUTS2-based regional planning frameworks but relies on innovation ecosystems as the basis of the territorial units of innovation policy (Nemzeti Kutatási, Fejlesztési és Innovációs Hivatal, 2020). The spatial centres of innovation ecosystems are universities which may become able to play the role of RIOs (Regional Innovation Organisers), a concept adopted by Etzkowitz, in a given innovation ecosystem with the help of academic entrepreneurship and entrepreneurial education functions. This, of course, requires a change in the model of strengthening the entrepreneurial attitude of universities, which is currently in progress parallel with the development of the S3 strategy and the planning of the 2021–2027 programming period. The planning and implementation of the process relies heavily on the experience of the first S3 strategy, the main elements of which were summarised by Imre Lengyel (Lengyel, 2018, p. 31).

- Subsidies granted to improve competitiveness and efficiency take precedence over the forms of subsidies based on social policy or equity, due to their economic growth-enhancing effects. Therefore, the interventions related to innovation policy should be included, to a far greater extent, in the operational programmes supporting regional development in the future.

- The process of spatial concentration is of importance for bottom-up and endogenous economic and business development. Based on this line of reasoning, it may be questionable whether the concept of region, in its administrative sense, is apt for planning interventions that strengthen emerging innovation networks in the future when using resources for the development of areas and regions.

- Without support to bottom-up initiatives that strengthen the background of innovative enterprises, developments may not be economically successful, whether in the public sector or in support of basic and applied research, since regionally embed-

ded and agile early-stage enterprises are needed to explore their market potentials and the multi-directional utilisation potentials of the innovations.

– Improvement in the regional innovation ecosystems requires a local and embedded agency capable of adjusting national economic programmes to regional features and of representing regional demand at a sectoral level. All this requires either a decentralised administrative unit or a locally embedded work organisation capable of performing the above functions.

The mentioned experience also identifies the main functions of the entrepreneurial universities created by the paradigm change and operating as an integral part of the regional innovation ecosystem in course of the planning and implementation of innovation policy.

ENTREPRENEURIAL UNIVERSITIES

The de-emphasis of the traditional, dual higher education paradigm, well-known for Humboldt (Etzkowitz, 2019) was accompanied not only by an increase in the number of students in higher education, but also by an increase in the pace of technology transfer at universities. This phenomenon is well illustrated by the sharp increase in the rate of R&D expenditure in the US higher education system following the shift from the “science as resource” model to the “science as engine” model (Popp Ber- man, 2012). The establishment of service/entrepreneurial universities also means the penetration of economic logic into the academic/higher education system, resulting in “academic capitalism” (Münch, 2014), with its basic elements (with a special emphasis on inter-university rankings) facilitating the increasingly growing effect of economic logic in the continental, the British and the US-type higher education systems. The literature is not uniform in the definition, or concerning the functions and the features of an entrepreneurial university. This, of course, does not mean that there is no consensus in certain elements; the strong link between economic and academic systems and focus on innovation are not criticised by any trend or theory. As Etzkowitz defines it, “the entrepreneurial university, combining the ‘third mission’ of economic and social development, with teaching and research, is a growing contemporary phenomenon, in which academia takes leading role in an institutional base of an emerging mode of production based on continuing organisational and technological innovation” (Etzkowitz and Zhou, 2018, p. 58). In relation to this, Clark (1998, besides separating each university model) has previously described entrepreneurial universities’ basic pillars as follows:

- Professional management;
- Improvement in university-related development peripherals;
- Diversification of funding;
- Academic background with a business incentive;
- Integrated entrepreneurial culture.

Within the framework of the Triple Helix model, the co-operation between universities, economic and scientific systems creates the preconditions of effective innova-

tion, and more specifically, the university as the location and integrator of innovation provides the complex factor (Leydesdorff and Etzkowitz, 2001), suitable for creating diffuse and interactive innovation processes in the platform of open innovation (Chesbrough, 2003). A further development of these ideas is the Quadruple Helix model developed by Carayannis and Campbell (2009), where the fourth “spiral” is provided by the public and the local media. A few years later, the same authors identified the environmental and social challenges associated with global warming as two of the most important drivers of innovation. These, according to them, are so important that they are incorporated into the innovation model as a “fifth spiral”, creating the Quintuple Helix model (Carayannis et al., 2012). Regarding the latter theory, the arbitrary emphasis of the effects of global warming, which seems to be a kind of value choice rather than the objective description of the phenomenon, may arise as a criticism. As examples, it is enough to mention the challenges of globalisation, the growth of various inequalities, or human/social adaptation to the acceleration of technological development. Each of these may become a “spiral” in a given space and time, thus allowing the model to be arbitrarily expanded to a Sextuple Helix, and then to an Octuple Helix direction, which rather makes scientific observation difficult than giving it a tool. These circumstances are factors that determine the direction and nature of innovation rather than its organisational and policy framework. Therefore, to maintain a clear and practical theoretical framework, on the one hand, the Triple Helix model can be effectively viewed using the tools of Luhmann’s system theory (Luhmann, 2012), and each “spiral” can be interpreted as Luhmann’s social subsystem, while on the other hand, their interaction may be interpreted as described by Münch (2011).

Of course, a university as an actor existing in space has a strong influence on the economic processes of its narrower and wider environment. Chatterton and Goddard (2000) present the relationship between universities and the regional economy, and they emphasise interdependence in their model: a strong and innovative regional economy supports the position of universities, and a strong university can be a catalyst for development and innovation in a region. The Chatterton-Goddard model, unlike the Triple Helix models, is built on regionalism and decentralisation. The model links the role of universities to the economic stimulus of regional policy. In this concept, knowledge networks are essential elements of regional economic development, and universities are not only sources of innovation, but also represent the nodes in knowledge networks (Rámháp, 2018, p. 375). In relation to this, the concept of “learning region” (Hassink, 2001) deserves mentioning, as it provides a framework for the organisational, cultural and institutional analysis of knowledge-based regional innovation development. This paradigm also describes regional higher education institutions as key actors in regional development and innovation (Rutten et al., 2003). The models emphasising the regional role and impact of universities and decentralisation, and the Triple Helix model are in fact compatible with each other. One model emphasises the regional missions of higher education institutions, and the other outlines the optimal operational structure in which the

actors of each subsystem can co-operate optimally to develop regional innovation ecosystems. The factors and effects of regionalism and regional development policy can be incorporated into the analytical framework of the Triple Helix model and can also be analysed (Ranga and Etzkowitz, 2015). All this is supported by Hungarian research, which reveals that the appropriate allocation of economic, cultural and social capital and co-operation between regional and state actors according to the Triple (Quadruple) Helix create an opportunity for the development of knowledge regions (Rechnitzer, 2016, p. 245).

Wissema (2009) derives the functions of a third-generation university through the model of Cambridge University, considered as a benchmark. It focuses on the process unfolding since the 1970's and in the course of which, thanks to the institution, a high-tech industry has developed around Cambridge (Cambridge phenomenon). Wissema has identified seven main features: (1) the formulation of the "third objective": the utilisation and dissemination of knowledge will be central; (2) operation in an international, competitive market will be a priority; (3) universities will become open to collaboration with industrial and business partners; (4) trans- and multidisciplinary research will come into prominence as the nature of research changes; (5) both mass and elite education will be undertaken; (6) institutions will become multi-cultural organisations; and (7) no direct state financing and no state interference will be made (Wissema, 2009).

The development of innovation ecosystems in Central and Eastern Europe has followed the model of the key countries of Europe with a significant time lag, but, of course, the fact that the regions in this area are considered peripheral in terms of innovation also has a significant impact. This is also supported by the regional innovation indicators calculated on the basis of the Regional Innovation Scoreboard (RIS) framework, which show a significant lag behind the regions leading these areas (e.g. the western and southern regions of Germany, the Netherlands, the southern regions of the UK, and Ireland) in all cases since 2007 (Gál and Páger, 2018). Another feature is the continuous decline in the number of students in higher education (with the exception of the Czech Republic and Croatia), and the key role of state interference in the formation of innovation processes. Another characteristic of the region's innovation ecosystems is that the regional innovation organisers (RIOs), which are needed for the effective operation of the Triple Helix model and which are able to organise, co-ordinate and operate the region's innovation, knowledge and consensus spaces, cannot be identified in them or only to a limited extent (Ranga and Etzkowitz, 2015, p. 124). This function has been increasingly taken over from the various actors of regional policy by individual higher education institutions that will become suitable for this role after transformation into entrepreneurial universities. Based on the research of Nieth and Bennewoth (2019), each local university contributes to the development of each peripheral region, *inter alia*, by mediating between demand for and the supply of innovation, providing supportive infrastructure, building the necessary regional partnerships, and developing the necessary skills.

SZÉCHENYI ISTVÁN UNIVERSITY BECOMING
AN ENTREPRENEURIAL UNIVERSITY

History

Since 2010 integration has taken place in Hungarian higher education due to economic necessity. The Structural Reform Plan withdrew significant funds from the system: HUF 12 billion, HUF 38 billion and HUF 28 billion were withdrawn from higher education in 2012, 2013 and 2014, respectively, representing a reduction of 6 per cent in 2012, and 19 per cent in each of 2013 and 2014, compared to 2010. These cuts were offset by the Human Resources Development Operational Programme (HRDOP), which opened a wide range of tender opportunities for institutions. The purpose of the HRDOP is to increase the ratio of higher education graduates by improving the quality and accessibility of higher education, to improve the labour market relevance of training, to ensure the supply of researchers, and to increase contribution to Hungary's economic development objectives through the Structural Funds (ESF and ERDF). Integration and economic necessity have had two effects:

- the regional weight and role of integrated institutions has increased, and
- the withdrawal of funds and the use of tender funds earmarked as a replacement have developed and subsequently strengthened business and entrepreneurial approach by universities.

The draft of the government's new higher education strategy entitled "Graduation Change in Higher Education. Guidelines for Higher Education Development with Focus on Performance" was published in October 2014 under the auspices of the Ministry of Human Capacities. The strategy adopted by the government in December of the same year specified guidelines for the development of the Hungarian higher education system for the period between 2015 and 2030.

The objectives of the document relevant to innovation policy are as follows:

1. To develop a higher education system focussed on performance and to improve the quality of higher education;
2. To strengthen research elements within higher education and to make research careers more attractive;
3. Closer links between local/regional enterprises and higher education institutions.

As a first step of implementing the strategy, the amendment to Act CCIV of 2011 on National Higher Education and its enacting order adopted a new training structure including community-based higher education centres, chancelleries and a consistency system.

Paradigm change at Széchenyi István University

Széchenyi István University is the largest higher education institution in the North Transdanubia region, Hungary's most developed agricultural and food industrial

area in the country, where industry nevertheless plays the leading role and has been growing rapidly since the second half of the 1990's. Due to its geographical location, the northern part of the region – mainly Győr-Moson-Sopron County, and to a lesser extent Vas County – is actively involved in the circulation of Europe and the world market, with its comparative advantage still provided by industry (mainly construction and vehicle industry). GDP per capita in the region exceeds the national average (Tamándl et al., 2014).

The predecessor of the university, called the Technical College of Transport and Telecommunications, was founded in 1968, with the aim to train the technical intelligentsia needed for the development and maintenance of transport and telecommunications infrastructure in the region. Its name was changed to Széchenyi István College in 1986. Since the 1990's in addition to engineering, health sciences, economics, law and arts have also been added to the subjects taught here. The expansion allowed the institution to gain a university rank in 2002. The transformation to an entrepreneurial university was greatly boosted by the objectives of the medium- and long-term development concepts of the city of Győr, home to the university. Based on these objectives, it was set as an aim that the city should transform from a vehicle manufacturing location to a development centre which contributes to the evolution of a competitive regional economy by developing and diversifying knowledge industry (Fekete and Rechnitzer, 2019).

The most important tool in achieving the objective was capacity building at Széchenyi István University, carried out in several stages with the financial support of the European Union. The core elements of the programmes include the ability to innovate, the development of human and infrastructural potential needed for the efficient implementation of R&D processes, which ensure the efficient, two-way flow of knowledge and information between the economic and university sub-systems.

A next step in transformation into entrepreneurial university was launching the university's Centre for Co-operation between the Higher Education and the Industry and the infrastructural investments began in July 2017. Within the framework of the project, only three buildings (Management Campus, Logistics Packaging Laboratory, Brake pad Testing Building) were built or their infrastructure improved. The Management Campus, inaugurated in 2018 and established with funding from the Economic Development and Innovation Operational Programme (EDIOP), is home to the university's entrepreneurial and technology transfer functions, and operates as an individual competence centre within the university. In the project, the achievement of two lasting results are planned: 1. The ultimate aim of the project is to elaborate a portfolio of services for SMEs by the Centre for Co-operation between the Higher Education and the Industry (FIEK), adapted to the local economic environment, and representing a complex product-package consisting of training, product and organisational development services and operation according to industrial order. 2. The Management Campus, being a research and training institution, works out original and forward-looking scientific products, and publishes them in international publications (Eisingerné Balassa and Rámháp, 2019).

The aim of this centre is to conduct research in organisation and product development and problems in large companies and SMEs and to answer them on a scientific basis. Within this framework, in addition to scientific research and analysis, a portfolio of services closely adapted to the local economic environment is created, thus it is suitable for promoting close and long-term co-operation between the university and economic actors. The Management Campus basically contributes to the strengthening of entrepreneurial university functions by implementing the following activities (Széchenyi István University, 2018):

- Student innovation projects;
- Innovation services;
- Innovation promotion;
- Supporting early-stage enterprises (start-up and spin-off companies).

The most recent important step in the transformation to an entrepreneurial university is the process known as a paradigm change in higher education, aimed at creating an efficient and modern higher education. During the process, the fundatorial and controlling rights of paradigm-changing institutions are handed over by the state to trust foundations. All this is an important step towards developing the ability to innovate and opening up to the business world. As a result of the process, on 1 August 2020 the following universities changed: University of Veterinary Medicine Budapest, Moholy-Nagy University of Art and Design Foundation, University of Miskolc, John von Neumann University, Széchenyi István University and University of Sopron; and the University of Theatre and Film Arts may join them as the seventh paradigm-changing university. The controlling rights of Széchenyi István University were transferred from the state to the Széchenyi István University Foundation. As the open letter of the Board of Trustees of the Széchenyi István University Foundation states: “In recent years, Széchenyi István University has become one of the leading higher education institutions in the region and in Hungary, has significantly increased the number of its students and its revenues, and has improved its infrastructure, with its stability ensured by its outstanding liquidity. All this provides a solid foundation for the university to become a winner in the renewal opportunity now opening up”. As a result of the process, a more efficient and flexible operation, greater independence, new developments, and the further strengthening of the university’s corporate partnerships, internationalisation and service capacity are expected (Széchenyi István University, 2020b).

VENTURE CAPITAL IN THE UNIVERSITY-CENTRED INNOVATION ECOSYSTEM

Venture funds are currently characterised by capital deriving partly or fully from public sources, so the number and ratio of private equity funds are very slight compared to public funds, and the participation of private investors is low (Kormányzati Informatikai Fejlesztési Ügynökség, 2018). Since the beginning of the 2000’s approximately HUF 200 billion has been made available for public funds for venture capital

investments, and some 500/600 Hungarian enterprises have received venture capital from this overall amount. Development of the Hungarian start-up ecosystem began to develop mainly on launching the JEREMIE funds, financed from EU funds in the period between 2007 and 2013. The amount of funds available for them exceeded HUF 85 billion (Karsai, 2013). In the EU's programming period 2007-2013, Hungary, for the first time, had the opportunity to use a larger amount of the EU funds in the form of venture capital. However, according to Karsai (2017), the relevant EU regulation significantly limited the spatial and temporal use of these funds, and these limitations were difficult to reconcile with the nature and time-demand of venture capital investments. Moreover, an extensive set of rules to avoid illegal state aid also narrowed the room for manoeuvre for fund managers who provide venture capital to enterprises. All these regulations were equally unusual in the domestic market for public administration, investors, and enterprises looking for venture capital. In the period 2014–2020, venture capital funds with state participation targeted the placement of capital worth a total of HUF 250–260 billion (Karsai, 2017). Higher education institutions are also important partners to this.

Hungarian venture capital funds and the start-up ecosystem are centred in Budapest, as evidenced by the facts that the headquarters and the seats of all the fund are in Budapest, and that a significant part of the start-ups that have received investment are also based in Budapest (Jáki et al., 2019). Strong concentration in the capital city is somewhat mitigated by the EU's special rules that allow the use of certain funding sources only in convergence regions, thus in case of some funds, only non-capital start-ups can expect investment, given that these funds use this type of EU funding. *Inter alia*, the allocation requirement resulted in some capital funds' appearance in the country's major cities outside Budapest. Based on the experience of the past two years, it can be said that a significant part of the applications for investments can be found in the major cities with campuses (e.g. Miskolc, Debrecen, Győr) (Jáki et al., 2019). Therefore, it is not a coincidence that some capital funds, especially the Hiventures state capital fund, which has the most significant capital and apparatus in Hungary, have devoted increasing serious resources to ensure their presence in university campuses. Co-operation in the field of innovation is also supported by the government, the most recent example being the establishment of Territorial Innovation Platforms in Győr in November 2019 (Széchenyi István University, 2019).

Venture capital funds at Széchenyi István University

Embracing student innovations began about 10 years ago at Széchenyi István University. The Knowledge Management Centre, which also carries out technology transfer functions, was established at the institution in 2010. It was around this time that the Spin-off Club, organising meetings with successful entrepreneurs, and the Business from Idea initiative, which has been enjoying unbroken popularity among the students of engineering ever since, were launched to encourage entrepreneurship. Students are required to build a business model based on their own ideas by the end of

a given term. The course focuses on practice, as the university lecturer is assisted by two successful local entrepreneurs, who give practical examples and share their experience. The SZE-Duó competition is also rooted here; within its frames one lecturer and 2 or 3 students were given the opportunity (under a contract for services) to create a prototype: there were 3 supported projects in every term for 4 years, financed through tenders and from the university's funds, and several successful start-ups were set up. The aim of the Creative Summer Universities initiative, organised in 2014 and 2015, was to develop business ideas in groups of 2/4 people, whose work was assisted by designers, marketing professionals and business development mentors. As a result, the university entered the national start-up cycle. Széchenyi István University and Quantum Leap incubator formed an alliance in 2017 within the framework of the GINOP-2.1.5-15. project titled "Innovation Ecosystem (start-up and spin-off)". As a result, the first university incubator was established, which supported these groups by training and investment from tender sources. The aim of the project was to support innovative start-ups from the birth of an idea through validation and prototype development to market entry, developing a sustainable business model and achieving suitability for investment. Consequently, in the academic year 2017–2018 incubation workshops were launched, and the university came into contact with Hiventures capital fund. In 2019, under the trilateral agreement between Széchenyi István University, Hiventures Zrt. and Enterprise Hungary Nonprofit Kft., the Startup Campus Győr incubation programme was established, and launched a more complex training and investment programme. The Input programme launched in the meantime assisted start-ups in Győr by training courses and by a mentoring network, including enthusiastic volunteers who started to build a community and organise events called Start Up Wednesdays.

At Széchenyi István University, as in most technical universities taken in the classical sense of the word, communication with the start-up ecosystem basically takes place on the Management Campus, which co-ordinates technology transfer processes and was established from FIEK resources. The university and the Management Campus co-operate with the mentioned Hiventures capital fund in start-up incubation, with Quantum Leap that also carries out incubation and preseed investment functions (Quantum Leap, 2020b), and also with Startup Campus incubators. The jointly implemented (non-capital investment) programmes are the following (Széchenyi István University, 2020a):

- Start-up consultation hours;
- Start-up incubation workshop;
- Mentoring;
- Co-working office on the Management Campus;
- SZE-Duó competition;
- Spin-off Club.

The incubation programme implemented by Quantum Leap using EU funds (Quantum Leap, 2020b) is a particularly forward-looking initiative in Hungary, and in addition to acting as a partner, Széchenyi István University also proactively participates

in the investment (and decision-making) process through the Management Campus. This is how it provides the human resources involved in the provision of technology transfer processes with the competencies and experience that will be used in the future in order to establish and operate an independent university venture capital fund. The establishment of a possible university capital fund may be facilitated by the paradigm change planned at Széchenyi István University and launched in August 2020, with control transferred from the state to a foundation entailing release of the institution from the public finance sub-system, which will promote the fulfilment of the entrepreneurial functions of the university by a positive change in the relevant standards.

CONCLUSIONS

The emergence of new stakeholders (entrepreneurial universities and venture capital funds) in the planning and implementation of innovation policy and the new goals to be achieved and the interventions helping to achieve them have induced the following changes:

1. Mission-driven central innovation policy planning (entrepreneurial state);
2. Strengthening the role of regional innovation ecosystems (networks of ecosystems);
3. Entrepreneurial turn and the paradigm change in case of universities forming the centre of the local innovation space (entrepreneurial university).

In relation to this, entrepreneurial universities, acting as regional innovation-organising ecosystem nodes after the paradigm change, can contribute to the following functions:

- Contribute to strengthening the portfolio of state and quasi-state venture capital funds related to a given region and to adapting to the regional industry profile promoting this way the “smart money” nature of each capital fund.
- Relying on the professional capacities developed at entrepreneurial universities and participate in organising regional innovation ecosystem, universities can effectively take over and fulfil the functions of former regional innovation agencies.
- The universities’ international relations and networks that have traditionally existed or developed as a result of previous internationalisation projects may contribute to developing the global visibility of regional innovation ecosystems.

In Hungary the process of the paradigm change at universities began in 2019, and were completed in 2020. By the first months of 2021 the strategies and planning documents intended to determine the support system in the next seven years will have been finalised. The effects and efficiency of changes in the renewed innovation policy cannot yet be measured or analysed. However, the directions and depth of changes are clear, and based on this it can be stated that in the next seven years the funding and application system supporting innovation, and the organisational structure carrying out its implementation and co-ordination will be fundamentally different, but the entrepreneurial universities established after the paradigm change can make a meaningful contribution.

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András Giday

Double Deficit in Hungary in the 1970's and 1980's



Summary

In the 1970's and 1980's, foreign trade deficit was accompanied by a high budget deficit. To understand the process, it is essential to answer two questions. One of them is: Was there a causal relationship between the two? The other is: How did they correlate with the investment cycle? After an analysis of the issue, it is concluded that the cyclical surge in investment was the common reason behind both deficits. Pick-up in investment projects and the increase in production required substantial imports. On the other hand, project financing also increased the budget deficit. By imposing restraints on CAPEX projects, imports could be temporarily reduced and budget expenditures could decline. In foreign trade, curbing was faster, while the improvement of the budgetary position took longer.

Journal of Economic Literature (JEL) codes: E62, F32, F42, P21

Key words: fiscal policy, current account, twin deficit, socialist economy

INTRODUCTION

Hungary's huge external debt inherited in 1990 was due to high foreign trade deficits in each year. The central bank passed on most of the external funds it had raised to the budget, in order to finance the high demand that resulted in excessive imports. Although the cyclical economic crises experienced in Hungary in the socialist period were thoroughly analysed already in the 1980's, these contemporary analyses disregarded the budgetary effects of the cycles. Since then, no in-depth analysis has been

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carried out to analyse the combined deficit of the budget and the current account, and their interrelationship. This study juxtaposes the balance of payments deficit and the budget deficit recorded in this two-decade period. A response is sought for the “hen or egg” dilemma: Did the foreign trade deficit cause the budget deficit or, conversely, was budget overspending the underlying cause of the foreign trade deficit? The authors also sought to understand the correlation between the twin deficit and the Hungarian investment cycle. The analysis relies on data from the budgetary background calculations for each year.¹ The article only refers to the role played in the budget deficit by the interest charges paid to the National Bank of Hungary before 1989.²

TWIN DEFICIT IN THE LITERATURE

The phenomenon of twin deficit has been analysed on numerous occasions in countries around the world. In the case of developing countries, for example, a study by [Furceri](#) and Zdzienicka (2018) provides a good overview. When twin deficit is mentioned, many economists think of the International Monetary Fund (IMF) and its projects right away, and this is no accident. Up to the late 1980's the IMF conducted its analyses on the basis of a simplified model, which assumed a close link between budget and balance of payments processes. Now we know that the correlation is looser in many countries, and that a budget multiplier of more than 1 could, in some cases, exacerbate the situation as a result of deepening the recession in that country. In Hungary, the announcement made by Prime Minister Miklós Németh in November 1989, establishing that data of the Hungarian government's debt was skewed, created a completely new situation for the analysis of the budget deficit. In its 1992 report, the State Audit Office presented the size of the hidden deficit in each year and determined the actual debt of the state on this basis. In 1993, the National Bank of Hungary (MNB) conducted an analysis of indebtedness, and specified the genuine budget deficit data of each year (Magyar Nemzeti Bank, 1993).

In the first half of the 1990's, the attention of experts familiar with the subject was drawn to the assessment of the current budgetary situation and the marketing of debt. Later, in 1997, the assumption of the central bank's foreign currency debt by the budget was another issue to be analysed. The experts who criticised IMF-oriented debt management did not address pre-1990 budget issues, they merely focused on the development of external debt and possible room for manoeuvre, and analysed the investment cycle (see Soós, 1986; Bródy, 1983; Wiener, 1985).

THE NORMAL COURSE OF THE CYCLE

The crisis was generally exacerbated by investments had “breaking loose” and a simultaneous increase in production for both the domestic and RUB markets. At the same time (and precisely because of these) there was a significant increase in imports in convertible currencies. As a result, the economic management frequently ordered

a partial (or complete) halt in CAPEX projects, and endeavoured to curb imports in convertible currencies and to increase exports, while real wage growth was slowed, and efforts were made to slow the rise in exports to COMECON countries. Tensions in the market of capital investment projects eased within a year or two due to more moderate construction industrial demand, and the foreign trade balance improved due to the slowdown in convertible imports.

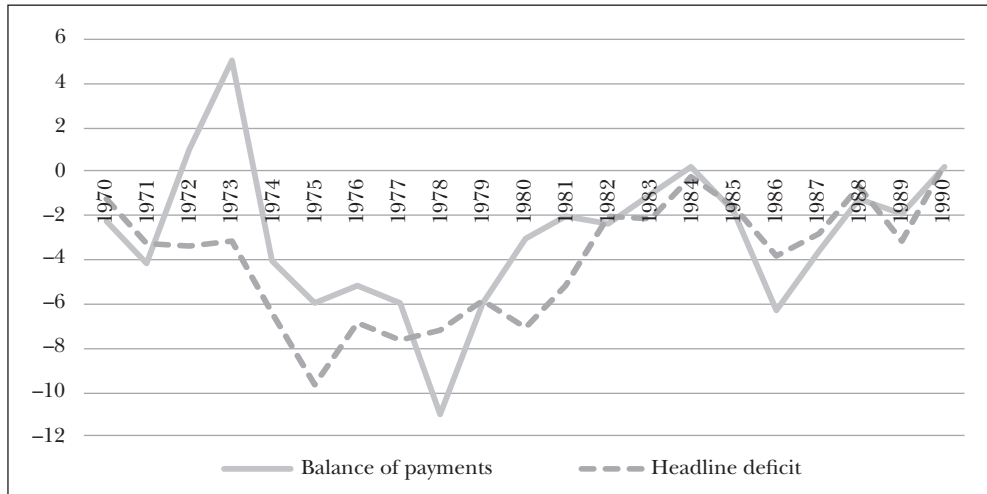
Three external shocks had a strong effect on Hungary's external balance:

- Its exchange rate loss, in both relations;
- Declining food export opportunities due to the constraints by the Common Market;
- A surge in international money market interest rates after 1980.

The expert analysts of Hungary's cyclicity focused on analysing the investment propensity and the resulting high convertible foreign trade deficit. Developments in the RUB-denominated balance were not highlighted, and this was justified in light of the processes at that time. The question arises as to whether, in order to correctly present the Hungarian twin deficit, the total current account balance of the USD–RUB relationship should be compared with the budget deficits, or whether it is sufficient to compare the convertible current account balance and the budget deficits. The two pairs of curves differ significantly in one respect: the significant balance of payments surplus of 1972–1973, taking total turnover into account. Figure 3 shows the reason for the discrepancy: the significant export surplus in the RUB turnover in these years, the figure shows developments in the RUB-convertible FCY trade balances and net interest expenditure. Two factors are worth highlighting: one is the significant positive balance of the RUB turnover, which explains why the two current account differences differed in the first half of the 1970's. The other factor was the high interest expenditure in the 1980's, which suggests that a convertible FCY trade surplus of 3–4 per cent per year should have been presented to GDP in order not to increase external debt further. Figure 1 shows that between 1970 and 1990, the budget deficit and the USD-denominated current account deficit moved relatively closely together. However, the period 1974–1975 was different, because at that time the budget protected producers from price increases through price subsidies.

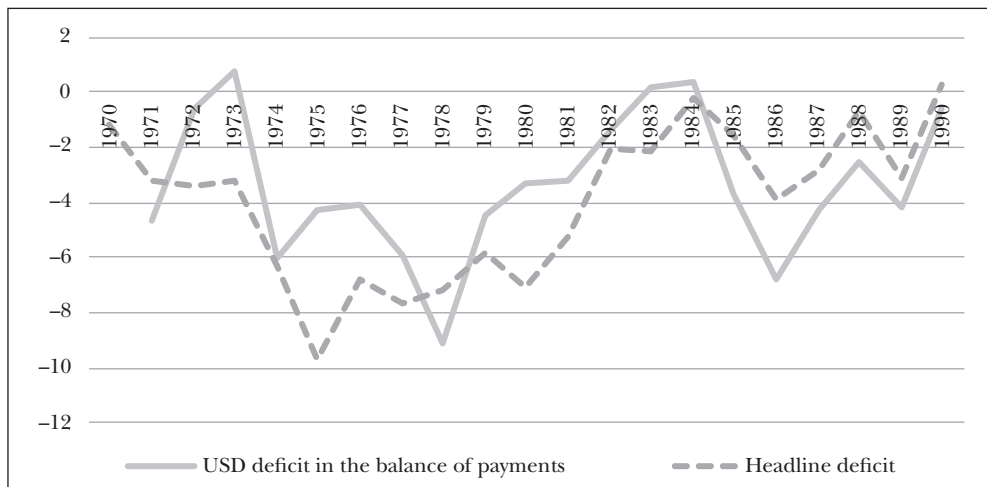
In the course of the cycle, the primary goal of interventions was to reduce investment problems, on the one hand, and to cut excessive imports in convertible FCY (or to raise exports to the high level of imports), on the other. The effects of the measures were generally more pronounced in foreign trade than in the budget deficit. In the case of developments, the procedure of the CAPEX project determined when the expected result was expected (at the time when construction had been completed or when the value of the projects under construction decreased in 1 to 1.5 years due to the investment stop). Note that up to 1983, the government generally did not bother too much to improve the budget deficit and reduce government debt. What mattered was the non-RUB foreign trade deficit and reducing the overheating of the investment project market. USD imports were also driven by the convertible FCY import demand of exports to the COMECON members and to developing countries. Hungary's ex-

Figure 1: Financial deficits to GDP (current account deficit in USD and RUB and headline deficit (%))



Source: Balance of payments: Kóczyán and Sisak, 2019; headline deficit: CSO, SAO, MNB

Figure 2: Current account deficit in USD terms to the headline deficit (to GDP)



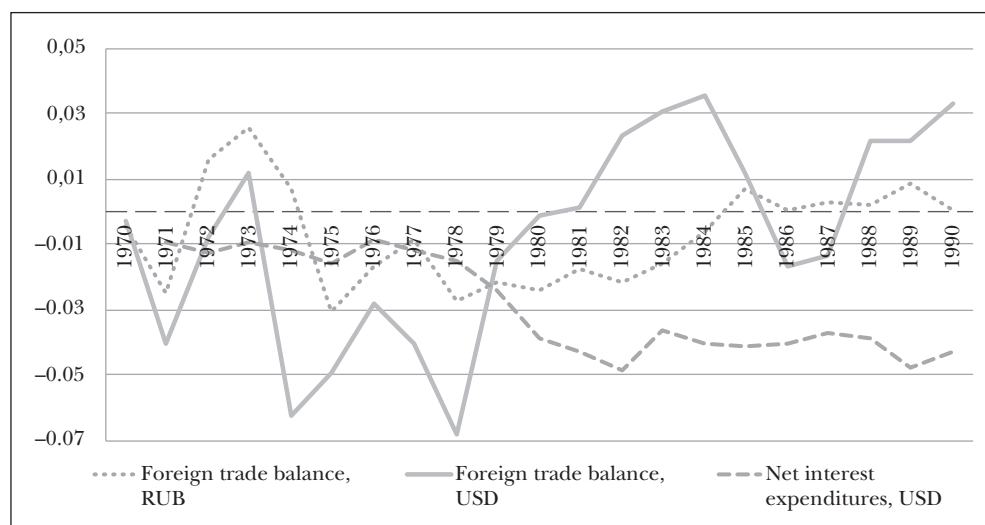
Source: SAO, 1992; Magyar Nemzeti Bank, 1993

ports to developing countries at that time demanded high-level borrowing.³ Due of these, we had to take out even higher loans from the West. About 15–17 per cent of the value exported to other COMECON countries included materials, parts, etc. imported from a markets where Hungary paid in convertible currencies.

As for MNB, the financing of interest on external debt was a major task, from 1981 or 1982, it raised corporate lending rates to a high level.⁴ Increase in the inter-

est rates had an adverse impact on debtors who had previously taken out loans or development loans at a nominal interest rate of 6-8 per cent. It was disadvantageous for sectors that relied on financing their stocks from credit (e.g. furniture and food industry). In addition to the interest rate hike, MNB also took other adverse actions. Such was the unification of the tourist and trade exchange rates in 1979–1980. Instead of the central bank committing itself to defending the double exchange rate against expected IMF criticism, it abolished this system. It standardised the trade rate set at the average foreign exchange output level instead of moving it towards the marginal rate. In contrast to the above, an example of MNB's action with a favourable effect was its loan package to develop convertible FCY exports and its successful implementation in the second half of the 1970's.

Figure 3: Foreign trade balance in RUB and USD terms and net USD interest expenditure to GDP



Note: Including shipping.

Source: Foreign Trade Statistical Yearbooks, Magyar Nemzeti Bank, 1993; Lóránt, 1981

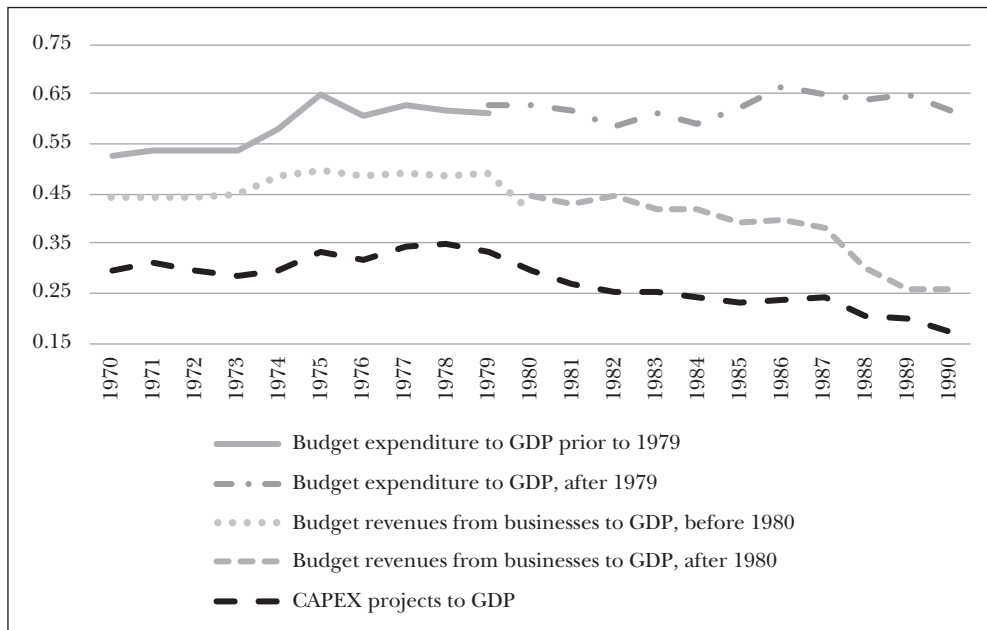
CHANGES IN EXPENDITURE AND REVENUES

At the following points, budget expenditures changed in a systemic manner. In 1974, despite rising world market prices, the prices of fuels and materials remained unchanged, with substantial producer price subsidies (these subsidies had been reduced by 1976). As from 1981, the state withdrew from the high level of public housing construction. This was replaced by the application of the relatively high amount of soft OTP-loans to family home construction. In the late 1970's, there was a decline in large-scale public CAPEX projects (with the exception energy developments up to 1986). Business development opportunities were severely curtailed in 1979, by reduction in the resources available for this purpose. A reduction in the volume of

consumer price subsidies relative to GDP could be observed from 1984. There were examples for automatic growth in some items of the government expenditure. Such included a surge in government interest rate subsidies on fixed-rate retail loans from 1987–1988 due to the rise in inflation.

Changes also took place in the revenue structure. In 1975–1976, corporate incomes fell due to increased producer prices, and this was compensated by the government by reducing the payable asset allocation contribution. In 1980–1981, an export tracking price system was introduced, which increased costs for the corporate sector. To offset this, the asset allocation contribution was abolished. At the same time, the prices raised to the world market level eliminated the difference between the lower domestic production prices and the COMECON purchase prices.⁵ PIT and VAT were introduced, thus the previously high corporate tax was reduced. External credit was needed both to finance the budget deficit (as there were no internal savings available for this purpose) and to cover the foreign trade deficit. One of the items in the current account, net interest paid to the rest of the world, was around USD 1 billion a year in the period following 1979.

Figure 4: Annual government expenditures to the income from entrepreneurs and to CAPEX projects, to GDP



Source: Author's own elaboration based on foreign trade statistical yearbooks

One of the curves in Figure 4 shows the value of the government expenditure (relative to GDP). Public spending accounted for 53-55 per cent of GDP in the early 1970's, rising to 62-65 per cent from 1974 and 61-65 per cent in the early 1980's. Regarding the

indicator, it is worth noting that a methodological change took place from 1979–1980, and that is why there is a break in the curve.⁶ Social security expenditures to GDP steadily rose. This was mainly due to increase in pension expenditures, but family benefits also rose significantly (the family allowance were financed by from social security funds up to 1989). The net interest expenditure to GDP rose to 1.5 per cent in the mid-1970's, from 0.6–0.8 per cent in the previous years, and fluctuated around this level in the mid-1980's.⁷ A quarter to a third of these interest expenditures were used to repay debt to various beneficiaries (e.g. as basic benefits or government loans to corporations). After 1989, the central budget paid 6 per cent interest on all its debts to MNB, which increased to 7 per cent from 1990. On the HUF 450 billion recorded at that time, this amounted to at least HUF 27–35 billion per annum, i.e. 1.5–2 per cent of GDP.⁸ In addition, interest rate subsidies were paid to keep interest rates on housing loans low. In the 1970's this amounted to 0.4 per cent of GDP, but gradually increased due to inflation, approaching 1 per cent in 1987, and then 1.5–2 per cent per annum in 1988–1990.

ELBOWROOM TO REDUCE THE BUDGET AND FOREIGN TRADE DEFICITS

Prior to the change of regime, state redistribution was high. In principle, this could even have provided an opportunity to cut the budget deficit when the external deficit turned out to be large and there were too many CAPEX projects. However, the situation was not so simple: on the one hand, one-third of the taxes and contributions collected from the economic sector was needed for the central budget to pump it back companies, and on the other hand, one of the largest public expenditure items includes CAPEX projects, while any restraints only had their impacts felt after 2–3 years (on average, projects were completed in 4–5 years, and in the case of large public projects, 6–8 year construction periods were not uncommon).

A review of the budget balance in the 1970's and 1980's reveals the following:

- Curbing investment had a major role in cutting the deficit. In the mid-1970's, public investment spending was reduced by 2 per cent of GDP, and in the five years after 1979, a further cut was made by 5 percentage points of GDP.

- Typically, in the years of “overspending”, social security expenditures generally increased (relative to GDP). However, the subsequent restraint did not affect them, and their value remained at the higher level achieved. But only until the period of further economic easing, which took place within a few years, because then the rate rose again.

- The level of education spending increased in the first half and mid-1980's (despite this being a long period of restraint).

- The central budget could improve its position vis-à-vis the corporate sector by increasing withdrawals or reducing subsidies. Once in every 4–5 years, corporate management regulations and pricing conditions were redesigned, and each time withholdings were also modified and prices were changed. The key factor was the position of the corporate sector, the amount of resources the companies would have for financing pro-

jects and inventories, and the amount of money available for them to raise earnings. Improvement in the budget balance was considered as a problem of secondary or tertiary significance. During price and regulatory bargains, companies did not mention their efficiency reserves, however, within 1-2 years, they mobilised them and corporate revenues rose faster than expected. In other words, more resources were generated than recorded in the plans and in the budget, and they were spent on additional CAPEX projects and higher-than-expected wage increases, etc. Thus the state could run for its money, wondering how to reduce corporate incomes. This was done within 2-3 years, either by increasing costs unilaterally through price increases (and thus lowering profits) or by raising certain taxes. Subsidies were only reduced when prices were also changed (on such occasions the subsidy was usually included in the price).

– Another method, used in only certain years (1979–1980 and 1988–1989), was to expect a significant net debt repayment from the corporate sector (higher repayment than the disbursement of new loans). Thus, the corporate income that could be used for CAPEX projects and inventories decreased. Then (through the so-called national credit balance) this resource could be used by the budget to finance its deficit.

– In the event of a significant reduction in real household incomes, the budget deficit was reduced (because retail price subsidies were reduced on such occasions). Such a measure was taken twice: first, in the summer of 1979, including 16 per cent increase in consumer prices, and second, in the 1988 tax reform (16 per cent inflation in 1988). In both cases, real wages remained below the previous level for the next 2-3 years. Note, by the way, that really significant improvements in foreign trade always took place in the year or two following such drastic increases in retail prices.

– Reduction in the foreign trade deficit had the opposite effect on the development of the budget deficit. Rise in exports increased the amount of export subsidies. Decrease in imports resulted in a loss of revenue (customs and duties). In the aggregate, these two direct effects could increase the headline deficit by 1.2 to 1.8 per cent of GDP over a two- to three-year adjustment period.⁹ In addition to these direct effects, there were, of course, indirect effects, above all on imports. This is because the reduction of imports curbed the expansion of production, which in turn reduced the amount of taxes and contributions that could be collected from the corporate sector.

For cutting the large foreign trade deficit, the following elbowroom was available. As a significant ratio of imports increased during the years of high imports, restraints did not significantly jeopardise current production, as the high amount of inventories could be used in the next year or two. Approximately one-third of the surplus earned on imports in convertible FCY in 1976–1978 fuelled increase in inventories (Boda, 1981). When domestic consumption was reduced, demand for imports became more restrained.¹⁰ By 1978–1981, 80 per cent of the reduction in the import surplus was due to the effect of the restraint of domestic demand (Juhász, 1982). As the authorisation of imports (transacted in convertible FCY's) had been fairly liberal in the 1970's, a reduction in imports could be achieved in the short term by radically tightening import licensing. This is what the government did after 1980, with companies failing to build up significant amounts of import stocks after 1980.

CHARACTERISATION OF THE INDIVIDUAL CYCLES

The following describes the economic processes in each cycle in terms of foreign trade and the headline balance.

1970–1973

This period can also be called the golden age of equilibrium compared to the subsequent hectic fluctuations. Naturally, a normal cycle also took place at that time, and it was characterised by imbalance in the investment market in 1971, with too many CAPEX projects being launched. At the same time, stockpiling (in the interest of production safety) was high. As a result of the above, imports from capitalist countries soared in 1971, and a large deficit developed. In response, the number and value of eligible investments were severely limited, and an increasing number of products were included in the so-called framework management (fuels and products made of them, rolling stock, etc.). Return to equilibrium was successful in 1972 and 1973: rise in the inventory declined, the number of projects in the course of construction barely increased, exports increased in 1972–1973 by taking advantage of the favourable western economy, and by 1973 a positive balance had been achieved. It was in this period that regulatory reversal took place, with the 50 largest industrial companies designated in 1973 with the intention of being “given special attention” by central management.

By 1970, there had been significant differences in wage levels (compared to those paid in 1968) between the various groups of companies, and thus from 1971, the correlation between profit levels and the possibility of wage increases was loosened. At the same time, improvement in profitability was rewarded with a greater opportunity for wage increases, based on a central decision made in May 1973 to increase wages for large industrial workers, which meant an 8 per cent increase in industrial wages and a 6 per cent increase in construction industrial wages. Transition to a five-day working week was completed in the period under review.

In the period following the change of regulators in 1971, there was a usual shift towards income that could be used by the corporate sector, to the detriment of the central budget. In RUB terms, exports rose sharply after 1970, and a significant positive balance developed in 1972–1973, which persisted even in 1974. In order to increase RUB imports, preferential loans were granted to companies that purchased equipment imported from this market. Exchange rates did not change. In 1972–1973, the economy was favourable in Western Europe, which could be successfully exploited by Hungarian companies. In 1973, for example, the volume of exports increased by 21 per cent to western markets.

1974–1978

The period between 1974 and 1978 started with a massive external shock. After the Arab–Israeli war, world oil prices soared, followed by rising raw material prices. The

Hungarian economy suffered 20 per cent deterioration in its convertible foreign trade, which raised the import account by USD 300 million per annum. Nevertheless, economic policy did not change domestic prices, which was only possible in 1974 by the provision of HUF 40 billion import subsidies.

Belated, it was not until 1975–1976 that economic policy responded. On the one hand, the prices of numerous raw materials and fuels were adjusted to the import prices of the prevailing capitalist markets, i.e. they were raised, and on the other hand, withdrawals were reduced due to rising production costs. Due to the external imbalance, more restrained production targets were set for 1975–1976, hoping that they could significantly improve the balance during this time. This objective was only met in the first year. The 1976 plan, adopted in December 1975, was once again aimed at higher growth rates.

The number of CAPEX projects increased excessively in 1977–1978 after the 1975 dormant period, the inventory of unfinished projects also increased, and construction was delayed. Inventories also rose sharply. After a temporary improvement, by 1978 a large foreign trade liability had developed, and huge loans had to be taken out from capitalist banks to finance the deficits. Although GDP growth appears to be stable at 5-6 per cent p.a. according to the data released by the Central Statistical Office, actually, growth halted in 1974, because there had been a significant deterioration in the terms of trade, which “offset” the larger share of GDP growth in that year. It was clear that much more drastic restraints would have to be taken than usual. As from 1976 onwards, neither low inflation nor significant annual real wage increases were treated as absolute taboos. This was suggested by the fact that in May 1976 there was an official price increase in the market of meat and dairy products.

Deterioration in the exchange rate took place in the first two years (1974–1975) in trade with the capitalist countries, and then from 1976 also in trade with COMECON member states. The economic policy “protected” the Hungarian economy from higher external inflation by appreciating the HUF against capitalist currencies during major changes in producer prices, but sometimes also against the RUB. In 1978, the Soviet Union granted a loan of RUB 850 million to enable Hungary to pay higher energy and raw material prices, and Hungary repaid the loan by transporting goods. For this reason, RUB exports were rapidly raised, and Hungary achieved a positive foreign trade balance for several years. Increase in this export was also helped by the new capacities of the development programmes.

From the mid-1970's, MNB operated a successful loan facility (with an amount of HUF 45 billion at the time of its announcement) to finance developments that increased exports. This increased net exports by USD 1 billion annually within a few years (Doros, 1980).

1979–1984

In this period, three drastic series of actions were taken. Firstly, projects were severely curtailed; secondly, there was a massive increase in retail prices; and on the thirdly, a

fixed foreign exchange management was adopted. Retail price increases resulted in a two-year decline in real wages. The volume of CAPEX projects declined every year after 1980, with the investment rate falling from 33 per cent in 1979 to 24 per cent. Public housing construction was curbed. With the adoption of a fixed foreign exchange management, the large-scale accumulation of inventories could be prevented in the corporate sector. In addition, the government announced energy and material saving programmes, and provided state support for these purposes. The result of the period was improvement in the foreign trade balance through subdued imports, and decrease in specific energy consumption. From 1979, the launch of new public projects was restricted. Corporate resources were tapped by raising mandatory reserve funds, thus cutting profits from 15 to 25 per cent of profits, and reducing incentives for development resources. From 1980, a new price regime was adopted, which adjusted domestic prices to export prices. The significantly increased prices thus differed considerably from both lower import prices, and domestic purchase prices, and these differences were fully paid into the budget.

Industrial production increased by only 1-3 per cent per annum, and even declined in one year. The budget deficit gradually decreased from 6-7 per cent to 2 per cent (relative to GDP). The 1980 introduction of the secure income-generating difference between domestic production prices and COMECON purchase prices played a major role in this, as they provided secure income. In 1980, some of the previous subsidies provided to encourage convertible exports were renamed as refund on the difference between the domestic production prices and COMECON purchase prices, and the Hungarian party also had GATT approve this change.

Retail consumer prices were raised by about 16 per cent in the summer of 1979. In the years that followed, no more than the maintenance of real wage levels was announced, not an increase. Real incomes increased somewhat after 1981, as social benefits kept widening (increase in the number of pensioners, family allowances, etc.). In numerous areas, wage mass regulation had been possible since the second half of the 1970's.¹¹ This is because the number of employees was declining due to demographic reasons.

From 1981, companies were only allowed to access materials and machines procured from a market of a convertible FCY if they were granted an import permit under a considerably stricter system supervised by the Ministry of Foreign Trade. The most important consideration was the contribution a company could make to exports to convertible FCY markets.

In 1981, the Soviet Union reduced the annually supplied amount of mineral oil by one and a half million tons. This created a crisis situation for the energy-intensive Hungarian heavy industry. In this situation, the government announced an energy saving programme, and the energy used by industry noticeably decreased within a few years. On the other hand, energy-related projects were made at full blast in the early 1980's with the aim of strengthening the domestic energy base. Due to subdued imports, the export performance led to improvement in convertible FCY foreign trade in the first half of the 1980's. The Hungarian-Soviet meat and grain trade scheme also played an important role in this, as it was settled in USD. From the beginning of the

1980's, in the case of grain and meat above the previous supply level, the Soviet Union paid in USD, or more precisely, supplied mineral oil at world market prices.

In order to curb the inflation caused by transition to the new price regime, the method of HUF revaluation was still applied, and nevertheless, the overall increase in producer prices in 1981–1982 was still 22 per cent. The collection of the difference between domestic production prices and COMECON purchase prices provided an opportunity to reduce corporate withdrawals, which was also necessary because the increased costs reduced the disposable income, while the asset allocation contribution and the payroll tax were abolished. In 1981–1984, the government also used the means of blocking certain funds and withdrawing money of companies to prevent them from having too many resources for investment. In this period, the construction of state-owned houses to let was significantly reduced, and private construction schemes were already used in a great extent when the previously launched construction projects were resumed. From 1983 onwards, the construction of single-family houses increased significantly because high-volume soft loans and social policy support became available to couples building single-family homes (up to then, these were only available for housing estate-type construction).

Lending was thus used as a tool to curb CAPEX projects after 1979. On the one hand, lenders were instructed not to provide credit for new projects, the only exception being developments that increased quickly implemented exports in convertible FCY. On the other hand, as the lender (MNB as the monolithic bank) sought to commit the free development resources of companies, the main instrument for this was the so-called working fund replenishment. If the company had money in its development fund, the bank began to look at how it financed its fixed inventory. If one of the causes for the surplus was that the company's income was higher than indicated in the previous bank loan application, the central bank said, in many cases, that this should be spent on prepaying the working capital loan.

From 1984, new corporate forms were adopted and corporate councils were established at most state-owned companies. From 1981, in addition to the constraints of wage regulation, a minor easing was made in the form of a new option, the establishment of small businesses called "corporate economic work communities". This was used relatively widely by companies. Over earnings expenses this had the advantage that such expenses could be accounted for as costs to firms. The possibility of such settlement ceased in January 1988, leading to the mass liquidation of corporate economic work communities.

1985–1990

In December 1984, the government announced an economy boosting programme beginning in 1985. The 4 per cent aggregate increase in real wages realised in the first two years (1985–1986) contributed to falling out of equilibrium. Unlike in the previous recovery period, CAPEX projects played only a minor role in this cycle. In the aggregate of 1986 and 1987, the total volume of investment projects increased by

10 per cent, which was well below the 29 per cent rate recorded in 1970–1971 and the 18 per cent recorded in 1977–1978. During the period, the investment rate averaged 21 per cent (well below the level of the previous decade.) In those two years, i.e. in 1985–1986, imports increased by 13 per cent, lagging behind increase in exports. Overall, the industry increased its production by 7 per cent during the period.

A new regulatory system was put in place in 1985, with the key element being the unified interest fund, and its spending was regulated by targeted taxes imposed on each use (accumulation tax and earnings tax). Wage regulation rates were set in a way that more profitable companies had a significant earning potential. In 1985, average earnings rose sharply, by 8.4 per cent on nominal terms, increasing real wages. In 1986, this was repeated: increase in earnings became relatively high (compared to the plan).

Although there was some recorded GDP growth in the first two years, this was offset by the loss in the terms of trade. In 1985, the external conditions of business activity were not favourable either: on the one hand, there was a significant drought, and on the other hand, referring to the 1985 Chernobyl disaster, Western buyers were only willing to buy Hungarian food at lower than usual prices, and moreover, an unusually cold winter required additional imports of USD 300 million. In 1985, the balance of foreign trade in convertible FCY deteriorated by USD 500 million, and in 1986 by another USD 300 million.

In 1985, the companies spent their rising resources¹² on raising wages and on investments, and so the balance of foreign trade in convertible FCY was once again negative for the first time since 1981. As distributable GDP did not rise, deficit was recorded not only in the external position but also domestically, and this caused the budget deficit to soar. One of the main reasons behind the higher-than-expected 1985 budget deficit was declining revenues obtained from the difference between domestic production prices and COMECON purchase prices, due to changes in RUB exchange rates, and other lower-than-expected profits of financial institutions, which led to lower corporate income taxes.

In the autumn of 1986, the HUF was depreciated by 8 per cent, which was interesting because at that time a special technique was used to prevent domestic prices from automatically rising due to the export tracking system. Then, in the spring of 1987, it was officially announced that the previous system of export tracking had been abolished and replaced by market prices. Thus, the next 8 per cent devaluation at that time raised producer prices by about 4 percentage points, under the two-year spill-over effect.

Due to the failure of the economy boosting attempt, by 1987 the priority had already been to improve the balance. The annual plan envisaged a modest increase of 2 per cent in output, which would maintain internal consumption at a level and improve the balance to zero on a convertible FCY basis. Production did increase, but both main elements in internal consumption (household consumption, investment) also increased at a similar rate, by 2 per cent. Although foreign trade liabilities decreased, they did not disappear. If we look for the reasons for falling short of targets, we can point to higher-

than-expected profit growth, early household purchases due to the 1988 tax reform, and weaker-than-expected export capacity. Although real wages fell by 1 per cent in 1987, real incomes remained flat overall, due to pensions and other cash social security benefits and consumer prices, which had both increased by 9.3 per cent.

In 1987, significant revenue was realised from inbound tourism. The balance of trade in convertible FCY showed a surplus of USD 370 million (and trade in RUB had a surplus of RUB 300 million). The RUB-denominated foreign trade balance also showed a surplus, which was used to repay the debt owed in this relation. The headline deficit was smaller than expected, as the revenue earned on the difference between domestic production prices and COMECON purchase prices showed a significant surplus of HUF 15 billion, but increase in the amount of subsidies provided to companies (HUF 7 billion) lagged behind.

In 1987–1989, non-RUB-denominated exports achieved significant success, taking advantage of the then strong Western European economy of the day. The USD-denominated Hungarian foreign trade deficit decreased from 470 million in 1986 to USD 320 million in 1987; then in 1988 there was an export surplus of nearly USD 500 million, and in 1989 the positive balance showed a surplus of around USD 600 million. However, the impact of the favourable results was deteriorated by shopping tourism after the introduction of the world passport at the end of 1987, and the usual surplus of the sector's balance in convertible FCY changed to liabilities in 1988. In RUB terms, the balance of exports and imports showed liabilities.¹³

From January 1987, the banking system became two-tier, with three commercial banks separated from MNB. In the first year, they had a relative abundance of liquidity. However, in 1988 MNB announced a credit reduction, continuously pumping significant amounts of income from the banking sector, which was one of the main reasons for the high lending rates. About 15 per cent of the deposits had to be placed with the central bank, which did not pay any interest on them. In contrast, from mid-1987 onwards, banks were required to pay interest rates of at least 15 per cent and, from mid-1988, over 20 per cent to depositors. At that time, all this cost commercial banks HUF 40-50 billion per annum, which is about 2 per cent of GDP, representing a considerable value.

The tax reform took place in 1988, and included the introduction of two new types of tax: PIT and VAT. Producer prices fell by 3 per cent as a result of the changeover. Prices of energy- and raw material-intensive products hardly changed, while producer prices in manufacturing did not fall. The prices of more labour-intensive services rose significantly. Mandatory gross wages provided coverage to enable companies to pay PIT on the earnings of their employees and thus avoid reducing the nominal value of net wages for anyone. Rise in consumer prices accompanying the tax reform also contributed to decline in real wages, which totalled 7 per cent over 3 years.

The tax reform provided an opportunity for the reallocation of the main income holders' incomes. In addition to replacing corporate taxes by new taxes, the basic goal was to reduce corporate profits by 40 per cent, in which case the degree of state centralisation could be reduced. Thus, less of the unit income had to be paid to the

budget and a higher ratio could be retained by firms. Although the quantified goals were not fully achieved, it can be said that the new situation brought significantly different conditions. The ratio of taxes collected from the corporate sector to GDP fell by almost a third in 3 years: from 38 per cent in 1987 to 26 per cent in 1990. Decrease was mainly due to the discontinued taxes.

On the expenditure side, subsidies to the corporate sector declined significantly. Government expenditure to GDP fell from 65 per cent in 1987 to 61 per cent in 1990. One of the important elements in this process was reduction in price subsidies by 8.2 per cent of GDP in 1987, but by 4.1 per cent, only half of the latter, by 1990. The elimination of price subsidies was usually followed by a proportional increase in prices, which the consumer either paid or did not, but the point is that none of them applied to the budget for price subsidisation (and if they did, they were rejected). The tax reform also rearranged public finances: as most of the PIT was collected by local councils, the central budget significantly reduced its support to the council sector. The inflation process also rearranged expenditures: on the one hand, public interest subsidies paid by the state tripled between 1987 and 1990 due to rising deposit rates, and on the other hand, the state earned substantial income tax revenues from 1988 due to high interest income from commercial banks. The impact of the change in economic policy was also felt in expenditures. Price subsidies declined and the real value of public project spending dropped. Due to the introduction of PIT and VAT, the reported amount of taxes increased already as a result of this accounting method.¹⁴

In addition, there was a technical change between the various sectors in public finances. An exchange of tasks took place between the budget and the social security fund in the spring of 1990. The state took over the financing of family allowances, but transferred the financing of healthcare expenses to the social security fund, together with the coverage collected from contributions.

In addition to devaluations, the fact that it was possible to raise earnings, up to a limit, free of taxes played a major role in the rise in the inflation rate after 1988. This limit amounted to half the annual increase in the ratio of "value added to number of employees" indicator,¹⁵ i.e. if the value added per employee of the company increased by 20 per cent per annum, then in the case of a 10 per cent wage increase, the company did not have any additional burden. As competitors rarely encountered resistance on the demand side, a wide range of companies took advantage of the inflationary price increases that triggered increase in the company's value added and thus a higher level of earnings. In the two to three years after 1985, Hungary's external debt, expressed in USD, almost doubled due to the massive exchange rate loss on the debt portfolio.

Between 1988 and 1990, the number of employees decreased by 2 per cent per annum. Projects were on the decline, especially after 1990, with an investment rate of only around 20 per cent. By 1990, stagnant industrial production had turned into decline. In 1990, the current account showed a slight surplus, because the so-called NEO (net errors and omissions) line included a surplus of USD 700 million (the value of the currency converted by the population without permission appeared under this NEO number).

In mid-1988, the government came forward with a package including liberalisation intended to play a major role. This was the so-called version A economic policy.

CONCLUSIONS

In the 1970's and 1980's, the budget deficit and the current account deficit moved closely together in Hungary. The drastic upset in the balance in the second half of the 1970's was no accident. Household consumption, which amounted to 60 per cent of internal consumption, community spending and rapid home construction were treated as taboos by the management at the time, and were not allowed to be significantly affected by restraints. Domestic consumption was reduced half-heartedly also in other areas: the 1976 cut in CAPEX projects was followed by a two-year rapid rise, and the 1976 lower real-wage growth was also followed by faster growth.¹⁶ In addition, in many cases, measures were taken to boost the economy, such as increasing the number of CAPEX projects, especially in the framework of central development programmes, but also in other corporate areas. On the other hand, up to 1980, no substantial changes had been made in the then relatively liberal corporate import management system. Such a policy resulted in a high foreign trade deficit, and the "balancing item" was borrowing from abroad.

The answer to the "hen or egg" question asked at the beginning of this article may be that the cyclical surge in CAPEX projects was the common reason behind increase in foreign trade and budget deficits. Pick-up in CAPEX projects and increase in production required additional imports. On the other hand, project financing also increased the budget deficit. In the next period of the cycle, imports could be reduced by curbing projects, which allowed decline in budget expenditures. In foreign trade, the balance improved faster, while improving the budgetary position took longer.

NOTES

- ¹ For seven years, see the Detailed Data of the Ministry of Finance about budget implementation 1971, 1976, 1984, 1987.
- ² This is why neither the extent of the so-called primary deficit underlying the deficit of a given year nor the size of the deficit due to financial items can be analysed.
- ³ The Hungarian government frequently provided loans to developing countries.
- ⁴ At that time this resulted in real interest rates at 6-8 per cent.
- ⁵ Differential producer sales tax. For example, in the case of mineral oil, the RUB price converted into HUF was significantly lower than the domestic price set at the world market price, and the difference between the two was withdrawn in the form of this tax.
- ⁶ After 1981, all budget accounts were calculated gross. For the sake of comparability, the Central Statistical Office provided two data for the year 1980.
- ⁷ Detailed Data of the Ministry of Finance for budget implementation 1971, 1974, 1987.
- ⁸ In addition, the debt increased with each HUF devaluation after 1984.
- ⁹ For example, if exports increased by 10 per cent and imports decreased by 10 per cent, the former required expenditure in an amount of about 0.4-0.6 per cent of GDP, customs revenues, etc. and the amount missing was about 0.4% of GDP, i.e. this resulted in a combined worsening of the budget deficit

by nearly 1 percentage point. To this was added the effect of the following year(s), but in the second and third years improvement in foreign trade was generally more modest.

- ¹⁰ According to Károly Lóránt, 60 per cent of the imported goods were materials and parts for the direct purpose of production. Having risen before the 1970's, the import demand of the industry no longer changed significantly after 1970, in relation to any of the two currencies.
- ¹¹ Up to that date, the regulation of average wages had been the general practice, partly to prevent companies from laying off workers in masses.
- ¹² In 1985, corporate profits did not grow exponentially. However, income centralisation had declined as the corporate tax rate had dropped to 35 per cent.
- ¹³ Expenditure was HUF 40 billion, compared to the HUF 20 billion budget revenue in 1988, especially in the case of food. On the other side, however, the annual revenue realised on the difference between domestic production prices and the COMECON purchase prices was around HUF 60 billion for items imported for RUB.
- ¹⁴ For example, VAT had to be paid on CAPEX projects financed by the state or by the local council, and for this purpose, VAT had to be allocated as an expense in the budget.
- ¹⁵ Above this level, however, wage increase was included in the income tax base.
- ¹⁶ The country permanently lost 20 per cent of its GDP in its external relations completely for nothing.

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Gábor Kecső

Reforms of Local Finance and Taxation in Hungary. Milestones and Junctions Since 1990



Summary

The current system of Hungarian local finance and taxation has evolved through consecutive changes since 1990. Among the many amendments to the underlying law, a couple of milestones and junctions should be pointed out. The signature of the European Charter of Local-Self Government in 1994 had symbolic importance. The comprehensive reform after 2010 was the biggest milestone without a doubt, because a new constitution and a new act on local governments were adopted by Parliament. Furthermore, it was also decisive that the central government bailed out local governments. Three different models of confining local borrowing have been applied so far. The market-reliance model was replaced by passive control in 1996. Active control came into force in 2012. A closed-list approach of local taxation was applied until 2015, when the open/-list model was introduced. Even though reforms have been put in place, local business tax still prevails in the Hungarian system of local taxation, as roughly 80 per cent of all local tax revenues come from this fiscal levy. Counties were assigned power to impose local taxes in 2020 as a result of the coronavirus legislation. Before this reform only local governments had been authorised by law to impose local taxes.

Journal of Economic Literature (JEL) codes: P35, H11, H71, H74

Keywords: local finance, local taxation, local business tax, local borrowing

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INTRODUCTION

This paper intends to review the development of legal arrangements in certain fields of local finance in Hungary since 1990. Milestones and junctions are discussed without going into details. To keep the length reasonable, our focus is especially on the changes of models in local taxation. In addition, the confinement of local borrowing in Hungary is also analysed.

THE STRUCTURE OF HUNGARIAN LOCAL GOVERNMENTS

Hungary has two layers of democratically elected governments: the central and the local. The local government layer consists of two tiers. There are 3178 municipalities – including Budapest – at the bottom level. Nineteen counties plus Budapest operate at the intermediate level (HCSO, 2019). The capital city represents in both tiers, because it is treated by law as a municipality and as a county at the same time.¹ The feature of the Hungarian local governmental system is the spatial fragmentation of inhabitants into small(er) communities with moderate degree of decentralisation. This was a result of a comprehensive reform after 2010. How has this system evolved? This can be described from the aspect of local finance in a nutshell as follows.

The system of Hungarian local governments did not evolve in a natural and coherent way over centuries, due to changes in political, social and economic regimes. Socialist law intended to unify power (Verebélyi, 1987). Its prototype local governments called councils were not empowered to exercise autonomy in its the genuine sense of the word.² They were treated as the local arms of the central power. This came to an end when the Soviet empire collapsed.

Years of peaceful transition: Change from socialism to capitalism

The last fundamental reform happened in Hungary in 1989-1990, when the socialist system failed, and capitalism set out on its journey. This was the beginning for local democracy. What did it really mean for localism in Hungary? It was said at that time that the elementary school for Western democracy is the field as close to people as possible. These included villages, towns and cities, all assigned the same rights, but different public duties. It was believed that independent and sovereign Hungary could be built upon autonomous municipalities according to the theory of subsidiarity (Kulcsár, 1997). That is why many public services to people (e.g. basic health care, elementary schools) and with respect to property (public lighting, cemetery, water and sewerage) were allocated to municipalities. Counties were considered as a less important level of government, and consequently they were only authorised to provide a few public services, among them secondary educational institutions and hospitals. Act LXV of 1990 on Local Governments (hereinafter referred as LGA 1990) was adopted by Parliament on the basis of this concept. The fundamental rights of local governments³ were protected by the Hungarian Constitutional Court. Its decisions

construed the essential competencies of local governments against intervention by the central legislative and executive branches (Csűrös, 2006).

The 1994 signature of the European Charter of Local-Self Government (hereinafter referred to as Charter) was a hallmark in democratic development. According to the preamble of the Charter the local authorities are one of the main foundations of any democratic regime and the existence of local authorities with real responsibilities can provide an administration which is both effective and close to the citizen. Hungary ratified all the articles of the Charter including Article 9 on Financial resources of local authorities in 1997 (see Act XV of 1997 on the Charter). In sum, the priority was to make local autonomy possible in contrast to the previous decades. Scale economies and other factors of efficient public service provision were emphasised less.

Transition was, however, challenging to the Hungarian society and economy. Public budget was not an exception to this rule. The sovereign debt-to-GDP ratio increased quickly due to the large budget deficit. An austerity package was adopted by Parliament in 1995 (Lentner, 2020). In connection with this package the concept how to limit local borrowings changed. Until the end of 1995 *market discipline model* was applied by the LGA 1990. In this case local governments were legally entitled to borrow in the financial market without any special public law restrictions.⁴ The mechanisms of the financial market pose the limit in this model. The invisible hand of the newborn Hungarian financial market would provide for the “discipline” rules. Local governments could take out as much loan as seemed prudent for them and for the creditors. This liberal model was inappropriate in the practice because of market failures. The legislator shifted the model of local borrowing in 1996. The so-called *rules-based approach* was introduced. The borrowing capacity of local governments was capped by public law. The maximum amount of the capital and interest of the local loan was 70 per cent of the current revenues.⁵ On the top of that, a bankruptcy code for local governments (Act XXV of 1996) was enacted and imposed strict constraints on local governments.⁶ The central government was unwilling to bail them out in the case of local debt crises. The central budget was not made liable for local government liabilities.⁷

The long period between 2002-2010 was the era of political fragmentation between the central and local governments. The leftist-liberal parties retained their majority in the general Parliamentary election in spring 2006. The deepest fragmentation came into existence after a secret political speech was leaked to the public. As a result, the opposition political forces at Parliament scored a smashing victory in the election of local representatives and mayors in fall 2006. The effect of the US stock market crash in 2008 reached Hungarian households in a vulnerable situation. The sum of local debt was outstanding by 2010 and some local governments were threatened by insolvency.

A new beginning after 2010

The political tension between the central and local governments ceased to exist as the conservative parties won the national and local elections in 2010. They obtained more than two-thirds of the seats in Hungarian Parliament, won in all counties and

there were only a few municipalities where they were beaten by the previous governing parties. A comprehensive legal reform was launched with great impact on the laws of local governments.

First and foremost, a new constitution, called the Fundamental Law of Hungary, was adopted. Nevertheless, its provisions on local governments are not entirely new. Many of the rules are the same or almost the same as before (Patyi, 2015). Article 32 (1) of the Fundamental Law provides – among many others – that within the framework of the statute, in the administration of local affairs, the local government:

- must establish its own budget and, based on that, must manage local government revenues independently,
- must decide on the types and rates of local taxes.⁸

These two provisions had also been laid down in the old constitution.

What was new in the Fundamental Law in respect of local governments was that it stipulated that: “In order to preserve a balanced budget, an Act may provide that, for any borrowing or for other undertaking of commitments by local governments to the extent determined in an Act, certain conditions and the consent of the Government shall be required” (Fundamental Law Article 34 (5)). Parliament decided to bail out local governments after the election of 2010 (Lentner, 2014), and introduced the so-called active control based on the previous constitutional mandate. As a general rule, the central government’s prior approval of local borrowing is required. The conditions of the approval are specified in a statute (Act CXCV of 2011).⁹ There are certain exceptions to active control: the central government’s consent is not required for taking short-term loans (mature within the calendar year) and small loans (sum not exceeding certain thresholds).

Parliament adopted Act CLXXXIX of 2011 on the Local Governments of Hungary (hereinafter referred as LGA 2011). In its preamble it is pointed out that the goal of the legislator is to ensure the self-government rights proclaimed in the Fundamental Law, to create the conditions necessary for local self-government, to strengthen national co-operation, to help the self-sustaining capability of settled communities as well as to strengthen the self-supporting capability of local communities with respect to the principles set forth in the Charter.

The LGA 2011 provides the basic rules of local budgeting. The budget of local governments is part of public finances. Local budgets are separated from the central budget, but they are linked to it by intergovernmental grants and by other fiscal arrangements. The revenues and expenditures of local governments are regulated in the budget decree adopted by the local representative body. The current budget balance must not show a deficit. This provision is commonly known as the *golden rule* (Dafflon, 2002). According to this concept, local governments are not allowed to take out a loan to finance current expenditures (except for short-term loans repaid within a year). The outcome of the golden rule is that the current budget has to be balanced without long-term loans.

The legislator launched a large public administration reform programme in 2011 (Magyary Plan). This aimed at increasing the overall efficiency of the entire public-

administrative system throughout modernizing its tasks, personnel, processes and structure. These structural reforms can be labelled primarily as centralisation, with the ambition of saving costs and having a firm control on policy processes. The reform shifted many public services – e.g. mentioned above as elementary and secondary schools, hospitals – from local governments to central government (Gellén, 2014, p. 61). Two key indicators represent the outcome of the reform. In 2010 all local expenditures amounted to 12.5 in per cent of GDP and 19.5 in per cent of general government expenditures. In 2014 all local expenditures were 8.2 in per cent of GDP and 13.2 in per cent of general government expenditures.¹⁰

THE LOCAL TAX SYSTEM

The framework of local finances

In theory, local governments can be financed in two different ways. They may have transferred resources that are given to them by other layers of government (e.g. regional, central or even EU). Intergovernmental grants belong to this group. Furthermore, they may have resources on their own rights, such as local taxes that are theoretically the most important revenue in the local budget, because these serve the fiscal autonomy at the highest degree. Local tax is a tax imposed at least at the rate decided by the local government. This definition is in line with Article 9 (3) of the Charter, which stipulates that at least part of the financial resources of local authorities must derive from local taxes and charges of which, within the limits of statute, they have the power to determine the rate. Classification of shared taxes is at issue (see Council of Europe, 2006) but I think these taxes are transferred resources as their legal structure (taxpayer, base, rate, credit, exemption) is out of the decision of local governments. Central legislative body has competence to regulate shared taxes (Kecő, 2016).

In the Hungarian valid and applicable law, LGA 2011 replaced the old financial framework. The new “task financing system” of local governments is in effect now. Within the framework of this system, in the manner determined in the act on the annual central budget, Parliament must ensure conditional grants to cover mandatory local tasks and may ensure conditional or unconditional grants to cover other types of tasks. Three criteria should be taken into account when providing these grants: 1) economical public management 2) expected own revenues 3) actual own revenues of the local governments. Expected own revenues are applied so that local governments have sufficient interest to boost their own revenues (LGA 2011 Section 117).

In the Hungarian framework of local finances, there are some important additional sources in addition to intergovernmental grants. In 2019, the budget balance was outstanding. In order to represent a fair view, this source is not included to all local revenues in Table 1.

Table 1: The framework of local finances in 2019

Sources of revenues	Sum (million HUF)	Ratio
Local taxes	971,489.20	29.73
Other revenues	399,843.20	12.24
Intergovernmental grants from the central government, social security funds, special budget funds and the EU	1,676,471.80	51.30
Shared taxes	33,753.40	1.03
Debt instruments	186,368.30	5.70
All local revenues (excluding the budget balance remaining from 2018)	3,267,925.90	100%
Budget balance remaining from 2018	1,461,331.70	

Source: Act CXVII of 2020 on the Implementation of the 2019 Budget 2019 Hungary

As Table 1 shows transfer dependency of the Hungarian local governments was around 50 per cent. Shared taxes were not significant in 2019 and these sources became even less important in 2020, because COVID legislation ceased to share the motor vehicle tax. This has been transformed into a fully central tax. The one and only shared tax in Hungary in 2020 is the personal income tax on the leasehold fee of agricultural land. This provides insignificant revenue for local governments.

Local taxes, however, are of paramount importance since they cover almost one-third of the local revenues. This ratio is quite stable recently, so it can be seen as a representative data. Table 2 sets out the distribution of revenues deriving from the six local taxes in 2019.

Table 2: Revenues from local taxes in 2019

Local (own) taxes	Sum (million HUF)	Ratio
Building tax	127,594.10	13.13
Plot tax	24,094.70	2.48
Communal tax	14,566.50	1.50
Local business tax	788,308.40	81.14
Tourism tax	16,248.60	1.67
Municipal tax	676.9	0.07
All local taxes	971,489.20	100%

Source: Act CXVII of 2020 on the Implementation of 2019 Budget of Hungary

Based on Table 2, it is clear that local business tax dominates the Hungarian local tax system, because it covers more than 80 per cent of all local tax revenues. This outstanding ratio makes the Hungarian business tax similar to its German counterpart (*die Gewerbesteuer*) (Tombor, 2020). Indeed, local business tax surpasses the national

corporate income tax as well. The sum of local business tax was twice and a half the corporate income tax (hereinafter referred as CIT) in 2019. The rate of the CIT is 9 per cent nationally, the rate of the local business tax must not exceed 2 per cent locally. The distinguishing feature between these two fiscal burdens is the tax base, not the tax rate. Local business tax is not a profit (revenue less cost) tax, but rather a revenue tax where a few expenses prescribed by law in a list can be deducted only. This is a good example of that the comparison of tax rates is not sufficient if you intend to compare tax burden. The extent of the tax base is as decisive as the tax rate.

The original closed-list system of local taxation for municipalities till 2015

Local taxes are regulated on two levels. Act C of 1990 on Local Taxes (hereinafter referred as LTA) provides the confines of local taxation that are uniform in the whole country. It is declared in the LTA that one of the ways of establishing fiscal autonomy for local government is the imposition of local taxes. This enables local governments to exercise the autonomous right of local taxation and correspondingly to establish a local tax policy. Decrees of local governments as bylaws may impose local taxes within the confine of LTA. Tax liability derives from the local decree. It means that there is no effective local tax without the decision of the local government's representative body.

What was the essence of the confines laid down in the LTA to 2015? The Hungarian local tax system was built on the closed-list approach (Kecő, 2016). Municipalities were restricted to choose one or more local taxes listed in the LTA. They did also have the opportunity to select none. Municipalities were not empowered to create a "new" local tax. They could set the tax rate and regulate the exemption or credit of the local tax(es) imposed by them. These rules are still applicable for the closed-list local taxes which are indicated in Table 2 except municipal tax. Latter one belongs to a special regime discussed later.

There are more common confines in effect that are worth mentioning for the closed-list local taxes. The municipalities' power to levy taxes is limited as follows. In respect of any particular tax category, taxpayers may only be compelled to pay one type of tax as determined by the local government. The rate of the local tax imposed may not be higher than the tax ceiling prescribed by the LTA. The type of tax, the tax rate, exemptions and credits may be governed in such a way to ensure that such taxes must remain consistent with local characteristics, the local government's fiscal needs and the ability to pay of a broad community of taxpayers (LTA Section 7). LTA lays down the legal structure of all closed-list local taxes. These rules mean the "skeleton" for the respective local tax.

Residential and other buildings not used for housing purposes are subject to *building tax*. This tax liability applies to all rooms and spaces of the building, regardless of their purpose and utilisation. The person subject to building tax liability is the person who is the owner of the building as of the first day of the calendar year. If there is more than one owner, the owners must pay tax in proportion to their respective ownership

shares in the property. If there is any right registered on the building in the real estate register, the person registered as the holder of such right is subject to tax payment. The basis of the tax, depending on the decision of the local government, is the net floor space of the building expressed in square meters, or the adjusted market value of the building. The maximum rate of tax per annum is 1100 HUF per square meter or 3,6 per cent of the adjusted market price. 1100 HUF can be increased by the annual inflation to keep the real value of the tax rate (LTA Section 11-16).

Land within the area of jurisdiction of a local government is subject to *land tax*. The person subject to this tax is the owner of the land on the first day of the year. If there is any right registered on the plot in the real estate register, the person registered as the holder of such right must pay this tax. The tax basis, depending on the decision of the local government, is the actual area of the plot expressed in square meters, or the adjusted market value of the parcel. The maximum rate of tax per annum is 200 HUF/square meter or 3 per cent of the adjusted market value. Inflation correction rule is applicable here as well. It is important that the part of the land on which the building stands, of the same size as the net floor space is exempt from plot tax. This rule avoids double property taxation as to the building and the plot section on which the building is raised (LTA Section 17-22).

The private individuals who could be the taxpayers of the building or plot tax, and the private individuals holding lease rights to a dwelling place owned by a person other than a private individual in the area of jurisdiction of a local government is subject to pay *communal tax*. The maximum rate of communal tax per annum is 17,000 HUF. In this case, it is very important that taxpayers may only be compelled to pay one type of tax in respect of any particular tax category. So, it is contrary to the LTA if the natural person who is the owner of a building or plot had to pay building tax or plot tax and on the top of that communal tax. Communal tax is alternative to the property taxes. The main differences between the communal tax and the two property taxes are that legal person is out of the scope of the communal tax and the size or value of the property (building, plot) does not affect the sum of communal tax (LTA Section 23-26).

A private individual who is not a permanent resident, spending at least one guest-night within the area of jurisdiction of a local government is subject to *tourism tax* liability. The tax base is, depending on the decision of the local government, the number of the guest-nights or the accommodation fee or in absence of such any consideration payable for the accommodation in any form. The maximum rate of tax is 300 HUF plus inflation per person or 4 per cent of the accommodation fee (LTA Section 30-34).

All business activities pursued permanently or temporarily in the area of jurisdiction of a local government is subject to *local business taxation*. The taxable person is the entrepreneur. Taxable business activity means any for-profit or non-profit activity of an entrepreneur performed in that capacity. An entrepreneur whose seat or place of business is located in the area of jurisdiction of a local government is regarded as conducting permanent business activities, regardless of whether any or all of his op-

erations are conducted outside his seat. Business activities are regarded temporary if, in the area of jurisdiction of a local government, an entrepreneur without a seat or place of business registered in such area is engaged in: a) construction, or exploring or surveying natural resources, if the duration of the activities performed continuously or with interruption exceeds thirty days and does not reach one hundred and eighty-one days within the same tax year; b) any activity, other than what is contained in the previous point, if it directly results in income, provided that the entrepreneur does not have a seat or place of business registered in the area of jurisdiction of any local government.

In the case of business activities pursued on a permanent basis, the tax base is the net sales revenue, less:

- a) the sum of costs of goods sold and the value of intermediated services sold
- b) fees paid to subcontractors;
- c) cost of raw materials and consumables;
- d) the direct costs of basic research, applied research and experimental development.

For temporary business activities the tax must be established on the basis of the number of calendar days during which the activity was performed. Any fraction of a day in which activities are performed must be considered a full calendar day. For permanent business activities the maximum rate of tax per annum is 2 per cent. For temporary business activities the tax rate may not exceed HUF 5,000 per calendar day (LTA Section 35-40).

It has to be noted, that the four above mentioned deductible costs were implemented through lots of amendments between 1993 and 2010. In its original concept, local business tax on permanent business activity was a pure revenue tax which tax base covered the sales revenue in the fiscal year without the inclusion of value added tax. Latter characteristic explains the “net” phrase in the tax base (Kecső, 2020). It cannot be overemphasised that local business tax is still a revenue tax for entrepreneurs whose costs are over the scope of the above mentioned points. For example, costs of wages, services consumed, depreciation and of amortisation are non-deductible.

The Hungarian Government revealed the newest measures in the stimulus package that aims at boosting the economy and protecting the workplaces.¹¹ One of these provisions is about decreasing the rate of the local business tax by 50 per cent for self-entrepreneurs and for small and medium-sized businesses in the whole country. The reasoning is that those taxpayers are in the most vulnerable position and they need all governmental support to keep their liquidity and solvency. Approximately half of the employment is provided by this sector and it produces substantial part of GDP. Multinational enterprises do not benefit from this measure. While this tax cut is in accordance with the contra-cyclical tax policy balanced budget for local governments should be granted too. Intergovernmental grants will replace the drop in the sum of local business tax. The rules of the allocation of those grants are to be presented soon.

The open list approach from 2015

Open list approach of local taxation allows local governments to impose any taxes that comply with a few general provisions laid down upper-level legal sources (e.g. constitution or statute). In this case, local governments are free to “invent” new local taxes. They are not restricted to impose listed local taxes (Kecső, 2016). An amendment to the LTA reformed the Hungarian local tax system as of the 1st of January 2015. The original closed-list stays alive, but it has been supplemented by new taxing power. The local government may, within its area of jurisdiction, impose one or more municipal tax(es) by decree, which are not prohibited by any other act. The local government may levy municipal tax on any basis of assessment, provided that it is not covered by mandatory public duties of any kind. Municipal tax may not be imposed on the state, any local governments, any organisations, or on any entrepreneurs (LTA Section 1/A).

What are the general conditions to comply with? Firstly, the potential taxpayer is limited. All legal persons (organisations) are excluded. The subject of the municipal tax can only be natural person in the status of consumer. If a natural person is a self-entrepreneur, he/she cannot be subject to tax with respect to his/her business activity, but he or she can with respect to his or her non-business activity. This condition is important from the aspect of the competitions of undertakings. Municipal tax is designed not to abuse the level playing field. This tax does not affect the undertakings. Secondly, its possible tax base is limited. The object of the municipal tax can only be what is not under the scope of any other fiscal levy. The aim of this rule is to avoid intra-national (domestic) double taxation. For instance, a municipal tax on private individuals’ income cannot be imposed, because there is a national tax on personal income.

In practice, most common municipal tax is the tax on agricultural land. So far not more than 200 municipalities have introduced this tax which typically a property tax levied on arable land owned by private individual who does not perform farming activity over his/her land. If he/she does so, it is forbidden to be taxed, because he/she is a self-entrepreneur. Extraordinary examples of municipal tax from the practice are the tax on pony and on tower.

In my view, the municipal tax is a very important arrangement theoretically, because it widens the fiscal autonomy of municipalities, but it is less interesting from the point of view of the reality. Most of the possible tax base is covered by other fiscal levies, consequently mission almost impossible to find a free and suitable object to tax. In addition, municipal tax provides very small amount of revenue (see Table 2). These two reasons are strongly interrelated. That is why I believe the Hungarian municipal tax is like the German petty taxes (*die kleinen Gemeindesteuern*) (Tombor, 2020).

The counties’ power to tax from 2020

Hungarian counties did not have power to tax from 1990 till summer 2020. COVID legislation made counties possible to impose any local taxes from the closed-list. Counties did not gain power to introduce municipal taxes. Counties’ local taxation is restricted to

and connected to the so-called special investment zone. The Government can declare by decree a territory of one or more municipalities partly or fully as special investment zone, if the economic activity within that area is very significant and has a decisive effect on the county's economy (Act LIX of 2020). The establishment of a special investment zone has many legal consequences. Taxing power is one of those. The county gets right to impose taxes in this special area and if does so the county tax replaces the respective tax of the municipality or municipalities. If a local government where the special investment zone is located levied a local tax, the county government should not increase the burden of taxpayers during the fiscal year. The decree of the local government where the special economic zone is located on local taxes apply until the county government adopts a decree relating to local taxes, not exceeding 120 days after the date of entry into force of the Government decree on the establishment of the given special investment zone (LTA Section 42/G). One special investment zone has been established so far. This is situated in the area of Göd (Government Decree 294 of 2020).

CONCLUSIONS

Crises bring changes. This happened in Hungary around 1995 during the budget crisis, around 2010 when the US stock market crash made turmoil in the real economy and just recently when COVID-19 quarantines the whole world. How has local finance been evolved through these three decades? Within the scope of this paper, one can argue that many models of local taxation and of confining local borrowing were applied. In 1990 only municipalities had power to impose local taxes according to the concept of the closed-list approach. At the moment counties can levy local taxes in the area of special investment zone, and further municipalities have the right to introduce municipal tax in accordance with the open list version of local taxation. In 1990 local governments' borrowing were disciplined by the market. Lately their borrowing is under the active control of the Government. Tax sharing has been eroded. What is constant is the dominance of the local business tax and the fact that changes will never end. For example, the hottest topic now is to halves the rate of the local business tax nationally for self-entrepreneurs and for small and medium-sized businesses.

NOTES

- ¹ The special legal status of Budapest (dual self-government system) is out of the scope of this paper.
- ² Local autonomy means relative independence from the central government, own policy making capacities in certain fields and from legal point of view particular or sub-legal order within the absolute legal order of the state according to the Kelsen's definition (Kelsen, 1946).
- ³ These rights were introduced by an amendment in 1990 to the former constitution of Hungary as follows: Article 44/A. (1) The local representative body a) shall independently manage and administer the affairs of local government and its decisions may only be reviewed with respect to their legality; b) shall exercise the rights of ownership in the assets of local government, and independently manage local government revenues, and may undertake business activities at its own liability; c) shall be entitled to its own revenues for attending to the duties of local government as prescribed by law, and shall furthermore be entitled to state support commensurate to the scope of such duties; d) shall determine the types

and rates of local taxes in accordance with the framework established by law; e) shall independently establish its own organisation and rules of procedure in accordance with the framework established by law; f) may develop symbols and emblems of government, and establish local honors and titles; g) may present proposals to the authorities responsible for decisions that affect the local population; h) may freely merge with other local representative bodies and create associations of local government for the representation of their interests, may co-operate with the local governments of other countries and may be a member of international associations of local government. (2) Local representative bodies may issue decrees, which may not be contradictory to other legal acts.

⁴ Five main models of confining local borrowing can be distinguished based on international comparison. 1) market discipline or a reliance model 2) co-operative approach 3) rules-based approach or passive control 4) administrative approach or active control 5) direct democracy model (Ter-Minassian and Craig, 1997; Dafflon, 2008).

⁵ The rules were the followings: LGA 1990 Section 88. (2) The amount of liabilities arising from the commitments assumed by a local self-government for the year (loans and loan costs, bond issues, guarantees and sureties, leasing) may not exceed the local self-government's adjusted current revenues. (3) "Adjusted current revenue" shall mean 70 per cent of the current revenues estimated for the year less short-term liabilities (principal and interest payments, leasing charges) paid for the year. (4) The limits referred to in Subsections (2) and (3) shall not apply to liquid credit. (5) For the purposes of this Section, "current revenue" shall mean local taxes, duty revenue, interest income, environmental fines, and other special income of the local self-government. (6) For the purposes of this Section "short-term liability" shall mean loans and credit received for a term of one year or less and the instalment payments on longer-term obligations that fall due during the year, not including the liabilities guaranteed by the Government. (7) For the purposes of this Section, "liquid credit" shall mean any loan that is borrowed for financing public services and state administration services and repaid in the same year.

⁶ See soft and strict budget constraint: (Kornai, 1986; Oates, 2006).

⁷ This was laid down in the LGA 1990 Section 90 (2).

⁸ The full text of the Article 32 (1) of the Fundamental Law is the following: (1) Within the frameworks of statute, in the administration of local affairs, the local government: a) shall issue decrees; b) shall make decisions; c) shall administrate independently; d) shall establish its own organisation and rules of procedure independently; e) shall exercise the rights of ownership regarding the property of the local government; f) shall establish its budget and, based on that, shall manage local government revenues independently. g) may undertake entrepreneurial activities with the financial resources and income that can be used for this purpose, without endangering the performance of obligatory tasks; h) shall decide on the types and rates of local taxes; i) may create symbols and emblems of the local government, and establish local honours and titles; j) may request information from the authorised and competent organ, initiate decision-making and express its opinion; k) may freely associate with other local representative bodies, may create local government associations for the representation of their interests, may co-operate with the local governments of other countries in its sphere of authority and competence, and may be a member of international organisations of local governments; l) perform further tasks and competences defined by statute. Furthermore Article 32 (2) 1 of the Fundamental Law states that while performing its tasks the local government shall issue decrees either in order to regulate local social affairs not regulated by statute, or upon the authorisation of a statute.

⁹ The conditions to the approval are the following. 1) local loan does not risk debt target envisaged in the act on central budget 2) local loan is taken out for investment purpose attached to mandatory local functions and the maintenance of the new or renovated property is provided in the long run 3) debt service-to-own revenues ratio is not more than 50%) local government introduced at least one local tax out of the four qualified local taxes such as local business tax, building tax, land tax and communal tax. It should be noted that there are more local taxes in Hungary, but their imposition is not adequate for approval.

¹⁰ The source of the data is the acts on the implementation of the 2010 and 2014 budgets of Hungary.

¹¹ As the relevant Government Decree will be promulgated after the submission of this paper, no details may be given here. The date of the entry into force will probably be the 1st of January 2021.

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Flood of Resources and a Conceptual Change – A Decade of Changes in Territorial Development with an Outlook to the V4 Countries

SUMMARY

Between 2007 and 2013, Hungary received resources from the European Union in the value of around HUF 8,000 billion, while the country is eligible to use funds of an additional 25 billion Euros (approximately equivalent to HUF 8,300 billion) up until 2020. Since the time of joining, Hungary has been one of the net beneficiary member states, since funds received from the EU budget exceed respective contributions. The positive balance adds up to around HUF 13,500 billion since accession. The draw-down of funds was a priority for the national government coming to power in 2010 and to this end; it initiated major changes in ter-

ritorial development policies. As a prevalent practice, planning was adjusted to the EU's policies just as much as to the national strategic objectives, with the intent of promoting economic growth. Furthermore, the institutional background was centralized and expected to operate with improved efficiency. However, in governmental ex-post analyses, there are occasional sharp criticisms of the effectiveness of major structural changes. What were the major characteristics of the territorial development systems in the period between 2007 and 2013? What changes occurred in the subsequent 2014–2020 multiannual financial framework? This study analyses the main motifs of system change

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and modification. The aim of this study is to provide a fair and balanced assessment of the period through examining these key areas.

Journal of Economic Literature (JEL) codes:

O4, R11, O43, O23, R11

Keywords: territorial development, institutional framework, resource utilisation,

compared to the results and practices of the four countries of the Visegrád Co-operation² (V4), and thus put into an international context. We will take a theoretical journey into the world of cross-border territorial development projects and international territorial development co-operation and comparisons.

INTRODUCTION

This study examines territorial development policy in Hungary between 2010 and 2013. Although no complex appraisal of the past decade can yet be made, the 2014-2020 programming period is also reviewed and comparisons are made with respect to the key thematic focal points (Operational Programmes). We strive to establish which tools of territorial development had the most significant impact on the definition and implementation of territorial development objectives. Macroeconomic processes, social tendencies and development policy have been simultaneously influenced in the period under examination by a number of factors, which naturally also had an impact on the opportunities and challenges presented by territorial development policies and measures.

This investigation did not extend to producing a general appraisal of territorial development performance during the given period; however, the aim is to pinpoint the focal points that had a significant impact on the result attained. We will focus on fundamental changes and shifts in emphasis, irrespective of whether they generate a positive or negative impacts with respect to the overall system and overall system effectiveness.

The appraisal of the given period, which has been examined in a number of previous studies of scientific rigour, will be

PROBLEM STATEMENT OR EXCERPTS
FROM THE APPRAISALS OF THE USE OF
RESOURCES DURING THE 2007–2013
PROGRAMMING PERIOD

The period under examination, also taking the t+2 rule into consideration, corresponds, to a significant degree, to the 2007-2013 multiannual financial framework of the European Union³, as well as the respective development programmes in Hungary: the New Hungary Development Plan (NHDP) and the supplementary New Hungary Rural Development Plan (NHRDP), as well as the New Széchenyi Plan (NSP) outlining the 2010-2013 points of economic growth and economic development guidelines (Matolcsy, 2010).

During the entire seven-year budgetary cycle, Hungary received resources in a value close to HUF 8,000 billion (SAO, 2016), which had a significant social and economic impact, as pointed out by all appraisals. Any criticism may only be validly made regarding the results attained and the efficiency with which the sources were used. With respect to the use of funds received from the European Union, member states examine the attainment of objectives undertaken in both an advance (*ex-ante*) and subsequent (*ex-poste*) manner. Below, we examine some of the findings of these analyses.

In the course of the system audit concluded in February 2015 by the National

Development Agency (NDA) with respect to the 2007-2013 period, the State Audit Office (SAO) outlined the following main conclusions: (1) although funds drawdown efficiency improved, as compared to the 2004-2006 period, “the absence of concentrated strategic planning was prominent, as was a prolongation of pay-outs”; (2) “the primary objective of the bidders was centred on resources; their activities lacked a project approach; (3) “the operation of the institutional system conveying the EU resources was slow and complicated; it did not promote the quick and efficient conveying of funds to the beneficiaries” (SAO, 2016).

The ex-post appraisal by the Prime Minister’s Office also makes a reference to conceptual weaknesses in this period: “For example, the fact that the developments financed using EU resources extended to the entire country was one of the most significant development results of the 2007-2013 period. The programme targeting the most disadvantaged micro-regions (SDMRs) was successful in significantly increasing the quantity of development resources received by the most disadvantaged regions. Amongst conclusions, the most important criticism of the system involved the absence of the overlapping of developments. A number of appraisals have also pointed out that insufficient attention is paid in the system to the sustainability of project outcomes” (Kele, 2017).

The ex-post analysis ordered by the European Commission with respect to the use of resources from the European Regional Development Fund (ERDF) and the Cohesion Fund (CF) also confirms that during the 2007-2013 period there was no reduction in the development gap between the different regions, with special regard to the

that between Budapest and Central Hungary and the other, less developed regions. However, the report also stresses that, as a result of the use of resources (1) in overall terms, more than 100 thousand new jobs were created, of which 40 thousand were created in small and medium enterprises; (2) close to half a million people were provided the opportunity to connect to new or further developed wastewater treatment facilities; (3) 500 kilometres of new roads were built and an additional 2,521 kilometres of existing roads renewed (European Commission, 2016).

In the upcoming chapters we will examine the tools that significantly promoted or, on the contrary, significantly hindered the efficient implementation of territorial development and the related use of resources during the period under examination. Based on Rechnitzer and Smahó (2011), these tools include: (1) objectives and national and community plans; (2) organisational frameworks and any potential changes therein; (3) the financing environment; and (4) the management methodologies employed.

COMMUNITY AND NATIONAL STRATEGIES, PROGRAMMES AND RESOURCES IN TERRITORIAL DEVELOPMENT BETWEEN 2007 AND 2013

In 2004, Hungary and another nine, predominantly former Socialist Bloc countries joined the European Union⁴. Although certain EU development resources (e.g. PHARE) were already available previously, the funds available from the proportionate part of the 2000-2006 multiannual financial framework and especially the resources available in the 2007-2013 period presented a significant development potential for the

new member states.

The same way as today, the national plans outlining the use of the EU resources had to strictly comply with EU structural policy in the period under examination. This implies, with respect to the development of the New Hungary Development Plan (NHDP) and the operative plans promoting its implementation, that these are not directly based on local needs, but on the EU's strategic goals (Faragó, 2016; Buday-Sántha, 2010). The operational programmes may thus be *de jure* used for assisting projects that simultaneously contribute to the attainment of EU objectives and reflect on local needs, which qualifies as centrally initiated, reverse-direction planning. National territorial development policies and territorial development practices fundamentally conform to the directions determined at a higher level of planning. The policies, priorities, methodologies and control mechanisms outlined by the EU influence the development objectives, processes, decision-making angles and opportunities of the member states. They thematise and, in certain instances, distort the above, disrupting local optimum efficiency.

European policies, community funds, domestic priorities, regional operational programmes

The European Commission's Cohesion Policy, as the community development strategy to which all national policies are linked and harmonized, outlined three priority objectives for the 2007-2013 period: (1) convergence, (2) regional competitiveness and (3) European territorial co-operation (European Commission, 2007). The financial funds allocated to these objectives, from which the development projects could be financed through bidding, were the Eu-

ropean Regional Development Fund, the European Social Fund and the Cohesion Fund (Szabó, 2011).

"The European Regional Development Fund (ERDF) and the European Social Fund (ESF) are often jointly referred to as the Structural Funds, since they were created to provide resources throughout the EU for economic and social restructuring and to thereby reduce differences between the level of development of EU regions, for example in terms of infrastructure and employment" (European Commission, 2007).⁵ These two funds, together with the European Agricultural Fund for Rural Development (EAFRD) and the European Maritime and Fisheries Fund (EMFF), make up the European Structural and Investment Funds (ESI Funds) (European Commission, 2014).

In the interest of securing the resources and attaining national development objectives, the NHDP was harmonized with these policies and attuned with the dedicated funds (Jobbágy, 2015). The two primary economic development targets of the NHDP were to (1) expand employment and (2) lay down the conditions for long-term economic growth (Lehmann and Nyers, 2009). In the period under examination, the attainment of objectives was broken down into 16 operational programmes, which could be allocated to seven priorities, including the priorities involving implementation and communication (Table 1).

In the 2007-2013 period, six out of the seven regions of Hungary were affected by the Convergence target based on average GDP per capita, since the respective indicators fell short of 75 per cent of the average GDP within the EU.⁶ Territorial development was listed as priority number 5, while the seven interlinked regional operational programmes accounted for close to a quar-

Table 1: Priorities and the operational programmes of the New Hungary Development Plan

Priorities	Operational programme (OP)	Resources allocated in the NHDP (in EUR at current rates)
1. Economic development	Economic Development OP – GOP	2,495,769,115
2. Development of transport	Transport OP – KÖZOP	6,223,429,149
3. Social renewal	Social Renewal OP – TÁMOP	3,482,518,044
	Social Infrastructure OP – TIOP	1,948,922,941
4. Development of the environment and energy	Environment and Energy OP – KEOP	4,178,846,341
5. Territorial development	Western Transdanubia OP – NYDOP	463,752,893
	Central Transdanubia OP – KDOP	507,919,836
	Southern Transdanubia OP – DDOP	705,136,988
	Northern Hungary OP – EMOP	903,723,589
	Northern Great Plain OP – EAOP	975,070,186
	Southern Great Plain OP – DAOP	748,714,608
	Central Hungary OP – KMOP	1,467,196,353
	European Territorial Co-operation OP	*
6. State reform	State Reform OP – AROP	146,570,507
	Electronic Administration OP – EKOP	358,445,113
Coordination and communication of the New Hungary Development Plan	Implementation OP – VOP	315,132,937

Source: NHDP, 2007, p. 130; www.palyazat.gov.hu/umft_operativ_programok

ter of the overall resources available with 5.77 billion EUR. Consequently, the territorial development priority was the one with the highest amount of allocated resources.

Based on the corresponding statement compiled by the European Commission (2016) (Table 2) with respect to the resources available, there is only a -11.2 million EUR gap between the 2007 budgeted and the April 2016 actual data, i.e. practically the entire 100 per cent of EU resources have been drawn down. At the same time, there was significant regrouping involving close to 2.000 billion EUR, primarily impacting R&D&I and environmental and transport infrastructure. These thematic

areas received over a thousand billion less in terms of resources, while the highest net growth in funds was recorded by energy and other enterprise development. It is important to stress that the relatively low weight of the territorial dimension (4%) is caused by the fact that regional operational programmes financed developments belonging to different themes in a significant degree, for example, local road renewal.

Complex rural development

Assistance from the European Agricultural Rural Development Fund (EARDF), which was newly established on 1 January 2007,

Table 2: Division of financial resources in the 2007–2016 period and respective shifts per category (early 2007 and April 2016)

	million EUR					Percentage rate	
Category	2007	2016	Increase	Decrease	Change	2007	2016
1. Innovation and R&D	1,591.2	1,488.4	478.3	−581.0	−102.7	7.5	7.0
2. Enterprise development	298.9	375.9	77.0	0.0	77.0	1.4	1.8
3. Other enterprise development	1,583.4	2,035.7	452.3	0.0	452.3	7.4	9.6
4. ICT areas	749.5	654.0	0.0	−95.5	−95.5	3.5	3.1
5. Environmental infrastructure	4,567.6	4,191.8	1.4	−377.3	−375.9	21.5	19.7
6. Energy	359.1	1,042.2	708.1	−25.0	683.2	1.7	4.9
7. Broadband networks	0.0	20.8	20.8	0.0	20.8	–	0.1
8. Road	3,591.8	3,276.7	0.0	−315.2	−315.2	16.9	15.4
9. Rail	1,657.4	1,720.1	62.8	0.0	62.8	7.8	8.1
10. Other transport	1,944.3	1,681.8	0.0	−262.5	−262.5	9.1	7.9
11. Human resources	233.6	190.1	0.0	−43.5	−43.5	1.1	0.9
12. Labour market	82.8	52.6	0.0	−30.2	−30.2	0.4	0.2
13. Cultural and social infrastructure	2,926.1	2,832.9	4.6	−97.7	−93.2	13.7	13.3
14. Social cohesion	16.6	16.6	0.0	0.0	0.0	0.1	0.1
15. Territorial dimension	847.1	847.1	0.0	0.0	0.0	4.0	4.0
16. Capacity creation	4.3	4.3	0.0	0.0	0.0	0.0	0.0
17. Technical assistance	838.4	849.8	35.9	−24.4	11.5	3.9	4.0
Total	21,292.1	21,280.8	1,841.1	−1,852.3	−11.2	100.0	100.0

Source: European Commission, 2016

was conveyed to the people living in rural areas through the objectives and activities of the New Hungary Development Plan. Territories (settlements) eligible for assistance from the Rural Development Fund could be found in 165 from amongst the 168 micro-regions of Hungary (Sarudi, 2004).

In the framework of measure group III of the New Hungary Development Programme, more than 200 billion HUF were available between 2007 and 2013 for the practical implementation of complex rural develop-

ment concepts. The authority managing the programme, the Ministry of Agriculture and Rural Development (MARD) set the objectives of improving the quality of life of the people living in rural areas and expanding rural income generation opportunities, with emphasis having been placed on this latter goal (Bodnár and Hortobágyi, 2007). In the course of resource utilisation, the rate of implementation was high, typically between 85 and 100 per cent. The allocation of resources was the most successful for axis I,

Table 3: NHDP group of measures, resource allocation and resource utilisation, 2007-2015

Group of measures	Financial weight (compared to overall public expenditure *)	Financial budget, planned (EUR)	Financial budget, utilized (EUR) (% used)
Measure group I: Developing the competitiveness of the agricultural and forestry sectors	47%	2,278,420,186	2,252,218,694 (98.9%)
Measure group II: Environmental and rural development	32%	1,768,863,808	1,647,242,218 (93.1%)
Measure group III: Rural quality of life and rural economy diversification	17%	689,137,572	588,018,329 (85.3%)
Measure group IV: LEADER+	(5.5% = Subtracted from the amounts allocated to measure groups I to III in the ratio of 25-10-65%)	275,672,859	237,422,872 (86.1%)
Technical assistance	4%	205,860,358	201,594,640 (97.9%)

Note: *As per Article 12 (2) of Regulation No. 1290/2005 EC

Source: Bálint, 2009; www.palyazat.gov.hu/az-j-magyarorszag-vidkfejlesztési-program-2007-2013-utlagos-ex-post-rtkelse

where a predominant part of measures recorded resource use in excess of 90 per cent. With respect to axes III and IV however, only 85 per cent of the available resources were used.⁷

REGIONAL DEVELOPMENT BETWEEN 2010 AND 2014; SYSTEM RESTRUCTURING AND RESPECTIVE CONSEQUENCES

Following the change of government in 2010, the EU funding system and regional development was fully revised, which impacted almost all elements of regional policy. As part of this process the following tasks were implemented:

- development of national economy and other policy strategies and plans;
- restructuring of institutions;
- modification of legal and management structures.

All elements were intended to speed up the implementation of measures and to improve the efficiency of processes, since the absorption rate of the available financial funds was extremely low, while the country's economic position also became fragile owing to the international financial crisis (Győriné, 2014b).

“The new government set up after the change of government in 2010 faced a significant dilemma with respect to the use of EU resources: either to fully reorganize the approved content and focuses of the NHDP and its operational programmes ... or to use the resources in accordance with the approved plan documentation – if necessary, in a manner parallel to the creation and communication of a cover plan document. The government opted for this latter alternative and prepared the so-called »New Széchenyi Plan« (NSP), which was

practically nothing more than a »cover story« i.e. the renaming of the operational programmes of the NHDP in line with the focus points announced by the new government” (Jóbbágy, 2015, p. 96). The points of growth outlined in the NHDP were the following: (1) Healing Hungary Programme, (2) Green Economy Development Programme, (3) Home Creation Programme, (4) Enterprise Development Programme, (5) Science Innovation Programme, (6) Employment Programme, (7) Transport Development Programme (NSP, 2014). At the same time, programme implementation continued to be in accordance with the NHDP and the interlinked operational programmes approved by the European Commission.

Strategies and plans impacting regional development between 2010 and 2014

There were many other nationwide plans compiled in the 2010-2014 period, which

impacted regional development policy. These were primarily plans of a domestic focus that were not compiled with the direct intent of drawing down EU resources. Although domestic plans also calculated with the use of EU funds, their structure and boundary conditions were significantly different to those of the individual operational programmes (Péti et al., 2014).

All of the plans referred to above were aimed at stimulating the economy and, in implicit terms, at territorial development. Plans were also bundled in a number of instances, for example the Wekerle Plan and the Mikó Imre Plan were also made part of the Hungarian Development Plan.⁸ As opposed to the previous practice, a number of the plans were named after historical figures, which was new phenomenon.⁹ The primary details of the plans examined are outlined in Table 4.

Results of the 2010-2014 plan preparation activities are implicitly summarized by the National Development and Regional

Table 4: The major figures of non-EU related plans between 2010 and 2014

Name of plan	Year of publication	Plan compiled/supervised by
Széll Kálmán Plan	2010	Government of the Republic of Hungary
Darányi Ignác Plan	2012	Ministry of Rural Development
National Rural Strategy	2012	Ministry of Rural Development
Széll Kálmán Plan 2.0	2012	Government of Hungary
Wekerle Plan	2012	Ministry of National Economy
Mikó Imre Plan	2012	Ministry of National Economy
Foreign Trade Strategy	2011	Ministry of National Economy
Hungarian Growth Plan	2011	Ministry of National Economy
National Tourism Development Concept	2014	Ministry of National Economy, Office for National Economic Planning
National Development and Regional Development Concept	2013/2014*	n.a.

*Note: *NDRDC was prepared in 2013, but only adopted by Parliament in 2014*

Source: Compiled by the authors

Development Concept (NDRDC). We wish to highlight three features of the NDRDC¹⁰.

(1) As opposed to earlier traditions, instead of separate National Regional Development Concept and National Development Concept documents, an integrated concept was compiled.

(2) Justification for the different developments was given in the NDRDC, therefore the concept was developed in a manner integrated with all of the plan documents. Since the primary source of financing were the 2014-2020 operational programmes, this also implied that everything was ultimately centred around the EU2020 strategy, the superior plan for the OPs.

(3) Some of the approved plans (e.g. National Rural Strategy, Wekerle Plan) were subordinated to the NDRDC as specialist and overall policy strategies, while others (e.g. Széll Kálmán Plan¹¹) were not mentioned in the NDRDC and not updated.

Review of the 2014-2020 programming period from the aspect of territorial development

The territorial development concept for the 2014-2020 period was simultaneously impacted by external and internal factors. The EU 2020 strategy outlines three fundamental priorities: intelligent, sustainable and inclusive growth. The primary objective is to formulate a more resource efficient, more environmentally friendly and more competitive economy based on knowledge and innovation, in a manner that also enables a high level of employment, as well as social and territorial cohesion (European Commission, 2016). Cohesion policy strategy outlines 11 goals of thematic concentration that promote business investments. Instead of a regional approach, a local and settle-

ment level perspective is favoured, for which new tools were also made available by the EU, in the form of integrated regional investments and community-led local developments (CLLD). Additionally, the EU favours the quality use of funds, i.e. solutions that enable the joint measurability of expected/attained results and expenditures (Győriné, 2014a). In the interest of better and more thorough accountability, one of the primary tasks was the compilation of measurable and clear-cut targets. Additionally, the overcomplicated and cumbersome administrative burdens characteristic of the previous cycle had been simplified, therefore a uniform regulatory framework was introduced for all 5 funds, with a system of conditions that allowed for disbursements to be made subject to special preconditions. Another important condition included in the regulatory framework was the provision that the Commission is entitled to decline disbursement, if a member state fails to comply with the rules set by the EU regarding the economy. In addition to all of the above boundary conditions, the domestic conditions necessary for implementation also had to be established. Accordingly, economic development was also made the primary target amongst domestic objectives and additionally, based on experiences from the previous cycle, the efficient and fast drawdown of resources became an emphasized objective. Also, fewer operational programmes of more flexible usability were compiled. The institutional framework had already been restructured prior to the commencement of the cycle, with respective roles having been given to the counties and the towns of a county rank, instead of the regions, while the supervising authorities were allocated to three ministries and the Prime Minister's Office (Tipold et al., 2016). The centralisation intent became

evident with the transformation of the institutional framework. With respect to regional development, the related planning tasks were given to the 8 regional development councils still operating today, while the development guidelines were determined in 10 operational programmes that were outlined in the NDRDC and were in accordance with the EU targets. Implementation was concentrated in the hands of the member of government responsible for territorial development related strategic planning, which is currently the Minister of Finance. In the case of RDOPs, the Hungarian State Treasury was also made an implementer. The Cabinet likewise set up the framework of Széchenyi Programme Offices, which had the role

of facilitating, in operative terms, the use of resources in the interest of supporting the line of potent beneficiaries (Simó, 2019).

The medium-term priorities of the NDRDC are in accordance with the targets outlined in the Ministry of Finance and are therefore also equivalent to the goals laid down in the Europe 2020 strategy. National regional development targets were compiled by the different ministries and state secretariats, and they are usually not implemented separately, but linked to a number of tasks. The primary territorial policy and territorial development goals of the NDRDC are the following: urban development, the development of the metropolitan area of Budapest and rural development

Table 5: Comparison of the 2007-2013 and 2014–2020 planning periods

Resource	1 OP, 1 Fund	1 OP, resources from both the ERDF and the ESF
Thematic focus	competence of member states	mandatory ERDF thematic focus (energy efficiency, SMEs, R&D&I, ICT)
Support from specialist fields	competence of member states	competence of member states, but <i>ex-ante</i> conditions (strategy formulation)
Thematic focus points	15 OPs	9 OPs, more focussed planning at an EU and domestic level (11 thematic objectives, EU2020 strategy)
Focus	Economic development – 16 %, Employment as a social issue	Economic development – 60%, Employment as part of economic development
Tools of local co-operation	– LEADER-community initiative for developing local economies, – Integrated Urban Development Strategy (IUDS)	– ITP (Integrated Territorial Programmes) – closely interrelated with each other, enable developments of better substantiation with more visible links and synergies – ITDS (Integrated Territorial Development Strategy)
Territorial levels	Regional OPs (7), Planning level: statistical region	– Territorial and Settlement Development OP – Competitive Central Hungary OP – Planning level: county, town of county rank
Outcome expectation	Inspection of indicators upon conclusion of OP	Liabilities linked also to performance framework and partial results

Source: Gere et al., 2014, p. 23

programmes. The most important tasks to be implemented include reducing differences and enhancing convergence among regions and stimulating the economy. The objective of cross-border programmes (ETC, border-region and transnational programmes) is to strengthen the macro-economic role played by the country. In addition to these, it is also important to mention the Common Spatial Development Strategy and the Carpathian Basin Spatial Co-operation (Ministry of Finance, 2018).

The following table describes the major differences between the 2007–2013 and 2014–2020 planning periods.

According to the summary published in 2018 by Századvég Economic Research Zrt, based on 2016 end of year results, Hungary fell short (47-50%) of the economic development undertaking announced by the EC, which should have at least reached the targeted 60 per cent of the overall resource amount. Since the tender invitations had all been published during the first two years of the EU cycle, these data still qualify as consistent.

The V4 have, together with Bulgaria and Romania (V4+2) developed a Common Regional Development Strategy, with the intent of enabling the development of the region based on the priorities outlined in the strategy and effectively representing their common interests within the EU. The document emphasizes the necessity of cross-border development and co-operation (Guti, 2014).

CHANGING INSTITUTIONAL FRAMEWORK

The division of EU resources and the restructuring of the institutional framework managing regional development involved the centralisation of functions and tasks in the 2010-2014 period. As we have already mentioned previously, there were two underlying, partially overlapping problems. On the one hand the draw-down and disbursement of funds was slow (Table 3), which posed a risk to the full absorption of funds, on the other hand the restructured, centralized institutional framework enabled the concentrated, efficient use of resources (Jobbágy, 2015).

Table 6: Progression of the Operational programmes per funding phase based on performance indicators expressed as a percentage of the 7-year appropriation, 2011

OP/Priority	Announced/OP (%)	Awarded/OP (%)	Contracted/OP (%)	Paid/OP (%)
ROPs in total	56%	54%	48%	24%
SROP	58%	34%	34%	17%
EPAOP	66%	43%	43%	20%
EDOP	63%	54%	51%	21%
EEOP	42%	35%	31%	5%
TOP	87%	72%	64%	17%
SROP	55%	41%	41%	19%
SIOP	84%	61%	53%	12%
IOP	49%	49%	53%	39%
Total	64%	54%	49%	17%

Source: Jobbágy, 2015, p. 112

From the point of view of territorial development management, by means of the December 2011 amendment of the Act on Spatial Development, the government made a significant decision impacting territorial development planning by allocating territorial development policy issues to the counties, i.e. to county governments (Gálosi-Kovács and Haffner, 2017). Although in line with the EU's regional focus, earlier professional preparatory activities recommended the favouring of regionalisation and the roles of regions, with this step the regional breakdown characteristic prior to EU membership was quasi revived.

“The allocation of the tasks of territorial development to county governments required the significant restructuring of the institutional framework and the tools of territorial development. The impacted county governments became the legal successors of the regional and county territorial development councils” (Gálosi-Kovács and Haffner, 2016). Their tasks equally extended to concept development, to planning, to the inspection of implementation, to decisions related to the use of resources and to coordination.

The modification of the institutional framework of EU funds practically brought about the separation, within the state administrative organisation, of the development and the traditional governance functions. The new and uniform development policy institutional framework operating semi-independently from the traditional administrative structures was primarily in accordance with the logic of receiving and using EU funds. “The creation of an institutional framework for EU funds in a fully separate manner from the institutional framework for ter-

ritorial development had an impact that was contradictory to the decentralisation process announced by government, and it strengthened the central administrative level. While creating parallel structures, it increased uncertainties related to the division of tasks and competences, it increased the number of government officials and it created new tasks of coordination and new administrative tensions, not to forget the division of available capacities” (Perger, 2010).

The institutional framework for ROP implementation remained centralized and the only Managing Authority, centralized in a manner similar to the sectoral managing authorities (MAs), became part of the NDA. At the same time, however, the centralized structure was mitigated by the fact that local stakeholders were given a bigger say with respect to development decisions (effectively regarding operative planning and project selection) through the Regional Development Councils (RDCs) and the more prominent role played by the RDCs in monitoring also had a similar effect.

Institutions and respective tasks

Many organisations were given a role in the implementation of territorial development tasks. Below we introduce first-level and second-level NUTS organisations.

National level administrative institutions (NUTS 1) were the following: Parliament, Government and the responsible ministries. The central management of territorial development was entrusted to 3 ministries. During the period under examination, the Ministry of National Economy was responsible for developing territorial development concepts.

The Ministry of Interior was responsible for coordinating issues related to territorial development with local governments. The National Development Ministry was responsible for harmonizing Hungarian development policy with EU development policy.

National professional and partner institutions also played an important role in territorial policy during the period under examination. During the 2007-2013 funding period, VÁTI Hungarian Regional Development and Urbanistic Ltd. (which ceased operations on 1 July 2014 with the successor being Széchenyi Programme Office Consultancy and Services Non-Profit Limited Liability Company, which came under the direct supervision of the Prime Minister's Office) managed the human infrastructure priorities of the 7 regional Operational programmes of the NHDP, the State Reform Operational programme and the Electronic Administration Operational programme. Prior to its cessation, VÁTI became the principal professional background institution of territorial and development policy. Since 2012, the national territorial development and spatial planning information system has been operated by *Lechner Non-Profit Ltd*¹².

The *National Development Agency* (NDA) was established by Government Decree no. 130/2006. (VI. 15.) as a legal successor to the National Development Office. The Agency's responsibilities in the 2007-2013 period included the tasks of development and planning, the preparation of the plans and operational programmes necessary for the drawdown of EU funds and the formulation of the institutional framework necessary for the funds thus received. Pursuant to Government Decree no. 475/2013. (XII.17.) the NDA ceased,

with the Prime Minister's Office becoming its general legal successor (SAO, 2015).

The *National Spatial Development Council* was created by means of Act XXI of 1996 on Territorial Development and Spatial Planning. The high-level interest reconciliation council participated in the tasks of governance and in the formulation of territorial development policy. Its tasks also included ensuring consultation between sectors and regions. The council eventually ceased operations on 31 December 2013 and the *National Territorial Development Interest Reconciliation Forum* was created, as of 1 January 2014, pursuant to the amending decree¹³.

At the NUTS 2 level *Spatial Development Councils* and *Regional Development Councils* were given a role in the hierarchy of territorial development. Spatial Development Councils¹⁴ were set up, if the tasks in question crossed into another county or another region. In the period under examination 8 spatial councils were in operation, of which two is mentioned in exact terms in the act: the Balaton Development Council and the Tokay Wine Region Development Council. These Councils directly received funds from the National Development Ministry.

The role of the Regional Development Councils was to compile the given region's development concept and regional operational programme, as well as all related activities, such as site appraisal, division and allocation of the resources available for spending on the respective measures, coordination, as well as the preparation of financial plans. Pursuant to the December 2011 amendment of the act on territorial development, the councils ceased and, as of 1 January 2012, the respective tasks were taken over by county governments

(Gálosi-Kovács and Haffner, 2017). From 1 January 2012, the regional development agencies were taken into state ownership, and then from 2014 onwards, into the ownership of county governments.

Based on the above, a multi-layered and hierarchic, but, as far as the distribution funds is concerned, a uniform and centralized institutional framework emerges, as a consequences of significant changes compared to the earlier structures: a radical reduction in the number of Intermediate Bodies (IBs), the reorganisation of the division of tasks, the standardisation of the procedural rules and the introduction and application of new procedures (Jobbágy, 2015). These changes diverted a significant amount of energy away from conceptually harmonized development and interest representation focussed on professional considerations. “A certain part of the substantial modifications impacting the organisational framework was in line with, while others fell short of respective expectations. The radical reduction of the number of IBs and the redistribution of tasks between MAs and IBs significantly improved implementation efficiency. The concentration of IBs under the NDA also had certain advantages, however this did not improve coordination activities or the level of coordination. The IBs acted with extreme autonomy from the very beginning, co-operation between the IBs and the OPs was of a very moderate level and the competent organisational units of the NDA (President’s Office, coordination IB) did not adequately fulfil their expected role of coordination. The involvement of the ministries, as the depositaries of the respective policies, in operative planning and implementation was suboptimal, which resulted in the inadequate repre-

sentation of professional considerations in both phases” (Jobbágy, 2015, p. 132).

Tools of the development policy institutional framework

The tools of development policy management can be broken down into planning and implementation elements. The management tools employed were, in overall terms, characterized in the period under examination by a well-thought-out balance and an intent to look for intervention opportunities and achieve standardisation (Molnár, 2006). The methodology includes elements like impact studies, the preparation of analyses, the processing of trends and data, the formulation of a target hierarchy, the definition of priorities, the involvement of stakeholders and the preparation of financial tables. Planning was also supported by a line of monitoring benchmarks and indicators. The plans ran through all levels of development policy, from political decision-making to actual projects, naturally, with the intent of retaining the consistency and hierarchic structure of the plans. (Hamarné et al., 2006). Planning methodologies were to a significant extent similar to the complex project management methodologies of large corporations (Sági, 2007; 2018). Their application gave support to the people involved in planning in terms of making prudent and detailed analyses and producing detailed plans.

The tools of implementation were formulated in line with the dimension of control. The system of rules simultaneously included limits and opportunities. Monitoring and control were important elements of implementation, in the form of separate (independent) organisations

and public databases, as in line with the respective procedural rules (Monitoring Committees, EMIR, OTMR), with some included within the processes and others being of an ex-post character (Hamarné et al., 2006).

REFERENCE POINTS AND COMPARISONS –
PRACTICES AND RESULTS IN COUNTRIES
OF THE VISEGRÁD CO-OPERATION IN THE
FIELD OF TERRITORIAL DEVELOPMENT

The V4 countries embarked on the period examined in this study from similar initial positions, but with different specific characteristics, and they have likewise followed different trajectories during this period. The similarities included the heritage of their socialist past with respect to their economic structures, as well as the timing, characteristics, conditions and speed of their rapprochement towards the EU. Differences, on the other hand, resulted from the varying characteristics and different levels of economic development of the different countries (Losoncz, 2017).

The main motifs of territorial development are very similar in the case of all 4 countries: from a conceptual aspect they can be regarded as resource-centred. Resources became available in the form of EU funds, consequently all V4 countries implemented resource-driven (top-down) territorial development. The guiding principles, objectives, priorities, as well as planning and tendering methodologies are all in tune with this. However, the results are different, as are the development trajectories: “Poland and Slovakia achieved better results; in Hungary and the Czechia there was no real increase in the level of development” (Bajusz, 2015). Competitiveness however, could not be improved, in material terms,

in any of the V4 countries (Hetényi, 2014). This is true despite the fact that “according to the model calculations of the European Commission, the investments implemented from EU resources, as part of the 2007-2015 cohesion and rural development policy, increased GDP in Hungary by 5 per cent, in Poland and the Czechia by 4 per cent and in Slovakia by 3.5 per cent, as compared to circumstances in which no such resources would have been made available” (Losoncz, 2017). In other words, territorial development resources significantly contributed to the prosperities of all of the countries during the financial year of 2008 and the period of the subsequent economic crisis. However, it is important to add that between 1995 and 2017, the basic economic trajectories of the countries and the EU resources, even if taken together, failed to result in the real term closing of the GDP gap between the 8 new Central and Eastern European EU member states and the former EU member states (Cieślík and Wciślík, 2020).

The (rule abiding) use of funds from the Structural and Cohesion Funds represented a learning curve for the new EU member states. The rate of utilizing resources was far from consistent in the 2007-2013 period. In the first five years of the budgetary period, not even six member states reached the average EU absorption rate (35.6%), and even up until 2015, six new member states were still below the average EU rate (90.3%) (Incaltarau et al., 2020). Taking the n+2 rule into account, according to the data of the European Commission the absorption rates of 8 member states, including 4 new member states (Bulgaria, Slovakia, Romania and Croatia), fell below (98.29%) the average for the EU 28 member states. Although there were a number of instances of overspending in

Hungary, i.e. out-payments exceeded the appropriation available (Boldizsár et al., 2016), according to the data of the European Commission the final absorption rate of the multiannual financial framework eventually fell below 100 percent (99.64%).¹⁵

Incaltarau and co-authors (2020) analysed the factors impacting the absorption rate of EU member states using an econometric model. Their findings show that increasing government efficiency and cutting back on corruption has a positive effect on the absorption rate. Although this impact is valid for both old and new member states, the impact is more significant for new member states. According to the standpoint of the authors, this implies that numerous factors hindering the efficient spending of public funds could still be identified in the new member states during the period under examination (e.g. irregularities surrounding public procurement, election campaign spending, exploiting of political advantages, etc.) However, one of the surprising findings of the model was that, in a manner contradictory to the EU's objectives, political decentralisation is not a significant causal factor, i.e. assuming that all other factors are constant, decentralized and centralized countries use EU resources with the same level of efficiency.

Nyikos (2012, p. 7) also came to a similar conclusion based on her findings, in that

“there is no practical experience to suggest that there is a direct relationship between the level of decentralisation and the quality of governance. There is no rule, as to whether the governance and administrative regimes of decentralized or centralized states are of a higher quality”. These results are all the more surprising since, according to a theoretical approach, one of the major features of cohesion policy is a decentralized implementation system, owing to the fact that implementation is carried out at territorial and local levels. The effectiveness of regional policy depends, to a significant degree, on the effectiveness of the governing and managing organisations (Sági and Engelberth, 2018).

With respect to the use of cohesion funds, the governments of the V4 Countries laid down the objective of maximizing the absorption rate during the period under examination. This is also made evident by the fact that transport, energy and environment related projects accounted for approximately half of the funds used (Boldizsár et al., 2016). The acquisition costs of these investments (e.g. road and rail development, water treatment equipment, waste related infrastructure, etc.) is typically high, but the investments only contribute to the development of a country's innovations environment in a negligible extent.

Table 7: Comparison of the V4 countries according to institutional framework, 2007-2013

	Institutional co-operation	Government management	Territorial management
Hungary	Parallel/Coordinated	centralized	mixed then centralized
Slovakia	Integrated	dispersed	centralized
Czechia	Integrated	dispersed	mixed
Poland	Integrated	centralized	mixed
Romania	Integrated	dispersed	centralized

Source: Nyikos, 2013, p. 48-49

Regional territorial co-operation between V4 countries and cross-border projects

Strategic territorial development related co-operation between the V4 and also between the V4+2 (including Romania and Bulgaria) intensified during the period under examination. The participants of the cooperation agreed to collaborate in the interest of developing the identified shortcomings of the ties between the participating countries along a common strategy, which, in the long term, may be the key to the strengthening of the territorial and geopolitical weight of the V4. The respective plans are characterised by transport corridors and cross-border energy infrastructure investments. The origins of the co-operation date back to 2007, when the V4 made a joint stand, in opposition to the countries of the Mediterranean region, in the interest of securing resources promoting the closing of the gap (Bajusz, 2015). The Common Territorial Development Strategy was finalized in 2010, which identified, with the involvement of the V4+2 countries, the axes broken by country borders and the critical paths (Jusztin and Guti, 2014).

It is important to note that the cross-border territorial development projects also funded by the EU by means of independent programmes (INTERREG, ESPON, URBACT, INTERACT) constitute a subplot of Hungarian territorial development efforts not without historical roots, which are primarily intended to strengthen territorial integration within the EU (Pupek, 2008). Co-operation between nations, the direct and metaphoric dismantling of borders and the strengthening of economic ties with the Carpathian Basin also have a local significance, as a result of the Government's minority policy. Observed from a Hungarian

aspect, the pragmatic, idealist EU funds intended to strengthen federalism provide funds for supporting the everyday lives of Hungarian minorities living in the severed territories, for advancing the underdeveloped infrastructure, for increasing regional competitiveness and for strengthening the identities of Hungarians living abroad (Hungary–Slovakia Cross-Border Co-operation Operational programme 2007–2013).

SUMMARY AND CONCLUSIONS

Based on the findings of this research it can be concluded that the period between 2010 and 2014 may primarily be considered as a period of change in territorial development. The period is characterised by a multi-layered structure, a diverse system of objectives, numerous actors (stakeholders), the restructuring of the institutional framework, a flood of programmes and national economic plans, as well as the principal guideline typical of the period relating to the intent that available resources must under all conditions be spent (Faragó, 2011).

According to the professional literature relating to the period under examination, it cannot be considered as the most successful period, despite the fact that it was in this period that Hungary became eligible for the highest amount of EU development funds. The use of EU resources did not produce the expected improvements, as far as the major goals, such as growth, gap reduction and complex regional development are concerned (SAO, 2016). At the same time, however, based on medium term appraisal, a positive evaluation may be produced based on the same target functions and results and the major objectives and aspects determined:

(1) In the 2007–2013 EU programming cycle impacting the governmental period, assistance in the record amount of 8 thousand billion HUF was available to Hungarian for-profit and non-profit actors, primarily from EU and, to a lesser extent, from domestic sources (NHDP 2007). By the end of 2013 resource drawdown rate reached 115 per cent, which made Hungary the third most successful amongst EU nations (KPMG, 2017).

(2) If we expand the focus of investigation to the 2014–2020 period, we can observe a fast rate growth in the economic performance of Hungary. On the one hand, the primary goal of the NHDP relating to “the expansion of employment and the establishment of conditions for long-term growth” was attained (NHDP, 2007), since the rate of unemployment fell in 2019 to a record low of 3.4 per cent, while employment grew to 70.2 per cent, a level not seen since the systemic change. In the meantime, real GDP also grew in a continuous manner. This development curve cannot be exclusively accredited to the economic growth following the 2007–2008 global financial crisis and the Eurozone crisis characterising the first years of the 2010s. The more efficient drawdown of EU resources, the significant volume of foreign direct investment (FDI) and the repercussions of these factors also played a significant role.

Naturally, the scope of the study does not allow for the exact econometric meas-

urement of the rate of contribution to growth of the different impacts, however, their analysis produces a clear picture of the optimisation of the use of EU resources. Criticism may be valid with respect to the fact that although the domestic institutional framework speeded up the use of resources, it downgraded professional considerations. At the same time, the resource absorption compulsion resulted, in many instances, in a local (sub-) optimum of resource spending, as opposed to a complex territorial/regional optimum. This is indicated by the circumstances that the funds used did not contribute, in significant terms, to cohesion within the country (see Table 8, for example), the that differences between the network of cities and the revenues thereof remained unmodified in the period under examination with only minor reallocations being detectable (Rechnitzer et al., 2014) and that the economic growth of the different counties was primarily determined by FDI (Lengyel and Varga, 2018).

Differences in revenues are therefore unmodified within the network of settlements over the long-run, which is also true for the entire spatial structure, and these may, in turn, augment socio-political tensions on a regional level in the future (Sági, 2019). In terms of revenues, differences between the territories have fundamentally returned to the levels characteristic of the pre-crisis period or, as far as the period ex-

Table 8: The dynamics of unemployment compared to GDP, 2007-2019

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Unemployment rate (%)	7.4	7.8	10.0	11.2	11.0	11.0	10.2	7.7	6.8	5.1	4.2	3.7	3.4
GDP volume index (y/y, %)	0.2	1.1	-6.7	1.1	1.9	-1.4	1.9	4.2	3.8	2.1	4.3	5.4	4.6

Source: Compiled by the authors based on KSH

Table 9: Spatial differences based on GDP, 2007–2018
(GDP per capita as a percentage of the national average)

Description	2007		2013		2018	
Capital City of Budapest		214.7		210.9		203.6
Richest county	Győr-Moson-Sopron	119.0	Győr-Moson-Sopron	120.8	Győr-Moson-Sopron	121.8
Poorest county	Nógrád	44.4	Nógrád	43.8	Nógrád	44.5
Average of the three richest counties	1. Győr-Moson-Sopron 2. Komárom-Esztergom 3. Fejér	107.5	1. Győr-Moson-Sopron 2. Komárom-Esztergom 3. Vas	106.7	1. Győr-Moson-Sopron 2. Fejér 3. Komárom-Esztergom	107.8
Average of the three poorest counties	1. Nógrád 2. Szabolcs-Szatmár-Bereg 3. Békés	52.2	1. Nógrád 2. Szabolcs-Szatmár-Bereg 3. Békés	53.0	1. Nógrád 2. Szabolcs-Szatmár-Bereg 3. Békés	53.6
Ratio of the average of the three richest counties to the average of the three poorest counties		2.06		2.01		2.0
Ratio of the Capital City of Budapest to the average of the three richest counties		1.80		1.75		1.7
Ratio of the Capital City of Budapest to the average of the three poorest counties		4.84		4.82		4.6

Source: Compiled by the authors based on CSO data

amined in this study is concerned, those characteristic of the starting point of the budgetary cycle planning period.

In terms of the spatial changes in revenues therefore, a structure practically identical to that of the past has evolved, i.e. EU funds on the one hand contributed to the correction of negative trend swings, while on the other hand they failed to support

closing the gap between territories or to result in an upswing in revenue conditions.

NOTES

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to the MTA-BGE Macroeconomic Sustainability Research Group. The author is a member of the research group.

- ² Poland, Czechia, Hungary, Slovakia; hereinafter referred to as V4 or Visegrád Countries
- ³ Multiannual financial framework (MFF) and EU budget will hereinafter be used in the study as synonym expressions.
- ⁴ www.europarl.europa.eu/external/html/eu-enlargement/default_hu.htm
- ⁵ https://eur-lex.europa.eu/summary/glossary/structural_cohesion_fund.html?locale=hu
- ⁶ www.palyzat.gov.hu/kohezios_politika_celkituzesei
- ⁷ www.palyzat.gov.hu/az-j-magyarorszag-vidkfejlesztési-program-2007-2013-utlagos-ex-post-rt-kelse
- ⁸ www.innovacio.hu/download/allasfoglalas/2011_12_28_mnt_konzultacios_anyag.pdf
- ⁹ The plans were predominantly named after prominent figures of the dual Austro-Hungarian Empire. Names of certain prominent figures from the Reform Era, from the period between the 1848-49 freedom struggle and the Austro-Hungarian compromise and from the period between 1920 and 1944 were also used.
- ¹⁰ National Development and Regional Development Concept 1/2014. (I. 3.). annex to the parliamentary resolution
- ¹¹ <http://2010-2014.kormany.hu/download/4/d1/20000/Sz%C3%A9rt%C3%A9rt%C3%A9rt%C3%A9rt%20Terv.pdf>
- ¹² www.terport.hu
- ¹³ www.terport.hu
- ¹⁴ Pursuant to Article 15 (1) of Act XXI of 1996 (ATDSP) the 8 spatial development councils are: 1. Danube-Tisza Interfluvium Homogeneity Spatial Development Council, 2. Danube Bend SDC, 3. "Highway 8" SDC, 4. "M9" SDC, 5. Lake Velence Region – Völgy – Vértesszőlő Highlighted SDC, 6. Lake Tisza SDC, 7. Szigetköz – Upper Danube SDC, 8. Balaton DC, + Tokaj Wine Region DC (created in 2014). All of these development councils are still in operation today.
- ¹⁵ <https://cohesiondata.ec.europa.eu/2007-2013/Total-Percentage-of-Available-Funds-Paid-Out-by-th/w8x7-cqjd>

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Stakeholder Capitalism and the EFQM Model 2020 for Corporate Management

SUMMARY

Stakeholder capitalism as an alternative to the neoliberal model of shareholder capitalism has become one of the most important issues in American, European and global business forums. It focused on the purpose of an organisation and on political programmes surrounding *Prosperity, People, Planet*, added to governance topics. The main driver behind business communities' political activism is the adaptation to the UN/OECD standards for participation in global and regional investment flows related to sustainable business practices. Appropriate instruments are available for corporations committed to sustainability to adopt the best reporting systems. In contrast to these technical solutions, the national/European excellence awards offer a real and deep involvement, and true development for firms. The EFQM Model 2020 is an outstanding business management model designed for long-term purposes and easily adapted to all kinds of welfare capitalist systems, without political activism.

Journal of Economic Literature (JEL) codes:

L21, P12, D21, D69, E61, F21, F35

Keywords: stakeholder capitalism, corporate governance, sustainability, excellence model

In the 1980's the stakeholder theory was a novel approach that mapped corporate environment in terms of people and other actors and their roles in the firm. Today this approach is more complex: it includes the firm's political, economic and ethical relationships. The stakeholder approach can be descriptive (outlining actual standards of behaviour with stakeholder groups), instrumental (engaging stakeholders in increasing corporate performance), or normative (managing stakeholders).

CAPITALISM OF AN ECOLOGICAL AND A HUMAN FACE

After the 2008 financial crisis a great number of the previous theories and approaches of economic regeneration came to the

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forefront of business thinking. They were mostly related to fact-based decision making, public policies and global ranking based on different score cards. Countries were surveyed and evaluated according to every aspect of public policies, including, among others, the World Happiness Index, the Global Competitiveness Index and the Global Innovation Index. The Global Sustainability Reporting Initiative was developed for firms. All these are closely related to Stiglitz, Fitoussi and Sen's Report entitled *Beyond GDP*, global movement for well-being, which tackles inequalities.

The SEDA score card as a factor of national competitiveness

After the 2008 global financial crisis, the criticism of the neoliberal model of shareholder capitalism gave impetus to new ideas about an inclusive capitalism (OECD and World Bank) coined "stakeholder capitalism", "sustainable society", "regenerative capitalism", or "capitalism with a human face". In all of them the focus was placed on the role of the firms in societies and the metrics and corporate reporting. During last decade, the World Happiness Reports explained the successes of Nordic societies and benefits of Nordic types of welfare states. The Boston Consulting Group's Sustainable Economic Development Assessment (SEDA) scorecard provides insight into the conversion of wealth into well-being by a country. The SEDA performance dashboard can help governments take a more holistic view of progress through income generation, objective well-being, and subjective well-being lens. Conventional unregulated capitalism began to be challenged and opposed by different political movements, such as the Occupy Wall Street, the

Yellow Vest Movement, the #MeToo Movement, and the Black Lives Matter (BLM) movement.

Political debates about the purpose of the organisations

The economic, social and environmental sustainability of market and non-market stakeholders is emerging as a new standard of business success and managerial responsibility requiring a formal model to capture expectations and the combination of competitive and co-operative is nowadays embedded in responsible leadership. In addition to firms' market strategy, they also need to deal with the political marketplace. Corporate political management is the broad conceptualisation of companies' interaction with their political environment. They are compelled to create a favourable institutional environment to the competitive efforts. Corporate political activity (CPA) is a subset of political strategy, which focuses on managing the firm's dependency on political decisions, and on advocacy in social issues, and plays role in crafting public policy. The tools of corporate political activity include lobbying, advocacy, constituency building, coalition formation, political donations, and other contributions and direct or indirect interactions with public policy officials. As corporate relationships can range from supportive/co-operative through neutral/indifferent to hostile/threatening, stakeholder management may be crucial for firms.

Inclusive capitalism as a social vision

On 20 August, 2019, at a meeting of the US Business Roundtable, CEO's redefined the purpose of corporations that promote an

“economy that serves all Americans”, and the document made of the meeting was signed by 181 CEO’s. This new statement replaced the 1978 Business Roundtable Principle of Corporate Governance: the primacy of shareholders was pointed out and it was stated that corporations exist principally to serve shareholders. Max Weinberger, CEO of EY explained that challenges were so great and so complex that no single organisation can address them alone. The main principle of inclusive capitalism is to find allies almost everywhere: among employees, shareholders, lenders, communities, suppliers, partners, regulators, and government officials. The best way to engage stakeholders to transform mission into a company-wide purpose is to improve the working world. When businesses purposefully work to engage with a broad set of stakeholders, they make a positive impact on society and also perform better (Weinberger, 2017).

World Economic Forum 2019 Report and global trends

According to the WEF 2019 Global Competitiveness Report 2019, and the Global Competitiveness Index 4.0 data, the main implications for economic policymakers are the following 5 trends: 1 despite a massive injection to ensure liquidity, productivity growth continued to stagnate between 2008–2017; 2 public investments steadily decline globally, 3 there is no balance between the integration of technology, human capital investment and the innovation ecosystem, which is critical to enhancing productivity; 4 the lack of shared prosperity and environmental sustainability corrodes productivity growth (speed of growth for sustainability environmentally), and the quality of growth; 5 a more visionary leader-

ship needs to place all economies on a win-win trajectory (Schwab and Zahidi, 2019).

Davos Manifesto 2020

The Davos Manifesto 2020 renewed the old Davos Manifesto approved 50 years earlier. In the document entitled “The Universal Purpose of a Company in the Fourth Industrial Revolution”, the changes were explained by Klaus Schwab, Founder and Executive Chairman of WEF.

1. The purpose of a company is to engage all its stakeholders in shared and sustained value creation: shared commitment to policy for understanding and harmonising the divergent interests of all stakeholders.

a) It is committed to fair competition, zero tolerance for corruption, it maintains a reliable and trustworthy digital ecosystem, and it clears the functionality of its products and services.

b) A company treats its employees with dignity and respect (diversity, working conditions improvement, well-being, upskilling and reskilling).

c) Suppliers are true partners, a company provides a fair chance to new market entrants, integrates respects for human rights into the supply chain.

d) A company serves society through its activity, supports local communities, and pays its fair share of taxes. It ensures the safe, ethical, and efficient use of data (protects the biosector, it is a circular, shared, regenerative economy champion, and innovates for well-being).

e) In its return on investment policy it considers: the entrepreneurial risks, and the need for innovation and sustained investment tasks. It is responsible for near-term, medium-term, long-term value creation.

2. A company is more than an economic unit: it fulfils human and social aspirations as part of a broader social system: performance should be measured by the method of achieving its environmental, social, and good governance objectives. (Executive remunerations should reflect stakeholder objectives).

3. Multinational companies should act for our global future in collaborative efforts with other companies and stakeholders to improve the state of the world (Schwab, 2019).

The 21–24 January 2020 WEF Forum of the Annual Meeting of Stakeholders for a Cohesive and Sustainable World, held in Davos, resolved to develop a new corporate measurement and reporting system.

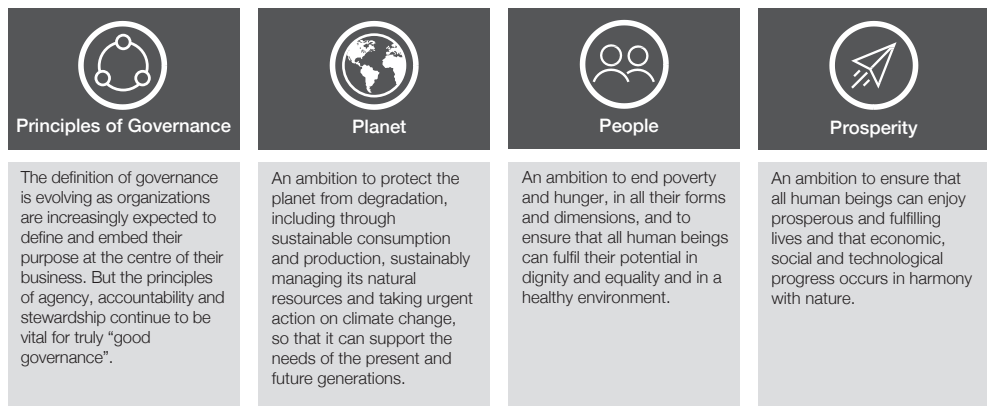
Finally, the Davos 2020 Manifesto based on the principles of stakeholder capitalism initiated a new metrics called ESG (environmental, social and governance) goals, which complements the standard financial metrics established on the basis of the UN SDG 2030 Goals and the Paris Climate Agreement. The White Paper on Measuring Stakeholder Towards Common Metrics and Consistent Reporting of Sustainable

Value Creation was drafted by Deloitte, EY, KPMG and PWC in collaboration.

The stakeholder capitalism metrics (SCM) makes it clear for firms that Planet, People, Prosperity and governance strategies can be developed simultaneously with increased corporate political activities.

The UN SDG Goals are very important for the business sector in the key and smaller donor countries. It is important in the case of the US to maintain its global and local universalist role in global international political environment. The US has been the main donor in international development programmes but in 2016 new actors entered international investment. The SDG Goals provide a comparative advantage to US firms, local governments, solidarity and charity organisations. US cities are in the vanguard of co-operation with business and civil organisations, and US universities are among the most advanced in developing new leaders for SDG leadership capability. The innovations developed by US firms are globally inspirational and related to efficient technology transfer policies.

Figure 1: Davos Manifesto: The four pillars of Business Sustainable Governance



Source: World Economic Forum, http://www3.weforum.org/docs/WEF_IBC_ESG_Metrics_Discussion_Paper.pdf

Table 1: Summary of the Stakeholder Capitalism Metrics (SCM)

Governance	Planet	People	Prosperity
Governing purpose Purpose-led Management	Climate Change GHG emissions, TCFD Implementation Climate Related Disclosures	Dignity and equality Diversity and inclusion percentage of key groups, pay equality, Wage level (standard entry wage, CEO pay ratio, Risks for incidents of child and forced labour or compulsory hours Pay gap, discrimination incidents, freedom of association, collective bargaining, human rights review Wage for living Monetised impacts of injuries	Employment and wealth generation Infrastructure investment and services supported Significant indirect economic impact
Quality of Governing Body Progress against strategic milestones, Remuneration	Nature Loss Land Use and Ecological Sensitivity Report on operations and full supply chain, Impact of land use and conversion		
Stakeholder Engagement Material issues impacting stakeholders	Air Pollution NOx, sox		Innovation: better products and services Social value generated Vitality Index
Ethical Behaviour Alignment of strategy and policies to lobbying, Monetary losses from unethical behaviours	Water Pollution Nutrients, heavy metals, and other toxins	Health and well-being: Health and safety Best practice health and well-being programmes Absence Rate	Community and social vitality Total Social Investment Additional tax remitted (VAT, employee related taxes) Total tax paid country for significant locations
Risk and Opportunity oversight Economics, environmental and social topics in capital allocation	Solid Waste Single used plastic	Skills for the future Training average hours/person Average training and development expenditure, paid education leave, reskilling, nr. of unfilled positions	

Source: By the author

The OECD's document entitled *Development Co-operation Report 2016, The Sustainable Development Goals as Business Opportunities* names five pathways to ensure the quantity and quality of investment: *Investing in people, the planet and prosperity*: FDI,

blended finance, monitoring and measuring private funds, social impact investment, and responsible business conduct. In January 2018, UNDP published an Introductory Guidebook on *Financing the 2030 Agenda*, giving a detailed description of the role

of the private sector in relation to SDGs, among others through innovative financing. UNDP's SDG Impact Finance Initiative (UNSIF) is a new co-investment platform for co-operation between the public and the private sectors. It suggests that the finance system had changed, and change included transition from grant-only project-based model to a more scalable blended financed market-based development. "UNSIF leverages institutional investors and private wealth in the following ways:

- By facilitating social impact investments to support national development priorities in key areas such poverty reduction, job creation, affordable and clean energy, industry innovation and infrastructure, sustainable cities and communities and climate change;

- Certifying SDG-aligned impact investments to de-risk, quality assure and prepare social impact projects along rigorous social, economic and environmental standards, building on UNDP's work on environmental and social screening standards as well as its gender seal;

- Building on UNDP's South-South Co-operation strategy and corporate partnership initiatives, facilitate project pipeline development, research and advocacy for up-scaling impact investing for the SDGs, resulting in a robust pipeline of SDGs projects which attract investor funding." (UNDP, 2018).

Additionally, the remittances sent home are important sources for the ODA (Official Development Assistance, USD 137 billion in 2014) to attract investment (USD 423.6 billion in 2014).

The OECD adopted *The Policy Framework for Investment*, an unlocking tool for private resources for sustainable development. The Davos manifesto does not reframe the

neoliberal model of capitalism, but tries to adapt it to deal with environmental, biological, social, and economic crises. In Davos Joseph Stiglitz explained the vision of a new kind of capitalism called progressive capitalism, based on a better balance of government, market and civil society. The conservative answer is that stakeholder capitalism is against the US and other national corporate laws. Other political critics of the idea, including Donald Trump, compared the idea of stakeholder capitalism to China's state capitalism regime.

Stakeholders and Business Europe

Business Europe proposed a priority list for the European Union in the new political cycle of 2019–2024: *Prosperity, People, Planet* (84 pages). "European entrepreneurship has a unique feature. It feels responsible for and cares about prosperity, people, and the planet. Companies have a central role to play. Achieving environmental and social goals largely depends on their success: without profitable companies, no inclusive growth, no jobs, and no technological solutions to protect the environment" (Pierre Gattaz) (Business Europe, 2019).

A comparison of the American Business Round Table's *Davos Manifesto* and Business Europe's vision for *Prosperity, People, Planet* reveals differences mostly in ranking. The *Davos Manifesto* developed ideas for a new society, and proposed proactive corporate political actions for developing social objectives.

STAKEHOLDER CAPITALISM AT A EUROPEAN UNION LEVEL

In July 2020, the EY published a report to the European Commission DG Justice and

Table 2: Prosperity, People, Planet: Business Europe's Programme

Prosperity	People	Planet
Single market, international trade, industrial strategy, competition policy, digital economy, R+I, Multiannual Financial Framework and EU Budget, EMU, Taxation, Better regulation	Economic convergence and social cohesion, skills, labour mobility, social protection, employment, social inclusion and equality, pensions and demographic ageing, diversity, migration, social dialogue	Energy and climate policies, different energy and climate starting points, innovative technologies to reduce greenhouse gas emissions, affordable low carbon energy, public acceptance of the energy transition, convergence of global climate ambitions, zero-and low-emission mobility, green finance, trade and sustainable development, circular economy.

Source: By the author

Consumers, on directors' duties and on sustainable corporate governance. The objective of the study was to assess the root causes of "short-termism" in corporate governance, to identify possible EU level solutions.

The seven key drivers of short termism include the following:

1. Directors' duties and company's interest are interpreted narrowly and tend to favour the short-term maximisation of shareholder value.

2. Growing pressures from investors with a short-term horizon contribute to increasing the boards' focus on short-term financial returns to shareholders at the expense of long-term value creation.

3. Companies lack a strategic perspective over sustainability and current practices fail to effectively identify and manage relevant sustainability risks and impacts.

4. Board remuneration structures incentivise the focus on short-term shareholder value rather than long-term value creation for the company.

5. The current board composition does not fully support a shift towards sustainability.

6. Current corporate governance frameworks and practices do not sufficiently voice the long-term interests of stakeholders.

7. Enforcement of the directors' duty to act in the long-term interest of company is limited

The possible EU action in company law and corporate governance should pursue the general objective of fostering more sustainable corporate governance and accountability for companies' value creation. The EU has the following options for intervention:

– *Option A (non-legislative/soft)* – Spread sustainable corporate governance practices through awareness raising activities, communications, and green papers.

– *Option B (non-legislative/soft)* – Foster national regulatory initiatives aimed at orienting corporate governance approaches towards sustainability through recommendations.

– *Option C (legislative/hard)* – Set minimum common rules to enhance the creation of long-term value while ensuring a level playing field through EU legislative interventions.

The main interventions may be: the incorporation of sustainability in directors' duties; the elimination pressures from investors; the establishment of a compulsory strategic perspective with sustainability in

focus; change in the board composition and board remuneration.

Involvement of stakeholders in board and executive bodies

In 2015 the International Finance Corporation published *A Guide to Corporate Governance Practices in the European Union* explaining the 'Soft Law' model in the EU, the benefits of Good Corporate Governance, and the types and varieties of sectoral organisations, and analysed the owners', the boards', the managements' and the stakeholders' corporate responsibility and ethical standards in the EU's firms. The study summarised the obstacles to developing sound corporate responsibility concepts with conflicting approaches. It is very difficult to select the most appropriate way because companies need to invest time and money in understanding the different systems: the UN Global Compact; the UNEP Finance Initiative; the Equator Principles; the EMS/ISO 14000; the Global Reporting Initiative; the Enhanced Business Reporting Initiative; the institutional investors' specific requirements; the Indices (FTSE 4 Good); the media's "most admired companies" lists, and so on.

The Directorate-General for Financial Stability, Financial Services and Capital Markets of the Union (DG FISMA), FISMA.C.1 (Corporate reporting, audit, and credit rating agencies) decided to tackle non-financial reporting problems in 2020.

The agreed directives of the European Union are the following:

- Directive 2014/95/EU on Non-Financial Reporting (NFRD),
- Directive 2013/34/EU on Accounting as amended,
- 2017 guidelines on climate related reporting.

– 2018 resolution on sustainable finance.

– COM (2018) 353 Final Proposal for a regulation of the European Parliament and of the Council on the Establishment of a Framework to Facilitate Sustainable Investment.

– 2019 conclusions on Capital Markets Union,

– 2020 European Green Deal.

In comparison to the EU's narratives concerning the debate, it seems that there are three approaches to the problem:

a) Shareholders should be given primacy because this model has proved to be the engine of growth in Western economies.

b) Stakeholders should be given primacy because companies are legal persons and should be able to demonstrate social purpose beyond simply serving private shareholders and involve stakeholders in supervisory bodies.

c) The open market and independent companies' should be given primacy with focus on the purpose of the capital market, and there is no need for rules of good governance.

Regarding the legal environment, the OECD as a normative IGO focused on the open market perspective, the European Parliament on issues associated with stakeholders, and the European Commission on the importance of shareholders. The EFQM group conducted a survey of 2000 individuals and concluded that the stakeholder capitalism model was the most efficient, and moreover, not in a minimum version but in one that can drive real changes.

A study on directors' duties and sustainable corporate governance in EY's Final Report Annex II, published in July 2020 explores company law in 12 countries (Belgium, Germany, Finland, France, and Hun-

gary, Italy, Netherlands, Poland, Portugal, Slovenia, Spain and Sweden). In all twelve cases legislation only regulates economic organisations as for profit units. In most cases corporations are not granted the option to add any other purpose (environmental, social and others). Nearly everywhere, directors are not made responsible in any form whatsoever for sustainability. It is compulsory to involve employees' representatives in the case of companies with more than 500 employees in Germany, Portugal and Slovenia, above 150 employees in Finland, above 1000 employees in France and Sweden, and above 200 employees in Hungary. Italy is the only country that mandatorily requires the development of a sustainability strategy. But executives do not have any responsibility for stakeholder involvement.

Recently the SCM metrics and the different types of excellence quality models can be added to the list. Organisational excellence models served for leaders and managers to achieve and sustain outstanding levels of organisational performance that meet or exceed the expectations of all their stakeholders (EFQM, Baldrige Excellence Framework). In 2019-2020 both framework models were renewed. The Baldrige Excellence Framework for 2019-2020 features a focus on

- Leading and managing the context of the business ecosystem,
- Enabling an aligned, collaborative, and agile supply network,
- Creating and reinforcing the organisational culture,
- Broadening the cybersecurity focus to include your operations, workforce, customers, suppliers, and stakeholders.

There are fervent debates concerning competitive values and conflicting interests at boards, and between executives and

employees. The 2019 US Business Round Table Declaration and the WEF Forum Declaration were signed by the executives without consultation with shareholders or board members. The parties to this declaration meant to reinforce the existing practice. Other evaluators highlighted that the concepts missing from these declarations were more important. The aim of this declaration is the voluntary regulation of businesses, without any legal or governmental obligations.

THE EFQM MODEL 2020 AND STAKEHOLDER CAPITALISM

In October 2019, the new EFQM Model was introduced as a new concept to make a radical break with the former EFQM Model 2013 of excellence. A comparison with the recent 2019-2020 Malcolm Baldrige Performance Excellence Award (MBPA) or with the 2015 Canadian Excellence Innovation Wellness national award reveals that none of these excellence models go further than the neoliberal capitalist approach to corporate organisations. The MBPA sees the ecosystem as a business ecosystem, a network of suppliers, partners, customers and competitors, a framework for business growth, and a new resource potential for making better value proposal. The EIW model is more conservative in different criteria: only people's well-being is a special feature in the model, emphasising organisational and mental health policies.

In contrast to the MBPA and to the EIW, the EFQM Model 2020 has a new vision for outstanding organisations. The broad discussion carried out with award holders has led to a deeper change: it is not enough for organisations to be excellent in leadership, operations, and results, they should dem-

onstrate an outstanding role in their ecosystems. The EFQM Model 2020 is less radical than the Davos Manifesto or the SCM model, and it is not only made for large corporations and organisations, but for all organisations. The EFQM Model 2020 relies on European social values, and it is consistent with Nordic-type social democracies, continental Christian conservative values, and the Southern humanist Christian conservative welfare model of capitalism. It has very little in common with liberal welfare models. The EFQM Model 2020 is distinctive for the following approaches:

- The organisation and its Ecosystem
- The Purpose of the organisation
- Sustainability and the organisation
- Long term objectives and Organisational Culture.

The organisation and its ecosystem

The above-mentioned report reveals that the European corporate governance regime is neoliberal, and does not assign any legal responsibility concerning stakeholders. In this environment the EFQM Model 2020 principle, with a strong focus on stakeholders, can be considered as a merely normative idea, but with the EU's planned regulation it may be implemented by the Q1 2021 legislative action. The problem definition explains that: "[...] sustainability encompasses encouraging businesses to frame decisions in terms of environmental (including climate, biodiversity), social and human impact for the long-term, rather than on short term gains" in order to ensure environmental and social interests to fully embed into business strategies. The initiative is complementary to the review of the Non-Financial Reporting Directive, which requires certain large, public com-

panies to disclose sustainability-related matters.

The EFQM Model 2020 is also a globally recognised framework that supports organisations in managing change and improving performance, stresses the primacy of the customer, takes a long-term, stakeholder view, and stresses European values (the EU Charter of Fundamental Rights, the European Convention on Human Rights, the European Union's Directive 2000/78/EC, the European Social Charter) alongside global values (set out in the UN's Global Compact 2000 and SDG 2030). Business competitiveness, responsive and responsible operation are important parts of the excellence and quality management models.

The EFQM Model 2020 criteria for Outstanding Companies

The EFQM Model 2020 is fully compatible with the Stakeholder Capitalism Metrics model, but it is more compatible with the European Values and European Supranational Governance System.

The ecosystem in the EU's multilevel governance

The first and most important factor in the case of the EFQM Model 2020 is the detailed description of an organisation's ecosystem:

1) The organisation lives in a global environment, defined by global megatrends: globalisation, geopolitical uncertainty, disruptive technologies, raw materials, global warming, demographic diversity, social trends, and SDGs (Sustainable Development Goals). These keywords are more than just a list of words, they constitute a set of cosmopolitan values, in contrast to populist approaches to the recent state of

Table 3: Criteria of the EFQM Model 2020 by new approaches

Direction	Execution	Results
Stakeholder Capitalism purposes (ESG Report, SCM Report)		
Identify and understand stakeholders' needs	Customer segmentation	Customer perception results
Understand the ecosystem, capabilities and challenges	People, attract, engage, develop, retain	People perception results
Define purpose and vision	Business and governing stakeholders	Business and governing stakeholders results
Design and implement a governance and performance mgmt. system	Society, development, well-being and prosperity	Society, development, well-being, prosperity, results
	Partners and suppliers, support for creating sustainable value	Partners and suppliers, support for creating sustainable value results
Short and middle term business purposes		
	Design the value and how it is created	Achievements in delivering its purpose and creating sustainable value
	Communicate and sell the value	Fulfilment of key stakeholders' expectations
Develop strategy	Deliver the value	Achievement of strategic objectives
	Define and implement the overall experience.	Achievements in Driving Performance
	Drive performance & manage risk	Predictive measures for the future.
Long term business purposes		
Steer the organisation's culture and nurture values	Transform the organisation for the future	Social commitment by the organisation
Create the conditions for realising change	Drive innovation & utilise technology	The rate of implementation of new technologies and changes
Enable creativity and innovation	Leverage data, information and knowledge	Results, reports, ESG report
Unite behind and engage in purpose, vision and strategy	Manage assets & resources	Use the achieved results for forecasting future performance with an expected degree of certainty.

Source: Author's own elaboration

humanity: they are focused on the ongoing trend of globalisation against de-globalisation and the populist “sovereignism”. It stresses global climate warming in contrast to denying it by populist political parties and persons, it is focused on demographic diversity as ongoing process of globalisation of workforce and new waves of migration. It stresses global governance concerning human development, social trends, geopolitical complexity, and technological trends. A corporation must respond to these questions as it is embedded in the world as in its global ecosystem. MNC’s and TNC’s are part of a global governance regime, and their corporate political activity should contribute to global goods.

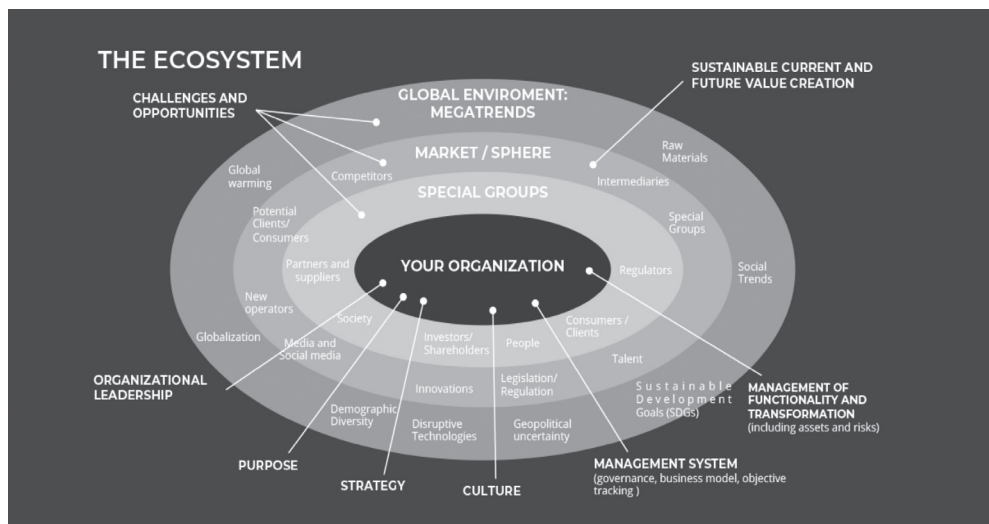
2) The second layer of the EFQM 2020’s ecosystem approach concerns the market sector: it is rather the economic subsystem of the global environment than a territorial framework, as markets may be global, regional, national or local, and there is no modality indicator: the organisation must decide which market is its focal area. In the

market sector the main actors include competitors, new operators, potential clients and consumers, and intermediaries. Innovations, legislation, regulation, talent and special groups can be conceived as a business environment: global, regional, national or local ecosystems and trends. In the case of talents, regional, national and local education systems, management schools, workforce and human capital development programmes and policies may be mentioned. Special groups include interest groups, like environmentalists.

3) The third ring of the EFQM 2020 ecosystem is also called special groups: they include the stakeholders, more specifically consumers and clients, people, regulators, investors, shareholders, the broader society, partners/suppliers and special interest groups.

- Business stakeholders may include owners, shareholders, investors funding organisations
- Governing stakeholders may include government departments, regional or local

Figure 2: Official EFQM 2020 Ecosystem Map



bodies (statutory & regulatory), public authorities or parastatal institutions.

4) In the central layer, challenges and opportunities are derived from the global environment, from the market sector and from special groups, with emphasis on “sustainable current and future value creation” in the market sector. Organisations are arranged around the purpose, strategy, culture and management system (governance, business model and objective tracking), including organisational leadership and the management of functionality and transformation (among them assets and risks).

The purpose of organisations

There are four approaches to the purpose of an organisation: the legal approach; the financial approach, the business and financing model (return on investment and dividends) and the managerial approach. The latter concerns the method of building a successful company and operation. The political approach is about the management of political issues, public policy questions, and the social responsibilities of the organisation. The EFQM 2020 does not discuss corporate forms or endeavour to pick the best form for a purpose driven organisation (shareholder or stakeholder primacy). Shareholder primacy is accepted as a financial approach: if a firm wishes to obtain subsidy from the central or local government, shareholder primacy is not a happy strategy.

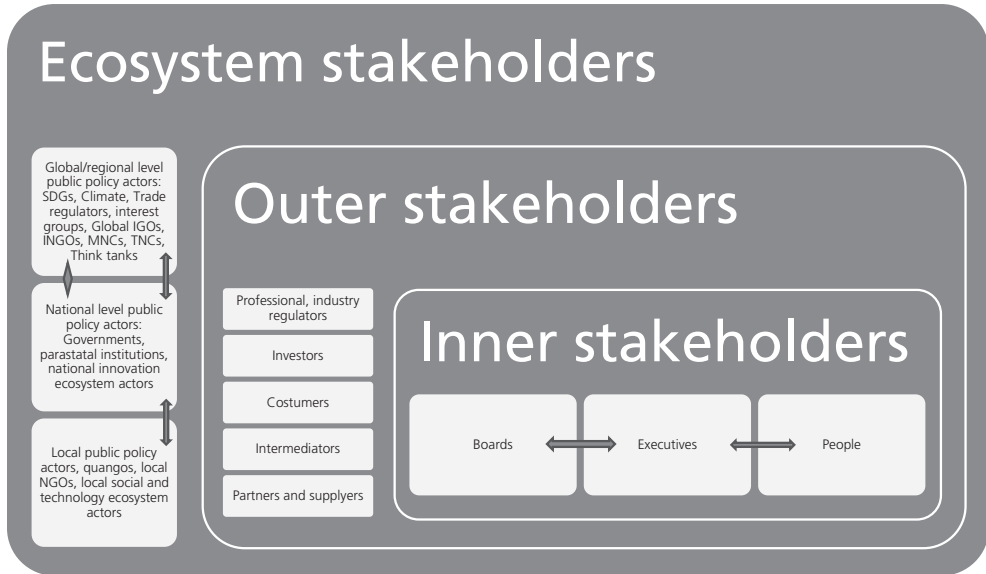
The EFQM Model 2020 does not use the term “excellence” to classify organisations as good and responsible; the new buzzword is “outstanding”. In the EFQM corporate reporting system evidence must be provided for the following:

- The purpose of an organisation was acknowledged as permanent in its ecosystem; resonates with its stakeholders.
- Its purpose defined by the needs of stakeholders,
- value delivered by the contribution of stakeholders,
- the stakeholders’ developed competences and evaluated contribution,
- perceptions of results.

This reveals that the EFQM Model 2020 gives a very lenient definition: “It resonates with its stakeholders”, defined by needs, with focus on stakeholder contribution, capabilities and on the “perceptions of results”. Thus, these criteria may hardly be considered as stakeholder capitalism. The EFQM Model 2020 is a more advanced stakeholder model than the Stakeholder Capitalism Metrics indicator system. It is more focused on social development: while the SCM model analyses customers in an organisational framework, the EFQM 2020 defines purpose for the entire ecosystem, while the SCM and the Malcolm Baldrige Performance Excellence Model consider stakeholders in a balanced situation to shareholders, the EFQM Model 2020’s main focus is the purpose of the ecosystem, and stakeholders are ranked only after customers and people, alongside regulators, followed by society and the last group of partners and suppliers.

The EFQM Model 2020 needs indicators for all five types of the above-mentioned involvement of stakeholders. The focus of leadership and management is shifted from value creation to stakeholder value creation. Leaders and management groups are not included among stakeholders, they are above these actors as responsible leaders. What remains a concern is the parties who select them, the scope of their responsibility.

Figure 3: Stakeholders in the ecosystem



Source: Author's own elaboration

ity, and the people they are accountable for. As these are not clear, the EFQM Model 2020 evaluates a sustainable stakeholder organisation's leadership practices if these standards are incorporated in directors' and boards' duties and if sustainability is incorporated in the specified purpose, however, the involvement of stakeholders' representatives in boards and executive bodies, or any change in the board composition and remuneration are not mentioned. The best practice of specifying executives' duties to stakeholders and of the evaluation of their activity is not selected in the case of ecosystem goals and stakeholder performance, instead:

- a governance structure is established to enable Key Stakeholders to contribute to strategy- and decision-making
- a policy document ensures a reporting system built into the organisation's operation to enable timely accountability and

transparency with Key Stakeholders, and

- stakeholder perceptions relate to past and current Key Stakeholders and are obtained from a number of sources, including surveys, focus groups, ratings, press or social media, external recognition, advocacy, structured review meetings, investor reports and compliments/complaints, including feedback compiled by customer relationship management teams.

SUSTAINABILITY IN CORPORATE GOVERNANCE STRATEGY, VALUE OFFER AND RESULTS

Corporate political activities are required for decisions on a firm's ecosystem (local, national, global), the methods of evaluating stakeholders in the ecosystem, as it may be a complex group. In the case of multilevel governance, active contribution is required for meeting global (SCM, UN Global Com-

pact metrics) and regional standards (EU level guidance), national regulations and legislative requirements, and for co-operation with public policy officials, the local government and civil sector, local clusters and other locally developed spatial ecosystems.

The main questions remain: Who should decide on environmental, social and governance strategies and how and what are the different methods of developing real-life and truly important SDG 2030 goals? The EU's 2019 SDG 2030 report gives benchmark data for performance by the different countries. The main problem is the absence of sub-national data. There are great differences between capital cities and remote areas. Who is allowed to specify the SDG objectives? It is very difficult to join the EU's official national strategies within the programme periods because they are constructed for using the EU's cohesion funds. There are great differences in the Member States' local development practices due to differences in the local governments' autonomous planning rights.

Both the EFQM Model 2020, and the SCM model of corporate governance need to redefine the national models for SDG 2030 development. The EFQM Model 2020 does not prescribe either SCM or GRI, or any other reporting system. An organisation's definition of ecosystem is important. The most important question is the development of a consumer base, workforce resources, and finding good partners and suppliers. The Nordic welfare system and the continental development state traditions seen in Germany focus on the entire living space's sustainability. In the case of Europe, the social function of business organisations is more usual than the development of proactive business policies.

Corporate culture and long-term objectives

It is a common experience that companies that prioritise long-term value creation in their strategy and decision-making processes can deliver better and more stable financial performance than their peers in the short and long term. The implementation phase in the case of the EFQM Model 2020 begins with evaluating the needs and capabilities of stakeholders, which is necessary for performance planning. European business history can demonstrate extremely long company life spans (as a Norwegian business insurance firm with a history of eight hundred years). During the past 40 years large companies' life cycles have narrowed from 30 to 24 years and it is now forecast at 12 years. Distrust in companies is increasing because of quality problems, ethical questions and the decreasing number of decent workplaces. The indicators of long-term thinking include R&D spending, the total investment rate, the pay-out ratio, the total share buybacks, talent retention, marketing and customer experience. KPMG' Long/Term Value Framework is built on four pillars:

- 1) A financial model and a non-financial model: (corporate purpose, Alternative Total Shareholder Return, resource, and capital stewardship.

- 2) Business model: growth options for the short-, medium- and long-term future, strategic intangible assets (relational capital, social capital, intellectual capital, knowledge capital) and relationship with key stakeholders.

- 3) Operating model (strategic planning, risk management and Innovation, integrated governance, adaptive culture, and capabilities).

- 4) Dashboard and management information.

The EFQM model is organised around long-term objectives relating to culture, innovation, and change management. It is a very innovative approach, because the long-term objectives, long term implementation activities and results can be built around culture development.

In summary, the EFQM Model 2020 is a useful management model for sustainable organisations. In contrast to the different reporting standards, it is a very flexible, dynamic, and adaptable model for all types of organisations and all sectoral models. The GRI reporting model and the SCM reporting systems can serve formal purposes: they can report on sustainability for political and economic market access purposes. The EFQM Model 2020 requires contribution by the entire system: co-operation by shareholders, executives, boards, the operative management, with reasonable involvement of the stakeholders and actors from the business ecosystem. It has no political focus; it is unsuitable for political activism, and keeps business organisations in the framework of the national law. It has a great competitive advantage, in contrast to all other static forms of reporting: it can reflect to the national capitalist model of welfare states. In comparison to the Malcolm Baldrige Performance Award and Canadian Excellence-Innovation-Wellness model, and to the former EFQM 2013 model, it has a strong business development potential with clear approaches to ecosystem mapping, clear tasks concerning medium- and long-term strategies, with realistic and non-political explanations for sustainability and a clear guidance on stakeholder management.

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Mónika Pónusz, Patricia Kolonics

Opportunities of a Shared Economy in Hungary Based on Primary Research

SUMMARY

The term ‘sharing economy’ means an economy based on sharing, a community economy. The model features elements such as paying attention to the environment, the importance of curbing consumption, and rationalising consumption habits. Its significance could best be highlighted through recycling waste, the purpose of which is to reduce the amount of waste generated from the goods we use, and also to reduce the need for new resources by recycling such waste back into the system. For those advocating the sharing economy it is a potential way to rein in the global overconsumption that is based on individual consumption, while for those opposing the idea it signifies competition and a threat to their livelihood, not to mention the possibility/suspicion of tax optimisation, or in a worse-case scenario tax avoidance. This

study does not aim to decide which of the camps on the two sides of the argument is right; instead, it provides an overview of the characteristics of the sharing economy and its main areas thus far. It argues for the model relying mostly on international practice and experience. One of the objectives of our research is to explore the difficulties, obstacles and anomalies relating to the regulation of the area, particularly to tax laws. Furthermore, we strive to identify the circumstances that have resulted in flourishing sharing economies in some countries, so that we can put forward proposals to foster such development in Hungary, making use of the country’s capabilities. The study summarises the results of our secondary research, our primary research conducted in Hungary in 2019, an online survey and in-depth interviews. The questions of the online survey were aimed at investigating the

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awareness and use of the sharing economy, and people's openness to such initiatives.

Journal of Economic Literature (JEL) codes: M14, D16, Q01

Keywords: sharing economy, community economy, collaborative economy, collaborative consumption

INTRODUCTION

A sharing economy can be a tool in the fight to protect human living space by curbing consumption and rationalising consumption habits.

We aim to provide an overview of the sharing economy, outlining briefly how it developed and presenting its forms in Hungary and abroad. We intend to introduce this economic model to as many people as possible, to encourage thinking and reflection on what opportunities and tools they can envisage in their own environment. Furthermore, we would like to draw attention to the significance of protecting the environment (Mesterházi et al., 2020; Oláh et al., 2019), and living in an environmentally conscious manner (Fehér et al., 2015).

REVIEW OF DEFINITIONS AND SUBJECT MATTER

Experts studying the model have come up with different definitions of the community economy.

In his analysis, Szuchy (2020) gives a comprehensive overview of the connections between the energy sector and the sharing economy, pointing out that “we are faced with new and highly complex legislative situations that cannot be regulated, or not adequately, within the current legislative framework”. In their study, Lazányi et

al. (2020) examined the internal features of the different sharing platforms, pointing out the “self-contradiction”, the internal tension in the sharing economy.

Botsman and Rogers (2011) offered the following definition of the sharing economy: “An economic system based on sharing underused assets or services, for free or for a fee, directly from individuals”. It relies on markets between individuals, which depend to a great extent on trust between strangers, which can be regarded as ‘social glue’. In this system the individuals, as service providers, can be regarded as micro-businesses (Gelei et al., 2001; Szigeti et al., 2014). Lisa Gansky (2010) defines “The Mesh” as “sharing enabled by the network”, and she attributes four core characteristics to a “Mesh Business” as she puts it. The core offering is something that can be shared. Products and services can easily be shared within a community. The second characteristic is that it uses advanced digital networks to track goods and aggregate usage, customer, and product information. The third characteristics of the “Mesh” is that the focus is on shareable physical goods, which makes local delivery of services and products valuable and relevant. Offers, news, and recommendations are transmitted largely through word of mouth, augmented by social network services – this is the fourth characteristic. According to Alex Stephany (2015), there are four features to describe the sharing economy: economic value (created by exchanging assets either using money or in a bartering transaction), “underutilised assets”, online availability (via the internet), and the reduced need for ownership.

In his book published in 2016, Arun Sundararajan offers a synthesis of definitions by contemporary authors, pointing

out five characteristics of crowd-based capitalism, the term he uses to describe the sharing economy. He believes the system is largely market-based: the sharing economy creates markets that enable the exchange of goods and the emergence of new services, resulting in potentially higher levels of economic activity. In addition to the development of services, it could also have an impact on product innovation, such as functional foods (Fehér et al., 2012). The second characteristic is high-impact capital, as the sharing economy opens new opportunities for everything, from assets and skills to time and money, to be used at levels closer to their full capacity. The third feature is a shift to crowd-based networks rather than centralised institutions. The supply of capital and labour comes from decentralised crowds of individuals rather than corporate or state aggregates. Future exchange may be mediated by distributed crowd-based marketplaces rather than by third parties. Blurring lines between the personal and the professional is the fourth feature. The supply of labour and services often commercialises and scales certain activities like giving someone a ride or lending someone money, activities which used to be considered personal. Blurring lines between fully employed and casual labour, between independent and dependent employment, between work and leisure is the fifth characteristic (Sundararajan, 2016, p. 30).

In the globalising economy, new dimensions of business activities are spurred by the internet every day. The different market players have to respond to consumer needs in a technology-based, highly innovative environment, where consumer life is split between offline and online space, including social media platforms where users continuously interact with one another and

the distribution organisations they are connected to (Simay and Gáti, 2018).

Overall, the sharing economy can be regarded as one of the megatrends of the 21st century, leading potentially to a socially more focused and more responsible economy (Tóth et al., 2016).

RESEARCH METHODOLOGY

When preparing the study, we chose to mix our methods. The literature review is based mostly on sources available online. Given its nature, printed literature was used to a lesser extent. We also used the policy position of the European Union on the sharing economy, the directives regulating it, as well as the study by PricewaterhouseCoopers Hungary on the sharing economy.

As part of the primary research, we conducted in-depth interviews and an online survey to learn more about the awareness of the community economy, and about the openness towards or the rejection of using sharing-based platforms. The data was collected in April 2019. The sample based on 150 evaluable responses is not representative, it was based on convenience sampling and on the snowball sampling method (Babbie, 1996, p. 704). This analysis uses descriptive statistics, we intend to use analyses going further than this in future research. For a more complete picture, we also conducted in-depth interviews with experts.

INTERNATIONAL AND HUNGARIAN EXAMPLES

We present specific international examples and provide information on Hungarian examples. The term “sharing economy” is associated mostly with Airbnb, Uber and Couchsurfing, but it is not just these three

that fall under the umbrella of sharing. These are indeed the most obvious examples of the sharing economy, but now we want to present activities based on community use together with the sharing economy. In the 2015 study by PricewaterhouseCoopers Hungary on the sharing economy, seven key sectors were identified where the presence of sharing-based services is significant both in Hungary and abroad, or they have the potential to grow (Damjanovics et al., 2015). We want to use these seven sectors and the examples in the PwC study to present the key players, adding services we believe are worth mentioning.

The mobility industry

The sharing economy seems to be proliferating mostly in the automotive industry. By triggering a switch from ownership to sharing and access, the mobility industry seems to be evolving from, and parallel to, the automotive industry.

Long-term carpooling:

Drivers looking for a passenger, and passengers needing a ride, can find one another on online platforms, sharing the costs of the journey between them. The driver offers a ride, and the passenger(s) heading to the same destination at the same time can book the available seat(s). It is mostly rides between cities or abroad that fall into this category. The aim is to increase capacity, share costs and cut back on car traffic. For example:

a) BlablaCar: a French system available in 22 countries, almost all of which are in Europe, including Hungary, but also in Mexico, Brazil and India.¹

b) Oszkár Telekocsi: Pioneering carpooling in Hungary in 2007, its users now number over 600,000.²

Short-term car-sharing:

The taxi reinvented. Using – sharing – their own cars, drivers offer a passenger service. The person requests a lift in the application, essentially hailing a taxi, and this need is met by a nearby driver; payment also takes place through the app, as follows:

a) Uber: on-demand method, providing rides customer to customer, i.e. c2c rides, or peer to peer, i.e. p2p. (Uber is available in over 600 cities across the world, but it has been banned in a number of places, including Hungary.)

b) OLA: Indian rideshare, community taxi.

c) Wundercar: Provides car-pooling, vehicle renting and ride-hailing services in Europe, the USA and Japan.

d) Lyft: on-demand car-sharing, available in the USA and Canada.

e) DiDi Chuxing: the “Chinese Uber”, available in 7 countries besides China.

Car hire:

An application enables you to search for nearby cars available for hire, your driving licence is approved and the booking and payment take place through the application as well.

1. B2C, on-demand, business-to-customer service:

a) Zipcar: “the world’s largest short-term community car-hire provider” (Damjanovics et al., 2015) available in 10 countries.³

b) GreenGo: Also called the “Bubi car”, the first Hungarian e-car sharing system, launched in 2016.⁴

c) MOL Limo: Available through the MOL Limo app, which covers everything from paying the one-off registration fee, verifying driving licences, booking cars, opening and closing the vehicle, and the

payments. Users do not need to worry about fees relating to parking, insurance and servicing. It was launched in January 2018.⁵

2. C2C or P2P, car-hire between individuals:

a) Getaround: launched in 2013, the service boosts the utilisation rate of cars in US cities, and enables car owners to make extra money.

b) Yes Autorent: Hungarian car-hire system, where private individuals rent their cars, sharing their revenue with the operators of the mediating platform.

c) Avalon Carsharing: on-demand car-sharing system.

Community navigation system:

For example, Waze: number one community-driven traffic and navigation app in the world, where users share real-time traffic and route information.⁶

Hiring parking spaces: Justpark, for example, connects those looking for parking spaces with residents offering parking in cities all over the world.

Hiring boats, e.g. Boatbound.

Renting bikes: MOL Bubi, the Hungarian “public bike-sharing system”, facilitating public transport in Budapest with 1,526 bicycles at 126 docking stations.⁷

Renting scooters: e.g. Blink.ee.city, e-scooter-sharing in Budapest, sponsored by E.ON.⁸

Other: route planner for people in wheelchairs such as Route4U.

Retail and consumer goods

The sharing economy entering the retail sector and gaining ground rapidly can be explained by changes in consumer habits and people becoming more cost-aware. It

helps access goods more quickly and simply in a budget-friendly way. Generally small household appliances, certain kitchen appliances and occasionally sports equipment are rented out to increase their utilisation, for example:

a) Second-hand clothes sold as a sign of environmental awareness, e.g. Threadflip, Poshmark, hiring formal wear, e.g. Vinted, Rent the Runway.

b) Community gardens (cooperation in urban communities to grow vegetables together).

c) The website Rukkola.hu enables people to swap books for free.⁹

d) Using Piquiq enables people to share food.

e) The website Miutcánk.hu picked up the gauntlet to fight extreme wastefulness and the alienation and deterioration of neighbourhood relationships, triggered by the accelerating world, by providing a platform aimed at turning these processes around, namely, to revive the power of communities, to strengthen local cohesion by renting out tools, providing services on a reciprocal basis, and by organising joint programmes.¹⁰

f) Etsy: an online market of unique items where you can buy hand-made or vintage items directly from the seller or the maker. Established in 2005 in the USA, this bilateral marketplace has offices in 7 countries across the world.¹¹

g) Meska.hu is the largest and most popular crafts-designer online marketplace in Hungary, which was established in 2005 to help sellers and buyers in the crafts sector to find one another. The website aims to help young mothers, disadvantaged and old people to find work by making quality crafts products.¹²

Tourism and hotels

Monetised home sharing:

Renting out all or part of the property you own or rent for financial gain. This enables people to build relationships, to make journeys personal, and to enjoy help and hospitality from locals showing you around.

a) Airbnb: dominates the market, according to the 2015 study by PwC, guest nights and the number of users skyrocketed by 150% in every country in the region. Since it started in the USA in 2007, nearly 5 million homes are available in over 191 countries, including more than 300 in Hungary. Studies by Jancsik et al. show that private accommodation is fundamentally different from hotels in terms of average performance, the stability of their market presence or investment strategies, so it is vital to make sure that regulation is proportionate (Csernyik et al., 2018).

b) HomeExchange: global platform where users can agree to swap homes simultaneously for an annual fee. Some 400 of the 65,000 homes are located in Hungary.¹³

c) Community-based tourism services, e.g. home restaurants, where the owners provide occasional meals.

d) Other: coworking offices are considered B2B services. Businesses using the service do not rent a permanent place, they work flexibly from places that happen to be available.

LOFFICE: the first co-working office in Hungary.¹⁴

KAPTÁR Offices: shared offices, meeting rooms and event spaces, registered office service in Budapest.¹⁵

Non-monetised home sharing:

Couchsurfing: hosts share their homes free of charge with strangers, or “friends you haven’t met yet”.¹⁶ This platform not

only enables you to meet new people from all over the world when travelling, but staying with locals gives you the benefit of tour-guiding tailored to your needs, making travel a truly personal experience. Couchsurfing has nearly 142,000 hosts in Hungary.¹⁷

Entertainment, multimedia and telecommunications

The most popular online audio streaming services, Spotify and Deezer, are available for users in Hungary too, while Netflix, a service provider offering television shows and films, has already appeared in the Hungarian market as well. YouTube, the undisputed global leader in online video streaming services (i.e. content you can view or listen to without downloading), was one of the “early birds” of the sharing economy when it was launched in 2005 (Damjanovics et al., 2015).

The financial sector

A new and increasingly popular business option is crowdfunding, which offers alternative opportunities for start-up businesses seeking funding.

Kickstarter: leading platform in crowdfunding, 152,541 projects worth nearly 4 million dollars have been implemented since it was established in 2009.¹⁸ Many Hungarian projects have been funded this way.

Creative Selector: Kickstarter’s Hungarian “little brother”, focusing on the creative industries.

C2C or P2P lending: online platforms facilitating lending by investors to those applying for loans.

Lending Club: the most prominent

player on the market from the USA, loans exceeding 38.5 billion dollars were issued through Lending Club by the end of June 2018, compared to 9.2 billion dollars by March 2015.¹⁹

Zopa, another key market player from the UK, has brokered loans for businesses totalling 3.74 billion pounds since it was established in 2005.²⁰

MagNet Bank: the first Hungarian community bank.

The energy sector

The sharing economy provides community funding for renewable resources in the energy sector.

Virtual power plants were created in the United States encompassing small power plants connected to a single control centre in terms of electric control, measurements and info-communication. This way, power plants located in different places can be controlled from a single centre and can enter the electricity market as a single virtual large power plant.

The human resources sector

TaskRabbit: A task-sharing platform matching freelance labour with people who have tasks to be done across the USA. The tasks advertised include furniture assembly, moving, cleaning, running errands, repairs, painting, deliveries, etc. The providers on the supply side find work, while the people on the demand side save time and energy.

Skillshare: an innovative solution for those wanting to study. Countless online courses become available for a registration fee, like an open university.

Wikipedia: Established in 2001, the open content online world encyclopaedia

counts as one of the early birds of the sharing economy, and is operated by the Florida-based Wikimedia Foundation; it is edited by a voluntary community.²¹

Miutcánk.hu: in addition to community building and lending tools, the platform also provides two-way services as mentioned earlier.

Polyglot Club: just like Skillshare, it hosts events enabling participants to practise foreign languages.

Click4work: modelled on TaskRabbit, the platform outsources tasks not requiring skilled work, with the help of students.²²

RESULTS OF OUR PRIMARY RESEARCH

We prepared a questionnaire to support or refute that the community economy offers opportunities in practice. The survey aimed to find out how aware people are of such novel community services, how many people already know them, what proportion of the respondents had already used them, and if so, what opinion they had of these alternatives, how satisfied they were, what experience they had, and, for those who had not used such services before, how open they were to giving them a go. We grouped our questions in six categories: demography, environmental consciousness, car use, awareness of sharing-based services and relevant experience, and awareness of a few specific sharing platforms.

To conduct the survey, we opted for the convenience and the snowball sampling methods. A total of 150 respondents sent the questionnaire back, so the population queried cannot be regarded as representative. Table 1 shows the demographic characteristics of the respondents, 58.7% of whom were female, and 41.3% were male. Broken down by place of residence, 38.7% lived in

rural areas, while 61.3% of the respondents lived in urban areas (21.3% in the capital). The age breakdown shows that the 18-25 age group accounted for over 31% of the respondents, nearly 15% were aged 26-35, 18% were 36-45 and nearly 20% were 46-55, which means that 84% of the respondents were economically active (students, wage earners), while 12% were retired, or close to retirement. The employment breakdown shows that the vast majority (56%) of the respondents were employees, a significant 27.3% were students, while 6% and 8% were business-owners and pensioners, respectively. As for their education background, 42% of the respondents had college or university degrees, and if we add the 20% of those currently in tertiary education, it is safe to say that the overwhelming majority of the respondents (62%) were intellectuals. Those

with a secondary education accounted for 23% of the respondents, 5% were attending a secondary school at the time, while those with a vocational qualification or just a primary school education only accounted for 7% and 3%, respectively.

Nearly 81% of the respondents felt strongly about the pollution of the environment, 16.7% could not decide, and only 3% responded with a 'no' to this question. In this regard, only 4 people said that they felt no responsibility for the environment, but the vast majority were doing their part, trying to live in an environmentally conscious way. Most of the respondents saw selective waste collection (82.7%), saving energy (77.3%) and cutting back on drinks in PET bottles (50.7%) as key to the problem, but a significant number of them, over 50%, said they preferred buying Hungarian products

Table 1: Demographic characteristics of the respondents

Gender	Number of persons	%	Age	Number of persons	%
Female	88	58.7	under 18	7	4.7
Male	62	41.3	18–25	47	31.3
Place of residence	Number of persons	%	26–35	22	14.7
Village	58	38.7	36–45	27	18.0
Rural town	37	24.7	46–55	29	19.3
County seat city	23	15.3	56–65	10	6.7
Budapest	32	21.3	over 65	8	5.3
Employment	Number of persons	%	Education	Number of persons	%
student	41	27.3	primary school	4	2.7
employee	84	56.0	skilled worker	11	7.3
business owner	9	6.0	still in secondary education	7	4.7
housewife/husband	4	2.7	secondary modern/grammar school	35	23.3
unemployed	0	0	still in tertiary education	30	20.0
retired	12	8.0	university/college	63	42.0

Source: By the authors based on the questionnaire (2019)

instead of goods imported from abroad. 42% believed that buying fewer products in plastic packaging also helps the environment, but only 34% are committed to using their car less for the sake of the environment, even though 96% believed transport also contributes to environmental pollution, 38% of whom saying traffic contributes significantly to pollution. Over 90% of the respondents owned a car, 46.7% of whom use it every day. Almost half of the respondents said they usually had at least one passenger in the car, and if we add the respondents who travel with 3 to 5 persons at a time, we can reasonably say that the overwhelming majority, over 80%, did not drive on their own.

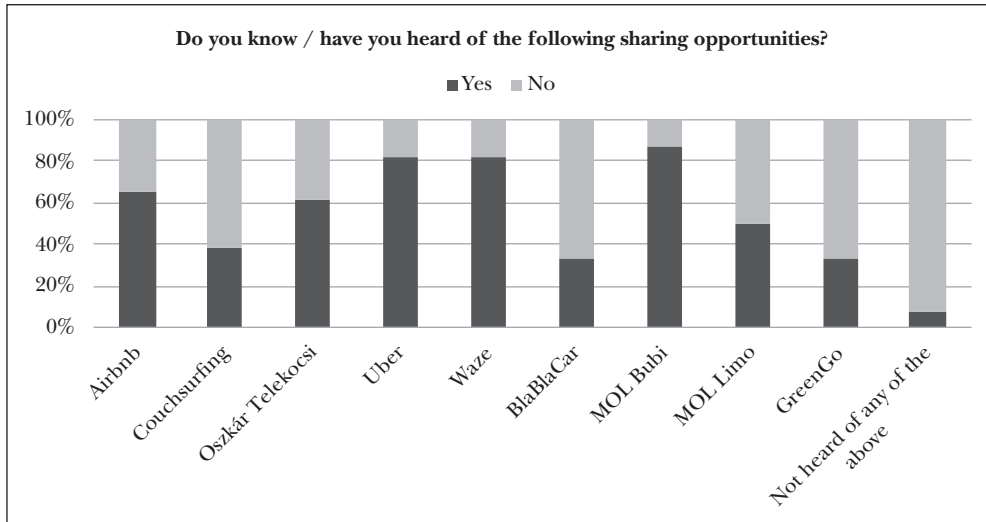
It is also striking that slightly over 50% of the respondents had a second car in the family. 65% of the car owners said that the vehicle makes their everyday life easier, and almost 37% said their car doubled as their work tool. 52.7% generally travel together in the car with friends or colleagues to their workplace. Their response suggests that they find this more cost efficient, and enjoy the company, but only when this is possible. They are happy to share their cars with one another if they work at the same place, go to the same gym, or go out together. Many of course opt for public transport, ride a bicycle or walk to work, university or school. Several of the respondents answering no said that this is impossible to organise, or there are no people interested, even though they would be happy to share their cars. When asked about the benefits of owning a car, the respondents mentioned the feeling of independence, mobility, the fact that it is always available, it makes everyday life easier, it is convenient, no need to fit in with others, and there are no time limits. The drawbacks typically included high maintenance and servicing costs, lack of parking spaces, and

getting stuck in traffic jams, but some said it makes people lazy, or there is no human contact with the external world, and it generates a high level of pollutants.

The respondents mentioned public transport, electric and hybrid cars, bicycles, other two-wheeled means of transport and walking as alternatives to driving. We were glad to find that in addition to the above, several respondents mentioned car-pooling, MOL Bubi, MOL Limo and GreenGo as means of community transport. The answers to the following question confirmed this for us, as 33% of the respondents are aware of them, and 49% have heard of these car-sharing schemes. Most of the respondents have not tried them yet, but the majority of those answering this question would be willing to do so, and did not rule out the possibility of trying them. Those who were not open to this option mostly indicated a lack of trust or information as the reason.

In the group of questions aimed at exploring awareness of the sharing or community economy, the picture was mixed regarding how well-known the schemes or means of transport are. As shown in Figure 1, the MOL Bubi bicycle rental was the most well-known, while the community navigation app Waze and the community taxi Uber came second, with the same number of responses. The latter can probably be explained by the fact that Uber's banning from the Hungarian market made the news, as they have left the country since then. They were followed by home sharing Airbnb, the carpooling system Oszkár, the MOL Limo community car hire, and Couchsurfing. Community car hire GreenGo and carpooling with BlaBlaCar were the least known. Yet more than 10% of the respondents knew none of these opportunities, and we were glad to make respondents aware of them through the questionnaire.

Figure 1: Awareness of sharing schemes and opportunities

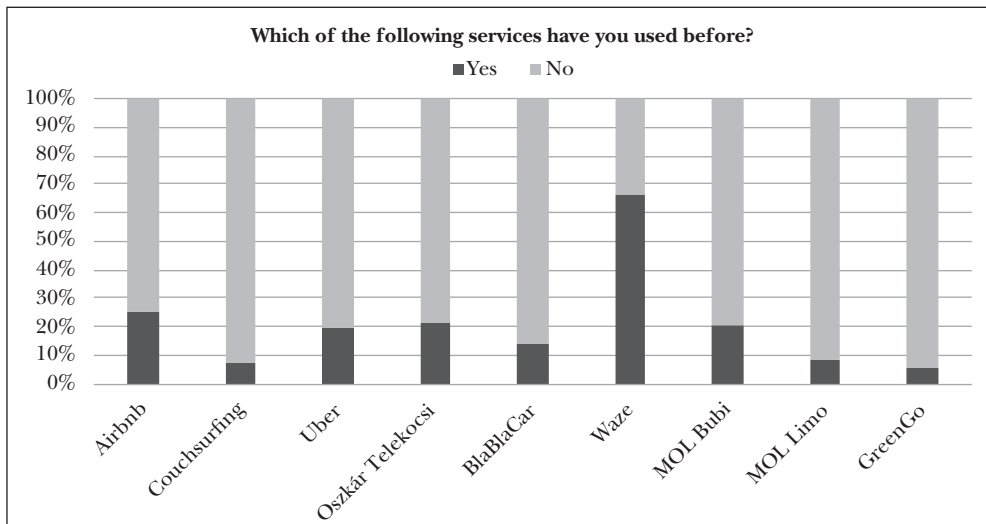


Source: By the authors based on the questionnaire (2019) N=150

As for how many of them actually used such community services, we found that, except for Waze, the vast majority had never tried the opportunities listed at all (Figure 2). With regard to private accommo-

tion, bicycle rental and carpooling, 17% said they had used them before, community taxis had been used by 15%, but those who had tried any of the other services was below 10%.

Figure 2: Use of sharing-based services



Source By the authors based on the questionnaire (2019) N=150

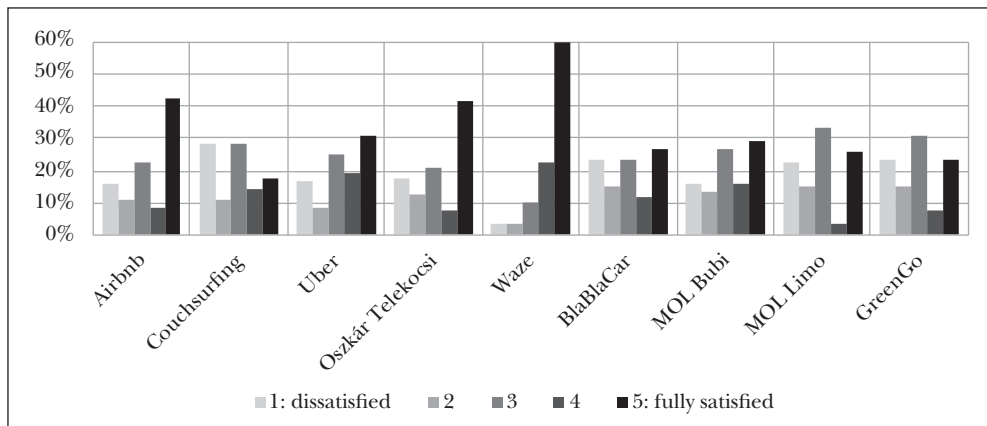
Looking ahead as to how open they were to trying these services, the outstanding result for Waze (67%) did not come as a surprise, followed by the MOL Bubi bicycle rental. They rejected Couchsurfing the most (20%), while respondents were interested in the other services at around the same level, with private accommodation piquing slightly more interest with 43%.

The respondents' opinions were rather varied in this respect. Although the majority gave a positive response, welcoming these solutions, considering them modern and saying they are the future, many are mistrustful, particularly if service providers want to use these schemes for tax avoidance. These models are certainly suitable for tax avoidance, but choosing a tax regime with a smaller tax burden is not illegal in itself. Choosing a flat-rate tax regime gives Airbnb a considerable taxation advantage over those letting their flats out in the long-term, but applying this statutory option only becomes unlawful by virtue of a technical and administrative circumvention of the conditions and detailed rules, and using the regime for a purpose other than that

intended by the legislator (Ercsey, 2020, p. 141). Some of the respondents said that the regulatory environment is not ready to deal with these services, while others said that convenience was a priority for them so they were not open to these options. We believe people are different, and we respond to things differently, so some will see an opportunity for new human relationships in the various forms of the sharing economy, and that these contact points will build relationships and communities, while others will eye them with a great deal of mistrust and prejudice. We feel the responses are largely connected to being open to embrace novel and creative ideas. On car-pooling, a number of respondents said it could help cut back pollutant emissions and the number of cars on the road, but others felt this would not tackle the transport problems on a global scale.

The responses from those who had used the services of the sharing economy listed here showed that they were generally satisfied with them (Figure 3). The exceptions were Couchsurfing, MOL Limo and GreenGo car hire, where those unsatisfied with their use outnumbered those who were satisfied.

Figure 3: Satisfaction with businesses in the sharing economy



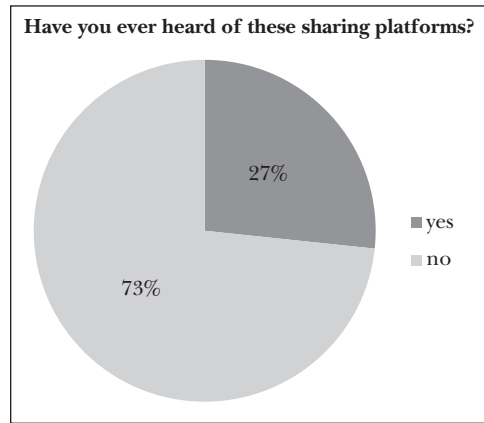
Source: By the authors based on the questionnaire (2019) N=150

Waze leads the list by far, which is not surprising given that it is the simplest to access, all you need to do is download an application to your mobile phone. This is reflected by the opinions of Waze, as many respondents underlined how useful it can be to avoid traffic jams in cities and other traffic obstacles, and to calculate travel time. In terms of satisfaction with private accommodation and recommendations for friends, Airbnb stands out from the other services. Yet the opinions vary more, as beside positive responses such as the hosts being nice and helpful, good value for money and flexibility, some complained that they did not receive the quality promised, or that they did not like the host, on top of the place being below par. For all the other services the positive evaluations outnumbered the negative ones both in terms of satisfaction and recommendations for friends. The only exception was Couchsurfing. For car-pooling, the opinions varied from pleasant, lovely conversations with interesting people, getting to know others and speed, to unreliable drivers with bad manners, reckless driving, cancellation of travel and forced conversations with a stranger instead of listening to music. The MOL Bubi bike rental offers an experience for some and difficulties for others because the time to return bikes to another docking station is limited.

When asked about other community services such as sharing platforms, almost three quarters of the respondents had not even heard of the listed initiatives (Rukkola.hu, miutcank.hu, otthonrol.hu, veddberbe.hu, tickething.hu, TaskRabbit), as shown in Figure 4.

Those who welcome these ideas and deem them to be positive and good initiatives

Figure 4: Awareness of specific sharing platforms



Source: By the authors based on the questionnaire (2019) N=150

account for the majority among those who expressed their opinions about the services. They were said to be interesting, useful and economical services that make everyday life easier. However, when asked how open they were to try these sharing platforms, less than half of the respondents said they would. Less than 39% of the respondents would be happy to use such platforms, while 13% ruled out doing so.

CONCLUSIONS, RECOMMENDATIONS

“We may be dealing with one of the most significant global business trends and success stories of the past and probably the coming few years, which will bring about root and branch changes in the business world. The increasingly fast proliferation of the sharing economy is an undeniable fact, and it is shaking the classic business environment to its foundations” (Damjanovics et al., 2015).

The above conclusion alone shows how significant the topic is, and gives an idea about the future where market players,

state institutions, legislators, authorities and consumers will have to adapt to the business model of the sharing economy. Although more people in Hungary are aware of these services than the number of those who actually use them, as confirmed by the survey we conducted as well, we believe this is just temporary, as an increasing number of people are likely to use such services in the foreseeable future.

In addition to the above, the presented model and all the transformation processes we are faced with today may significantly affect all economic sectors. Given that the efficient management and coordination of these new aspects can boost corporate results, and can play a vital role in today's corporate practices, businesses must keep up to speed with the changes around them. Using the necessary tools and thinking anew about senior management solutions can provide considerable support for the efficiency of the processes above (Lentner et al., 2011; Karmazin and Tóth, 2016; Tóth et al., 2017).

The European Union is also studying the issue, giving guidance to the Member States on how to regulate and approach this business model. Yet the phenomenon has far-reaching positive benefits offering a way forward from traditional economic operators for example and giving consumers direct advantages. It may also be said that traditional companies cannot avoid improving the quality of their services if they are to stay competitive. This situation, however, will bring most benefits for consumers. Namely, from a consumer motivation perspective there will always be a demand for such services as long as they are budget-friendly, provide a community experience, are convenient, respond fast and are even able to provide unique services of a balanced quality. If you add a regulatory en-

vironment to the equation that lays down clear rules guaranteeing safety and protection for users, and is in the interests of consumers, we believe there is no need to highlight any more how popular such a business model may become in the future.

NOTES

- ¹ <https://blog.blablacar.hu/about-us>).
- ² www.oszkar.com.
- ³ www.zipcar.com/cities.
- ⁴ <https://forbes.hu/uzlet/ez-bubi-autoval-green-go>.
- ⁵ <https://mol.hu/hu/molrol/mediaszoba/6535-mol-limo-neven-haromszazas-autoflottaval-indit-kozossegi-automegosztso-szolgaltatast-a-mol/>.
- ⁶ www.waze.hu/mi-az-a-waze.
- ⁷ <https://molbubi.bkk.hu/a-molbubi.php>.
- ⁸ <https://blinkee.city/hu>.
- ⁹ <https://rukola.hu>.
- ¹⁰ <https://miutcank.hu/#/csatlakozz>.
- ¹¹ www.etsy.com/press?ref=fttr.
- ¹² www.meska.hu/aboutus.
- ¹³ www.homeexchange.com/hu.
- ¹⁴ www.homeexchange.com/hu.
- ¹⁵ <http://kaptarbudapest.hu/szolgalatasaink>.
- ¹⁶ www.couchsurfing.com/about/about-us/.
- ¹⁷ www.couchsurfing.com/places/europe/hungary.
- ¹⁸ www.kickstarter.com/press?ref=about_subnav.
- ¹⁹ www.lendingclub.com/info/statistics.action.
- ²⁰ www.zopa.com/lending/about-lenders.
- ²¹ <https://hu.wikipedia.org/wiki/Wikipédia>.
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László Balázs

Organisational Culture in Educational Institutions in Central, Northern, and North-Eastern Hungary

SUMMARY

The purpose of this research is to complement and test previous Hungarian studies about organisational culture at public educational institutions, and to provide insight into the current cultural idiosyncrasies of educational institutions. It is presumed that besides having an organisational culture with focus on rules, schools display support and innovative features in growing numbers. It is also assumed that there are significant differences between the perceptions of the management and the employees when it comes to culture. In this study, 1030 persons from 44 public institutions provided data in two cycles of data collection performed in Budapest, and in Komárom-Esztergom, Fejér, Pest, Heves, Hajdú-Bihar and Nógrád counties. Results show that, besides focus on rules, there is a substantial presence of support cultural values, including important examples for innovative culture, even if in modest numbers, mostly in

Budapest and its agglomeration, i.e. in Pest, Fejér and Komárom-Esztergom counties. Besides a typological approach to organisational culture, sophisticated distinctions could be made in the findings with the help of cultural parameters. As a result, it may be argued that the number of years spent in an institution, age and gender have the most profound influence on the perceptions of organisational culture. Finally, the composition of the sample also suggests feminisation and aging in teaching.

Journal of Economic Literature (JEL) codes: D91, E71, M14

Keywords: organisational culture, cultural parameters, educational organisation

INTRODUCTION

Hungarian researchers of organisational psychology began to show interest in the study of educational organisations in the

second half of the 1990's, when Hungarian public education underwent profound changes. Previously, the central government had not analysed the strengths and weaknesses of individual institutions. With the political transition to capitalism and the re-structuring of school management, this perspective changed, and the trend accelerated with the competition triggered by the free choice of schools granted as a result of the constant decrease of student numbers. It was recognised that, just as in business, it was important to study the organisational features of educational institutions before decisions. By the 2010's, the wave of transformations had been terminated, with more or less success. Now a new, centrally governed wave of transformations began. One of the greatest changes brought about by the 2012 Act on Public Education was that, starting from 2013, every educational institution would be maintained by the state, except for kindergartens. Another significant change affected vocational education: dual training was introduced and companies were involved in the education process (Szabó, 2015). Educational organisations had to face another challenge. These changes in public education and policy, the problems of organisational restructuring, the smooth functioning of institutions that had undergone change, the policies introduced due to the COVID-19 pandemic, the shift to digital education and the economic and financial changes (Lentner and Kolozsi, 2019) all point to the necessity of studying the psychological aspects of these organisations.

Schools at the bottom tiers of the educational system are very different in spite of their formal similarities—every organisation has its own identity and its own culture. These differences were first studied system-

atically by Halász, who published his results in 1980 about the analysis of the organisational climate in schools. Besides studying the environment of the organisation and the organisational climate, in the 1990's researchers focused on psychological concepts, which further emphasised the perceptibility of organisational idiosyncrasies. Mészáros (2002) edited a review volume, which gave insight into the general and social psychological world of schools. This volume approaches social psychological concepts through a theoretical and abductive approach, emphasizing organisational psychological interpretations (Barlainé, 2002; Bagdy, 2002; Serfőző, 2002). Organisational psychologists also started to show interest in the internal operation of schools. The study of educational organisations became a key field, and empirical studies were published with focus on schools' organisational culture (Szabolcsi, 1996; Kovács, 1996; Baráth, 1998; Kovács et al., 2005; Serfőző, 2002; 2005; Balázs, 2014; 2015; 2020).

The study of the various relationships, developments and possible changes in the organisational culture, and the definition of its methodology enable the promotion of results at the workplace and the establishment of a positive workplace atmosphere, and contributes to the success of education. At the turn of the millennia, several Hungarian researchers devoted their attention to the characteristic features of organisational culture at schools; but by now, interest has decreased again, and the focus of studies in educational institutions has shifted. In this study, an exhaustive analysis is given of educational organisational culture through the organisational cultures of 26 institutions, with the help of the framework of "competing values", set up by Quinn and Rohrbaugh (1983), by Robbins's model

(1993) complemented by that of Bakacsi (1996). The purpose of this analysis is to update data about educational organisational culture, and to further articulate organisational culture types in education with the help of various parameters in organisational culture, including the idiosyncrasies of organisational members. Note that the organisational culture of schools changes and transforms together with broader social changes.

THEORETICAL BACKGROUND

Educational institutions are unique and different. Due to the competition for students, schools need to become more conscious of the internal and external processes, and of the image of the institution. The concept of organisational culture emphasises precisely this institutional uniqueness. The study of organisational culture is also important from a pedagogical point of view, as institutional values may strengthen or weaken educational objectives and learning outcomes.

Besides identifying characteristic school culture types, the studies show a correlation between organisational culture, the size and performance of the organisation, and the satisfaction and commitment of its members. Below are descriptions of the models used in Hungarian research, and the results that demonstrate the idiosyncrasies of schools' organisational culture in Hungary.

Quinn and Rohrbaugh's (1983) "competing models" framework may be generally used for the research of the performance criteria of organisations. Organisations rely on certain values to enhance their efficiency and performance. The model defines a three-dimensional organisational framework for an efficient organisation:

1. Focus of an organisation may be internal (person focus) or external (organisation focus),
2. An organisational culture may prefer stability and/or flexibility,
3. While achieving the desired goals, focus may be placed on the means of achievement or on the target.

The first two parameters describe the four basic types regarding the efficiency of organisational culture, while the third one identifies the tool- or goal-oriented approach constituting a subset of the latter (Table 1). Quinn placed these four types on two axes: control and internal/external focus; and as a result, he was able to identify the following organisational culture types.

In a *rule culture*, there are well-defined roles. The basic expectation is to follow the rules. It is important to respect formal positions. This model is characterised by a high level of internal focus and controlling, and it results in order, predictability, stability and balance. Two important processes belong here: documentation and stabilisation. Thus, the leader's two primary duties are observation and coordination. Since he is a monitor, he knows what happens in the organisation and as a coordinator, he is expected to maintain the structure and ensure the operation of the whole organisation.

In contrast, in an *innovative culture*, focus is on creativity and risk assumption. It is characterised by free information flow, teamwork and continuous learning by the members, who are not controlled but are encouraged and inspired. Outward orientation and control are marginal. Its main strengths are adaptation skills and an ability to change. The leader's two main roles are that of an innovator and a broker. As an innovator, the leader is supposed to recognise

and promote necessary changes. As a broker, he is to maintain external legitimacy.

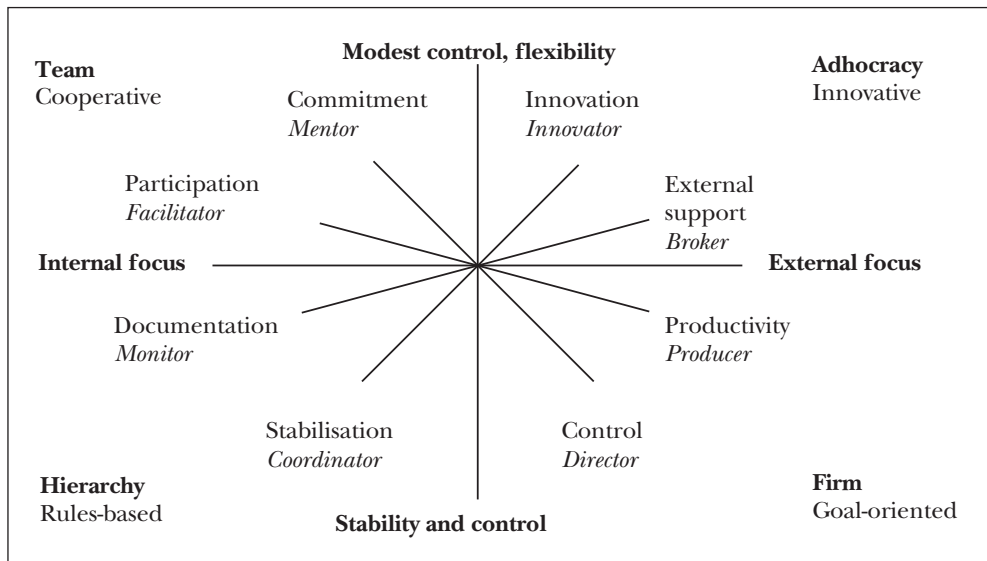
In a *goal-oriented culture*, focus is on profit, productivity and efficiency. Such an organisation stresses the clarification of tasks and the definition of targets. It is characterised by a high level of control and outward orientation. It is led by effectiveness, control and instructions. The leader's two primary roles are that of a director and a producer. As a director, the leader formulates expectations, while as a producer, he focuses on the tasks and on work, enquires about the employees and motivates them.

In contrast, a *support culture* focuses on accord, cohesion, the role and importance of teamwork, and internal control. In this culture, focus is on human resources, the possible individual development and commitment. This organisational culture monitors internal processes and is flexible at the same time. The leader's two primary roles are that of a facilitator and a mentor. As a

facilitator, he is expected to promote joint efforts, while as a mentor, he is supposed to develop abilities and skills, to provide for training opportunities, and to help employees plan their personal development.

Besides Quinn's Competing Values Framework, Handy's approach to organisational culture has also been used in numerous research projects. It is also a typological approach, which classifies types in terms of leadership roles, attitude to the environment, direction, the manner of decision-making and organisational performance. Handy distinguishes four types. A *power culture* is characterised by centralised power, with a leader controlling the organisation from a centre. Every process starts and ends in the centre. Empathy, tolerance and trust are important values in this culture. A *role culture* may be likened to the structure of a Greek temple, and its leadership to Apollo. The pillars represent well-prepared, functional units, whose operations are defined

Figure 1: Quinn's Competing Values Framework (based on Quinn and Rohrbaugh, 1983).



Source: Author's own elaboration

by competencies, regulations, and rules. Well-defined roles are more important than persons, and power comes from the position in a hierarchy. The structure of a *task culture* is like a network. The leader in this culture may be likened to Pallas Athene. A lot of emphasis is put on the resources that are necessary for the completion of tasks, and for the selection of workers who work in teams. Finally, a *person culture* may be illustrated by a loose volume of dots. The individual is in the focus here. Handy attributes the personality traits of Dionysus to this organisational culture. This kind of culture emerges when highly qualified, creative people join forces to accomplish innovative tasks by collectively drawing from certain resources (Handy and Aitken, 1986).

Quinn, on the other hand, developed his framework on the basis of the characteristic features of organisations that operate efficiently. The difference of his model from Handy's is reflected by the name "competing values framework," which carries the assumption that organisations aim to increase their efficiency and performance by concentrating on different values.

Using Handy's culture model in his 1996 work, Szabolcsi concluded that bigger vocational schools and highly structured schools are characterised by a task culture, while the role culture predominates in elementary education and smaller institutions of secondary education. Therefore, a correlation between the size of the institution and its organisational culture is detectable: size dominantly affects organisational culture. According to Kovács (1996), educational organisations are characterised by a high level of stability, and a desire for equilibrium. Innovation and team spirit are low, and care for human relationships and conflicts are missing from schools. In his re-

search, he applied Quinn's model. Serfőző (2005) obtained similar results. He found that – besides the personal impact of the leader –, school size was one of the causes for the differences in culture. Municipal schools were most of all characterised by focus on rules, while private schools were characterised by innovation. Both school types were characterised by the absence of focus on goals.

According to Baráth (1998), teachers typically view their own institution as goal-oriented, while focus on rules was secondary. He found that teachers had a different concept of the organisation than directors. As an explanation for the differences, he argues that, from the perspective of leadership, there exists a more complex image of the institution, while teachers typically have a more static vision. Another of his conclusions refers to the applied methodology. His findings show that Quinn's Competing Values Framework may also apply to schools.

Serfőző (2005) conducted more exhaustive survey of 28 schools between 1996 and 2001 to explore the organisational culture of educational institutions. He defined five factors to characterise schools: trust, focus on performance, team spirit, innovation and development, control and organisation. In his interpretation, these factors correspond to the types set in the Competing Values Framework, but a new factor emerges in schools with regards to the style of management: trust. His findings show that traditionally, schools are authoritarian, formalised, and well-regulated institutions. Externally, however, they follow the norms of cooperation and support. Therefore, the two strongly correlating culture types are of the rule and support cultures.

Kovács and his colleagues (2005) examined the organisational culture of schools

and aimed to further articulate Quinn's culture typology. The starting point is the set of cultural parameters developed by Robbins (1993; Kovács et al., 2005) and based on the characteristic features that determine the members' feelings about organisational culture.

Organisations are characterised by the following key parameters:

1. Identification with the job or with the organisation: The two extremes of this parameter include identification with the entire organisation and with certain working groups or with a job.

2. Focus on an individual or on a group: Individual or group targets are more emphatic. Person focus is more characterised by the promotion of freedom, independence and responsibility, while in the event of a group focus, the emphasis is on group targets.

3. Focus on the individual: Task or relationship-oriented leadership, which characterises the leader-employee relationship. To what extent do leaders consider the impact of the solution to organisational tasks on people?

4. Internal dependence or independence: It relates to the level of integration and determines the independence of organisational units and the extent of central coordination and centralisation.

5. Strong or weak control: It relates to the level of regulation and to the direct supervision of control over the employees.

6. Risk taking or risk avoidance: It relates to tolerance regarding uncertainty in the organisation. How much risk taking and innovation is expected or supported, and how much uncertainty is tolerated?

7. Performance orientation: It is characteristic of the system of awards. To what extent is the system of awards built on per-

formance and to what extent does it take other factors into account?

8. Conflict tolerance: It characterises the leadership and the organisation by the toleration or encouragement of the open expression of dissenting views.

9. Goal or means orientation: It is characteristic of the leadership based on a focus on organisational results or the process of achieving the targets.

10. Open or closed system: It is characteristic of the relationship between the organisation and its environment. This aspect presents the organisation's responsiveness to external changes.

11. Short- or long-term thinking: It reflects the organisation's future planning.

It was found that schools were typically predominated by a rule culture, although in some institutions the support and the goal-oriented culture were present in a marked way. Within the individual culture types, the researchers have distinguished the factors that determine the cultural features of a given institution, and identified three key parameters:

1. Teacher (person) versus school (organisation) focus,

2. Innovation (uncertainty-toleration) versus value- (security-) orientation,

3. Leadership characterised by strong versus weak control.

As a result of the study, it was possible to further sophisticate the description of the specific culture types along the three parameters.

RESEARCH OBJECTIVES AND METHODOLOGY

The objective of this research is to complement and test research on organisational culture in schools in Hungary, and to pro-

vide an exhaustive insight into the cultural features of public educational institutions. It is assumed that the findings of previous studies continue to be valid, but

changes can be detected in the key culture types. Besides focus on rules, schools now display features of support and innovative cultures.

Two questionnaires were used for the analysis of organisational culture. Quinn's Competing Values Framework, as elaborated by Quinn and Rohrbaugh (1983) was used to define the type of culture of the studied institutions. This questionnaire was used because Baráth (1998) found that it was relevant in a school environment.

This questionnaire includes six groups of questions about the following:

- character and basic type of the organisation,
- cohesive force of the organisation,
- leader of the unit,
- atmosphere in the organisation,
- evaluation of success,
- the leadership system.

Within each group of questions, there are four statements reflecting features of each culture. It is the task of the respondents to score statements according to how true they are for their own institutions. In each question, 100 scores can be distributed between the four answers. Values relating to each culture type can be derived from the average value of the scores of the related answers.

The further articulation of organisational culture was enabled by Robbins' 11 culture parameters (1993), which depart from the characteristic features that define members' feelings about the organisational culture. On the basis of the theoretical model, the questionnaire developed by Zoltán Kovács enables the characterisation of organi-

sations by 22 pairs of values. Two statements are related to each parameter. Respondents rank any given culture on a scale of 1 to 7 based on the extent to which they find the statement true about their organisational culture. Thus, the predominance of particular values is established by the number. The final score for an organisation is obtained by averaging the statements about particular values. Table 1 shows the results of value pairs.

During these calculations, an SPSS correlation calculation, an ANOVA analysis, and an independent samples T-test were performed.

SAMPLE

Data were collected in two phases: 25 institutions were surveyed between 2010 and 2013, and another 19 between 2014 and 2019. In the first survey, 17 elementary schools, 7 secondary schools, and one combined elementary and secondary school were surveyed, and 589 questionnaires were completed. These institutions are located in Budapest, Komárom-Esztergom, Fejér, Pest, Heves and Hajdú-Bihar and Nógrád counties, in the central, northern, and north eastern regions of Hungary. Gender distribution shows feminisation in the teaching profession: 14.5 per cent men (85 persons) and 78.4 per cent women (460 persons) filled out the questionnaire. In terms of age, the distribution is no surprise: about 38 per cent (223 persons) were older than 48, 30 per cent (177) were between 39 and 47, and only 25 per cent (145 persons) were younger than 38 years old. 7 per cent of the respondents did not answer the question relating to age.

In the second phase of the survey, an additional 14 elementary schools and 5 second-

Table 1: The scoring of value parameters

Internal dependence	1	7	Independence
Goal focus	1	7	Means focus
Person focus	1	7	Group focus
Strong control	1	7	Weak control
Relationship focus	1	7	Task focus
Risk-taking	1	7	Risk avoidance
Conflict tolerance	1	7	Conflict avoidance
Short term time focus	1	7	Long term time focus
Identification with the institution	1	7	Identification with the position
Performance focus	1	7	Other
Closed system	1	7	Open system

Source: Author's own work

ary schools, located Budapest, Komárom-Esztergom, Fejér, Pest and Heves counties, were added to the sample. 460 questionnaires were completed. The gender distribution slightly differed from the previous phase, which may be explained by the fact that in this phase, the number of vocational schools was higher: 34 per cent (157 persons) of the respondents were male, and 66 per cent (313) were female. In terms of age, this sample did not show any major difference: 52 per cent (238 persons) of respondents were older than 48, 30 per cent (136 persons) were between 39 and 47, while only 18 per cent (86 persons) were younger than 38.

The data were analysed in two steps:

First, the characteristics of the organisational culture were identified and then the culture was modulated: on the basis of data, the aimed was to identify the significant features of given culture types with the help of ANOVA, T-test and correlation analysis.

The comparison between the results of previous research data and the data of the two samples are presented in order to identify potential changes in culture.

FINDINGS

Identification of the characteristic features of organisational culture

Table 2 shows the distribution of organisational culture types across schools relative to the complete sample. Based on the members' perception of the primary characteristic features, 15 support, 8 innovative, 20 rule, and 1 goal-oriented cultures were identified. The ANOVA analysis and a T-test were used to capture the differences between culture types along Robbins' criteria.

The results of the ANOVA analysis show a significant difference ($p < 0,05$) between the surveyed three culture types in more than one variables:

- identification with the organisation/job,
- relationship/ask focus,
- internal dependence/independence,
- strong control/weak control,
- risk-taking/risk-avoidance,
- performance criteria/other criteria,
- conflict tolerance/ conflict avoidance,
- goal focus/ means focus,
- short-/long-term planning.

Table 2: Value parameter scores (grey: key culture type)

	N	Support	Innovative	Rule	Goal-oriented
1.	43	24.25	34.26	20.44	20.90
2.	15	49.78	16.06	24.17	8.67
3.	35	23.55	30.96	23.31	22.08
4.	13	21.47	20.19	43.76	14.58
5.	25	18.66	17.54	43.84	20.18
6.	34	30.95	24.26	26.38	17.90
7.	7	55.24	18.33	22.02	4.40
8.	12	29.35	18.86	37.50	14.09
9.	13	15.47	26.49	38.82	16.82
10.	44	22.20	24.73	28.53	24.15
11.	32	34.62	24.95	31.77	8.82
12.	18	24.80	21.08	38.33	15.69
13.	17	35.93	20.15	29.46	14.66
14.	8	45.21	23.54	20.52	11.15
15.	16	52.92	19.11	22.81	6.09
16.	17	29.12	17.60	34.90	17.89
17.	30	13.72	24.11	37.75	24.34
18.	23	29.67	27.50	26.80	16.03
19.	36	35.53	17.63	34.96	11.59
20.	46	26.36	11.80	49.60	12.24
21.	25	35.76	22.22	30.76	10.97
22.	12	27.25	21.08	35.83	15.83
23.	13	26.31	21.71	35.76	16.36
24.	11	16.59	17.65	41.14	24.62
25.	25	29.34	26.84	32.33	12.12
26.	23	19.38	25.36	33.15	22.19
27.	10	26.38	20.33	29.68	23.21
28.	42	29.35	27.61	23.63	20.06
29.	31	26.30	23.52	30.20	21.00
30.	11	24.45	25.37	28.19	22.76
31.	24	24.77	27.95	25.91	22.56
32.	18	28.89	25.56	26.11	18.33
33.	17	25.59	27.06	23.35	22.53
34.	15	23.93	27.86	24.64	25.00
35.	26	30.19	21.15	25.96	22.69
36.	45	27.11	22.91	28.57	21.64
37.	13	41.75	19.92	22.17	17.00
38.	14	27.89	26.95	22.16	22.56
39.	28	25.02	29.18	22.48	23.74
40.	25	26.73	23.17	29.02	20.54
41.	44	28.16	38.45	18.52	15.00
42.	20	27.89	28.16	25.36	22.37
43.	39	25.02	22.48	29.18	23.74
44.	15	26.86	19.99	24.38	28.67
	1030 persons	15	8	20	1

Source: Author's own work

On the basis of the analysis, the following conclusions may be drawn:

- *Innovative culture* is characterised by – and differs significantly from the other two cultures – identification with the organisation, task focus, evaluation based on other criteria, goal focus, and short-term planning.

- A *support culture* features relationship focus, conflict tolerance, and means focus in the most marked way.

- A *rule* culture is characterised by a relationship focus, heavy control, risk-avoidance, and means focus, and so it is ranked between the previous two culture types.

- A *goal-oriented* culture is distinguished by emphatic focus on goals and risk-taking. Note that these findings are based on data from a single institution, no definitive conclusions may be drawn.

Besides the typological interpretation of culture and its sophistication, it was also examined whether there was any similarity between the organisational cultures of schools. This analysis was based on the organisational culture parameters. Results show that there are culture parameters which, despite differing degrees of perception, show a kind of orientation in the case of schools. They are the following:

- The majority of the schools (79%) exhibit identification with the job and the team as opposed to identification with the organisation.

- Members typically perceive organisations as person focus, they see the culture as having an emphasis on personal goals. They are characterised by independence and support to responsibility.

- This is accompanied by generally perceived (81%) tight regulation and direct control of employees.

- In the majority of schools, members perceive the culture as risk-taking (68%) and conflict tolerant (70%).

- As opposed to performance criteria, these schools established other criteria (83%) in rewarding employees.

- In the completion of goals, means focus is more predominant (85%) than goals focus.

- In 92 per cent of these schools, the openness of the organisation and its ability to react to changes also surfaced, as opposed to closed systems.

Besides the analysis of similarities and culture types, I also found it interesting to detect correlations between the individual characteristics and the perception of the organisational culture.

- The findings show correspondence between the number of years spent in an institution, and the perception of its organisational culture. Teachers who have been in the institution for a longer time perceive their institution as less goal-oriented.

- At the same time, the same teachers are more likely to perceive the closedness of the organisation and short term focus, than their colleagues who have spent less time there.

These two statements also correlate with the results based on age:

- Older teachers are significantly more characterised by the perception of a risk-taking, conflict tolerant and closed organisational culture.

- With the advancement of age, identification with the job also becomes more prominent.

Regarding the perception of culture according to gender, the following conclusions arise:

- Men are significantly more likely to perceive risk-avoidance in an organisation-

al culture, while women are more likely to perceive their organisation as risk-taking.

Interesting findings were obtained about the perception of organisational culture on the basis of position. Respondents were classified in three groups: 1) director and vice-director, 2) group leader and 3) teacher. The findings show significant differences in six of the eleven organisational culture parameters.

- Person focus: according to the teachers' perception, leaders pay less attention to already existing relationships and tends to focus on tasks. However, directors (including group leaders) tend to perceive their organisational culture as more relationship-oriented.

- Risk-taking/risk-avoidance: directors and vice-directors perceive their organisation as significantly more innovative and risk-taking than their teachers. Teachers typically perceive their organisational culture as risk-avoiding.

- Performance focus: directors more significantly perceive the rewarding system as based on performance than teachers, who rather perceive rewarding on the basis of other criteria.

- Conflict tolerance: while directors typically perceive their organisations as more conflict tolerant, teachers significantly perceive conflict-avoidance.

- Goal focus: leaders perceive means focus more when it comes to achieving institutional objectives, while teachers typically perceive their institutions as goal-oriented.

- Closed system: directors and teachers differ in their perception of the openness of their institutions. Leaders and teachers both perceive their institutions as open, but leaders do so more markedly.

In order to interpret this data, it must be added that in the case of significant differ-

ences, teachers and directors stand on the extreme ends of the spectrum, while group leaders are in the middle. A joint analysis of the two sets of data moderately changes the first set, while it is obvious that there is significant difference in the ratio of identified organisational culture types.

Changes in schools' organisational culture

Changes in schools' organisational culture were analysed along two variables. First, the aim was to find significant differences between the cultural characteristics in the specific counties, and then attempts were made at the identification of significant differences between the samples, whether it be the frequency of the presence of an organisational culture, or the articulated differences between certain culture types.

No significant difference was found between the counties where data was collected, while on the basis of frequency, institutions with an innovative culture were typically identified in Budapest and its agglomeration, i.e. in Pest, Fejér and Komárom counties.

Our results, however, demonstrate a clear difference: in the second sample, the ratio of identified organisational culture types changed. While in the first sampling phase (2010–2013), 40 per cent of the institutions had a support, 8 per cent by an innovative, and 52 per cent by a rule culture, by the second phase of sampling (2014–2019), the ratio of innovative institutions had increased considerably (32%), and the number of support (26%) and rule (37%) cultures decreased. While during the first survey not a single goal-oriented organisational culture was identified in 25 institutions, one was found in the second sample. It is important to note that various educa-

tional institutions were sought during the two samplings, which means that the differences identified above could be a matter of coincidence; however, previous studies show that the Hungarian educational system had been primarily characterised by a rule culture in the first place and a support culture in the second (Kovács et al., 2005; Serfőző, 2005; Balázs, 2014; 2015). In comparison, the sample taken between 2014 and 2019 shows that the innovative culture type is increasingly frequent in public educational institutions.

CONCLUDING REMARKS

The two surveys presented above have proved my assumptions. Public educational institutions used to be organised predominantly according to the rule and the support cultures. As a result of social changes, the features of the innovative culture are appearing at an increasing number of schools. Over the past five years, an example has even been found for the goal-oriented organisational culture. In addition to the typological approach to organisational cultures, culture parameters also enable further refinements in conclusion. Based on the results of previous studies, one may argue that there is a difference between the perception of culture by school leaders and school teachers.

The findings confirm the conclusions of Serfőző (2002) and Kovács et al. (2005), and run counter the findings of Baráth (1998), who claimed that the goal-oriented culture is the most dominant one in Hungarian public educational institutions. In a subsequent work, Serfőző (2005) describes schools through two culture types that are strongly correlated: the rule and the support culture. The findings obtained by this

analysis confirm a close correlation between the two culture types.

The analyses of gender and age distribution brought about similarly interesting results. The number of years spent in the institution, age and gender all influence the perceptions of organisational culture. The composition of the samples also suggests aging and feminisation in the teaching profession, as other researchers have also indicated in their studies of the teaching career (Bacsa-Bán, 2019).

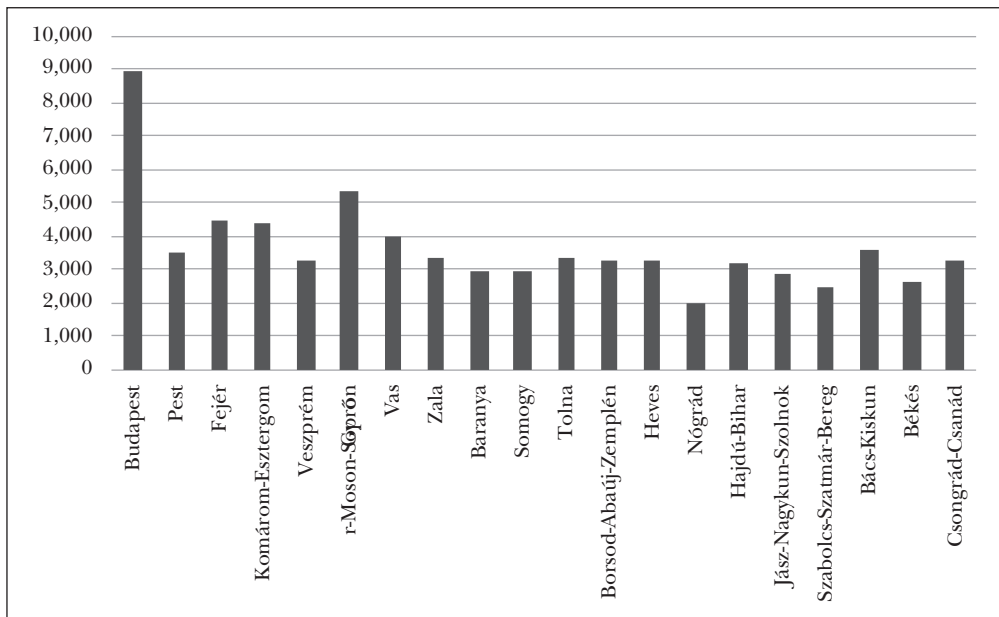
A comparison of the samples reveals that educational institutions, as organisations sensitive to the social environment, keep pace with changes and aim to respond to new developments. Compared to the sample collected at the beginning of the 2000s, the sample from 2014–2019 shows a greater number of institutions with innovative culture.

Development in the organisational culture is influenced by the foundation of the organisation, its history, and its internal and external (organisation-specific) factors. The external factors include several things that may influence the beliefs and values of the members of the organisation, such as the natural, the social and the economic environment, the history of the region, the national culture, and the legal and political circumstances. Further interesting correlations can also be detected in relation to cultural matters regarding the organisations' relocation and the regional host culture (Kőkuti, 2011). Although a deeper analysis of the correlations between the organisational culture and the social and economic features of a region, the innovative culture could clearly be identified in Budapest and its agglomeration, i.e. in Pest, Fejér and Komárom-Esztergom counties. Such local aspects of culture types

suggest differences in the studied areas. As the institutions that constitute the samples are located in different economic and social environments, and the latter is well demonstrated by GDP per capita. A reason for the perception of the innovative culture might include faster economic development in these regions. On the basis of the county distribution of GDP, it may be claimed that among the regions explored, Budapest, Komárom-Esztergom, Fejér and Pest county are among the most developed regions of the country (Figure 2 shows data for 2018).

As a conclusion, the cultural features of organisations constantly evolve in response to the demands of their environment. The organisational climate is also greatly affected by the responsible conduct of activities that relates to the satisfaction of the individual stakeholders (András et al., 2013). The identification and presentation of schools' organisational culture may provide an impetus to the processes that support and shift the organisation towards a goal-oriented culture in, for example, towards online and digital learning, and other economic developments.

Figure 2: GDP by county in Hungary, 2018



Source: Author's own work, based on www.ksh.hu/docs/hun/xstadat/xstadat_eves/i_qpt014b.html.

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Róbert Magda, Norbert Bozsik

Competitiveness of the European Union in Light of Foreign Trade

SUMMARY

The main aim of this study is to analyse and present competitiveness in order to evaluate trends in the Member States of the EU. Competitiveness is explained at a corporate, national and regional level. Two important statistical indicators are considered for its calculation: the Commodity terms of trade (C), also known as the net barter terms of trade (N), and the Income terms of trade index (I), which communicates the correlation between changes in quantity and price. A stable economy requires surplus in the trade balance and improvement in exchange rate. The primary purpose of the goods export indicator is to capture the knowledge capital available in a country in order to provide characteristics and map the structure of trade for use as gauging tools. The three nations in which export surplus to GDP is very high are the Netherlands, Switzerland, and Ireland. Negative trade balances have been recognised in Romania, France, and the United Kingdom. As a result of changes in prices and volumes, nominal trading values were seen to rise continuously in 2018. Global com-

modity exports globally increased by 10 per cent, predominantly propelled by 20 per cent increase in oil prices. Rapid growth and development in innovation triggers increase in GDP and exports. Additionally, it is observed that export grows significantly faster in the Euro Area Member States than in non-EEA Member States.

Journal of Economic Literature (JEL) codes: F1, F31, F4, O24

Keywords: economic structure, export surplus, high-quality products, exchange rate, Euro Area Member States

INTRODUCTION

Two major phenomena: globalisation and competitiveness dominate global economy at present. Competitiveness is often defined as the analysis of the macroeconomic position of a country, and it is examined at all levels, namely the corporate, regional and national level. As in an economy, these levels influence one another's performance through several economic agents, a sharp difference between them is not advisable. This concept corresponds to the complex

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analysis of and systematic approach to each level, but it is also crucial to assess sub-areas. The concept of competitiveness has been defined in various approaches, including the classical and the neoclassical approach. Recent theories have suggested and developed regional competitiveness concept by a combination of applied economics with classical theories (Martin, 2005; Voinescu and Moisoiu, 2015). The policy goals set for regional competitiveness have been adopted by the European Commission (EC) as key incentives to global market performance, the export capacity of the economy, and economic growth as a whole (Martin, 2005). The most common concept of competitiveness has recently been defined by OECD documents as “the ability of companies, industries, regions, nations and transnational regions to create relatively high incomes and relatively high levels of employment over time while being exposed to foreign (global) competition” (Magda et al., 2017; Lengyel, 2012; Magda, 2017). The concept of competitiveness is widely used in the economic literature, and various perspectives, approaches and meanings are presented (Porter, 2000; Wijnands et al., 2007; Krugman, 1991; Qineti et al., 2009; Krugman, 1994; Andrei et al., 2020). Governments and policymakers have been pushed to enter into this wave of competition at all levels. Increased interest in competitiveness is attributable to the fact that each and every country has to compete by raising the standards of economic competence as an outcome of the globalisation of factor markets and other goods (Vahalík and Staníčková, 2016). According to Thissen and co. (2013), the discussion of competitiveness has been raised to the new level as far as international competitiveness is concerned. The authors claim that a mere

sizing up of the assets of a region is insufficient for clarifying which regions compete with each other, and so it is necessary to set up and apply an analytical framework for the analysis of the contending systems of regions and assets. Hence, in any country, the measurement of competitiveness is affected by two factors: the structure of the market for which it is calculated and the region where it is calculated (Durand and Giorno, 1987). For the purpose of this study, research was done to analyse the competitiveness of Hungary and the EU-28 on the basis of the effects of foreign trade.

The main objective of the study is to analyse and present competitiveness in the Member States of the EU by evaluating forecasts and trends. To this end, the WEF Evaluation Report and the World Bank's database were used. Goods and services are considered as marketable in the global market and in the single market of the EU on the basis of the producer's competitiveness, and depend on consumers' propensity to purchase. The sales revenues and export sales revenues naturally and highly depend on the volume of regional value added and on the level of processing semi-finished or unfinished goods.

MATERIAL AND METHODS

International trade is transacted in a variety of products, which cannot be aggregated in their natural state. However, international exchange rates changes can be detected in each country with the help of two commonly used indicators:

1. *The commodity terms of trade (C), or otherwise known as net barter terms of trade (N).*

$$C = P_x / P_m$$

The numerator consists of the export price index, which represents the average

change in the value of goods exported by a country. In the denominator the import price index can be construed in the same way. Obviously, the exchange rate of a country improves if the value of C is more than 1, which implies that the country needs to produce less on an average per export product.

2. *The income terms of trade index (I) expresses the correlation between changes in prices and quantities.*

$$I = (P_x / P_m) \times Q_x = C \times Q_x$$

The average export volume change is indicated by the Q_x factor in the formula, and the change is from one year to the next. It is revealed that if a country's export earnings are completely spent on imports, the country's export earnings could purchase more or less import products than in the previous year. It is also important to comprehend the C -related factors and its evolution. Increase in the Q_x factor might be triggered by a decrease in C , which can raise I above 100 per cent (1). However, in this case a decrease in C might be beneficial and the imports can be boosted (Wilson et al., 1969; Vizdák, 2002).

These two trade ratios need to be analysed concurrently. In a country in a given year C may be less than 1, while I may increase. Such a situation may take place if, for instance, the price elasticity of export products is greater than 1, which results in faster increase in the export volume by a relative decrease in export prices. These foreign trade ratio changes also imply the evolution of comparative advantages achieved by the economy of a country. Progress or decline in the indicators implies relative decrease or increase in the comparative advantages. In the scenario of open economies, this is considered as important evidence (Wilson et al., 1969; Porter, 2000; 2001).

The value and quantity of the commodities determine the raw monthly data, which is processed in a highly comprehensive manner to attain elementary unit value indices. The latter are divided by the preceding and average unit values in order to obtain elementary unit value indices to form the basis of the analysed and then eliminated outliers. Subsequently, the elementary unit value indices are aggregated into commodities and countries by the Laspeyres, Paasche and Fisher index formulas, and then the Fisher unit value indices are related back to the base year (2000). The resulting indices describe fluctuations in export and import prices and the changes in the exchange rates of imports and exports in the European Union.

RESULTS AND DISCUSSION

This analysis considers the EU-28 Member States on the basis of their foreign trade competitiveness. The selected countries are Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, United Kingdom, Estonia, Finland, France, Greece, Netherlands, Croatia, Ireland, Poland, Latvia, Lithuania, Luxembourg, Hungary, Malta, Germany, Italy, Portugal, Romania, Spain, Sweden, Slovakia and Slovenia.

The significance of the study lies in the fact that foreign trade relations between the Member States of the European Union is crucial in strengthening global and local economic integration and hence assuring a leading role of the EU in the world economy. A 14-year trend is analysed in light of the key indicators set in the principles of the EU, based on a large database.

Hungary's competitiveness is presented in detail for the 12 pillars to highlight the significance of networking for business and

organisations and the responsibility of the cluster system in enhancing and improving competitiveness. The framed hypotheses of the present study have been proved based on literature data and they evidence that Hungary is far behind most of the Member States of the EU in competitiveness, and even performs below the average of the Visegrád 4 countries.

In order to speed up growth and encourage development, new approaches should be embraced, such as,

- Hungary may benefit from the internationalisation of trade.

- The improvement and intensification of capital flows may improve the situation.

- In light of worldwide competition, competitive business advantages are offered in knowledge transfer, innovation and competitiveness.

In an economy, improvement in competitiveness requires a stable economic structure that allows surplus in the trade balance between countries, and improvement in the exchange rate. These presuppose increase in the innovation and knowledge content of the services and goods meant for export. Surplus in Hungarian trade with the EU is in part due to the import-export carried out in the value chains of Germany. The value-added sections of the value-chains should also be located in Hungary. On the other hand, Hungary's trade with Asian countries shows a deficit, which implies an insufficient number of products that can be sold to Asian countries to obtain good profit.

It is well-known that the export of low-processed products cannot generate major gains on export, and high-quality export requires high-quality products. Additionally, the national management and financial strategy need to be expanded in the same

way to the corporate level through governance, planning, organising and controlling based on set goals, and the attraction of capital owners, among others, in agriculture (Széles et al., 2014; Grubb and Neuhoff, 2006; Lentner, 2018).

Agricultural producers' principal aim in the EU, in Hungary and in Germany is to increase capital accumulation in order to employ improve the production technology they apply and thus their competitiveness in the regional markets and worldwide (Szabó and Zsarnóczai, 2004; Andrei et al., 2020; Powell and Gianella, 2010). The subsidies granted for production purposes were focused on technology improvement through subsidising fixed capital consumption in the EU. In general, in 2016 subsidies made 87 per cent of the consumption value of fixed capital. Improvement in the competitiveness of EU exports was due in part to the concentration of fixed capital subsidies in the EU-28.

The fundamental aim of the global value chain is to slice up the production process into different stages and establish each stage in different countries. For instance, in car manufacturing complex tasks, like the manufacturing of complicated parts, have been performed in Germany, while assembling is outsourced to Hungary. Similarly, the marketing of the products and after-sales services are performed in by a third party, usually in another country, as it is not necessary for a single country to own the entire value chain. It is important to understand that assembling is considered as the lowest value-added production, and underemployment, i.e. highly skilled employees doing simple jobs, is regarded as a major disincentive to competition and an indication that the human capital is mismanaged. In today's scenario foreign trade is becoming

ing crucial. Service providers and tourism have the largest share in the import and export of services.

The Economic Complexity Index (OEC, 2018) is an indicator surveyed in 128 countries on an annual basis. It shows competitiveness because it efficiently responds to the anticipated rate of closing the gap in economic development and complexity. The indicator also shows the complexity of using international trade data by a country. According to this indicator, Hungary was ranked 8th among 128 countries in 2015, showing steady improvement since 2011, while the position of the other V4 countries remained broadly unchanged or slightly declined relative to the European Union average. Hungary preceded Finland, Belgium, the UK and the USA. The top three countries in the list included Japan, Germany and Switzerland. The purpose of the indicator is to capture the knowledge capital available in a country through the characteristics and the structure of trade. The indicator is calculated from the UN Comtrade (2018) database, adjusted for distorting factors based on objective data obtained by mathematical methods. The indicator reflects the economic strength of a country in terms of products quality and the diversity of exports (Samuelson and Nordhaus, 1992; Schwab and Sala-i-Martin, 2017).

The United Nations' recommendations define the concepts and principles of conducting foreign trade. Regulation (EC) No. 638/2004 of the European Parliament and of the Council and Commission Regulation (EC) No. 1982/2004 of the European Parliament and of the Council regulate trade with Member States of the European Union, while non-EU trade statistics are produced in accordance with Regulation (EC) No 471/2009 of the European Parlia-

ment and of the Council as amended and with Commission Regulations (EC) No. 92/2010 and (EU) No. 113/2010. Outstanding growth rates were recorded in 2018 for Russia (5.7%), the United States (4.1%) and China (5.4%).

In 2018, the export volume increased by 3 per cent in the 28 Member States of the EU, while the volume growth rate declined. In Hungary, the volume of exported was 4.3 per cent higher for goods, and 6.3 per cent higher for services. In some key countries, the foreign trade balance is presented as a ratio to GDP, which dropped in most Member States of the EU, including Hungary. In Switzerland, Ireland, and the Netherlands the surplus to GDP is exceptionally high. Negative trade balances were recognised by France, the United Kingdom, and Romania (UN Comtrade, 2018; Eurostat, 2018).

Price and volume changes caused a rise in nominal trade in 2018. Global commodity exports increased by 10 per cent, driven mainly by a 20 per cent rise in oil prices. The main oil producers, including Russia (26%) and Saudi Arabia (35%) achieved the highest increase in sales. The value of goods import increased fastest in Brazil (20%), Indonesia (20%), Vietnam (15%) and China (16%, see: IMF, 2018; World Bank, 2018).

Slower increase was due to a number of uncertainties, including:

- Retaliatory measures against certain goods,
- Weaker growth in the global economy,
- The implementation of strict financial restrictions,
- Other risk factors (e.g. Brexit).

There are several other factors that influence growth in an economy. More effort need to be made at development in the following areas:

- The *efficient operation of institutions*

- Primary education
- Training according to the actual demand for labour
- Effective preparation for technological development (4th industrial revolution)
- Upgrading the business sector
- Fast development of innovation

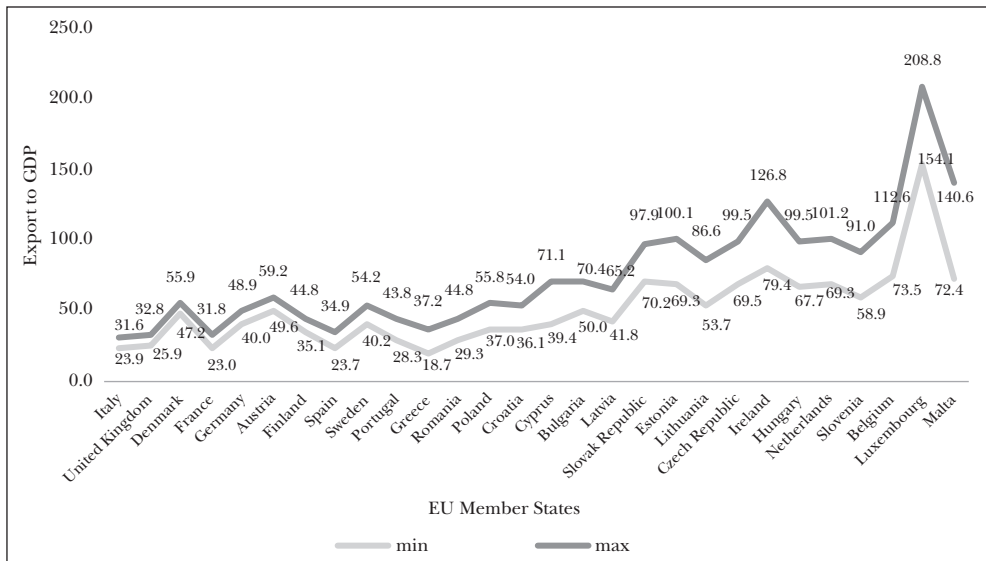
These factors may also have a significant impact on competitiveness. In 2018, the export and import data of the EU Member States increased. Exports totalled EUR 1955.7 billion, up 4.1 per cent on 2107. Imports closed at 6.6 per cent at EUR 1980.4 billion. The external trade balance of the EU28 was close to EUR 25 billion, representing a decrease by EUR 46 billion compared to the previous year. The EU's external trading partners are relatively stable, as shown in Table 9. In 2018, intra-Community trade accounted for 64 per cent of the EU's total external trade. Product turnover between the EU-28 Member States was EUR 3519 billion in 2018 (Eurostat, 2018).

According to the export ratio, the value of exports to GDP significantly increased. The results were calculated on the basis of the World Bank's database (2020a). As far as the Member States of the EU are concerned, export to GDP is usually high in advanced countries (Figure 1). Growth is faster in the euro area than in the non-euro area Member States of the EU (Figure 2).

Increase in imports has significantly accelerated recently. This is partly due to increase in domestic consumption, although care should be taken to prevent excessive increase. Import to GDP increased rapidly in the euro area (Figure 5).

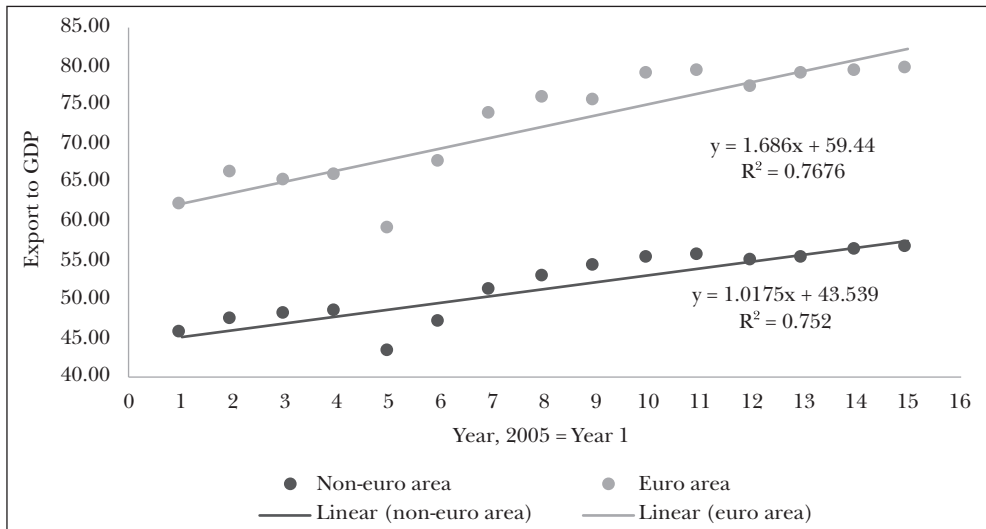
According to a cluster analysis based on the annual inflation value, Hungary ranks second among the five groups in the EU-28, including Slovakia and Slovenia. On this basis, clusters of developed and less developed states can be distinguished. The best performing states include the Netherlands, Belgium, Austria and Finland.

Figure 1: Minimum and maximum values of export to GDP, 2005–2019



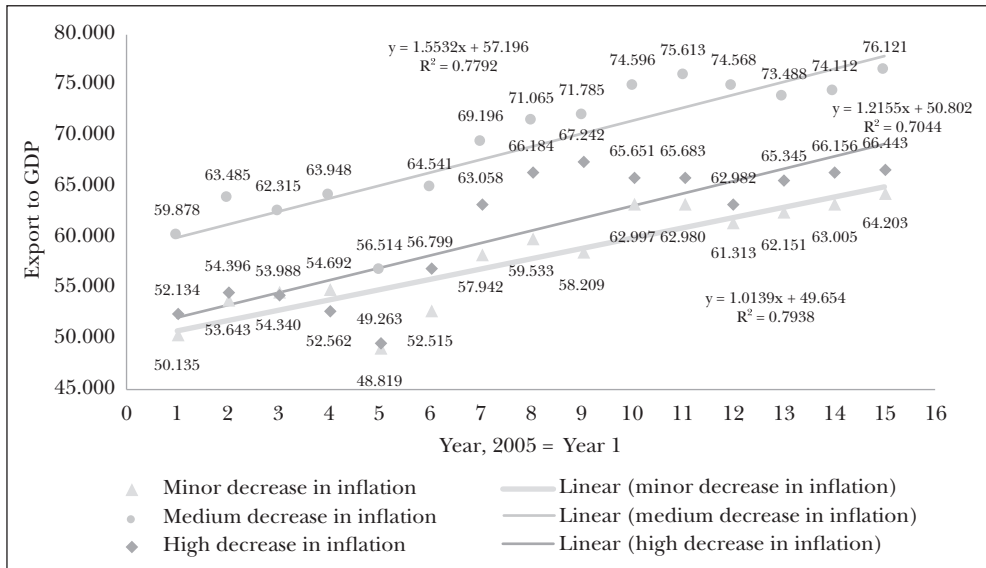
Source: World Bank (2020a) database and own calculation

Figure 2: Annual average exports in euro area and in non-euro area Member States, 2005



Source: World Bank database (2020a) and owned calculation

Figure 3: Annual average export based on inflation, 2005



Source: World Bank database (2020a) and owned calculation

The competitiveness of Hungary and of the EU Member States are analysed on the basis of the objectives. In the case of indicators considered important for the EU prin-

ciples, the 11-year trend is analysed on the basis of a large database. The positions of WEF competitiveness in Hungary are presented for the 12 pillars. The importance of

networking for organisations and the role of the cluster system in increasing competitiveness is exposed. As competitiveness and trade are interrelated, the situation and changes in international and domestic trade are also presented. Hungary's foreign trade is presented on the basis of the most recent CSO data. Trade and competitiveness are intertwined. There is strong empirical evidence that open economies are richer and therefore more productive than closed ones. A 1 percentage point increase in the share of trade in GDP will increase revenue by 0.9-3 per cent. When a company enters the export market, productivity growth is boosted (EC, COM (2018) 232; EC, COM (2008) 774).

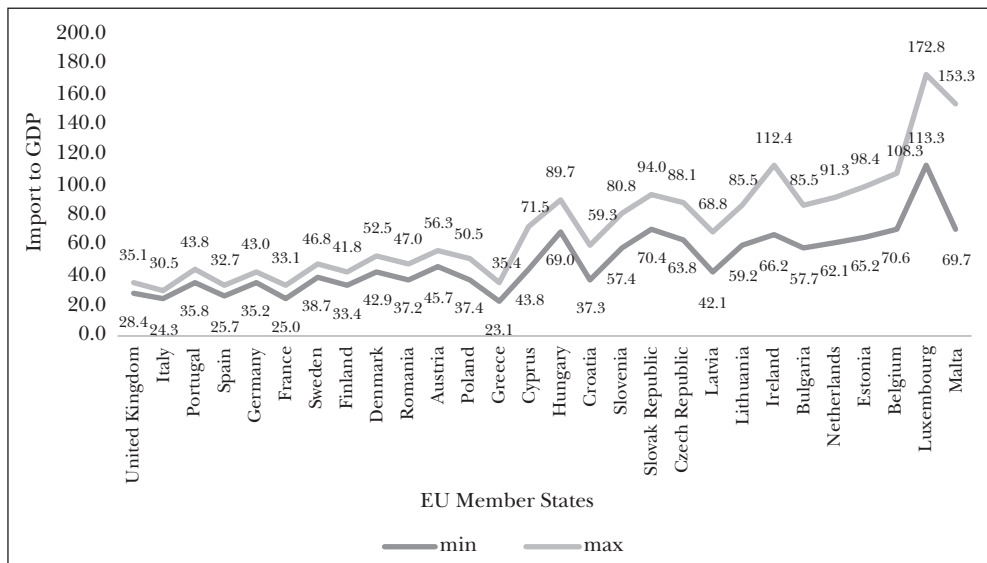
CONCLUSION

Based on to the linear trend analysis, the value of exports to GDP grows significantly faster in the euro area Member States (14-year trend). Developed countries are gener-

ating rapid export-import growth. Although there was a fast growth in import and export in the developed countries, the results show difference in the import-export growth for non-euro area and euro area Member States of the EU: for the latter the average annual export significantly and rapidly grew in comparison to the other Member States. The euro area Member States with faster growth in export are considered as the advanced countries of the EU. Outside the euro area, the linear trend in import is sluggish, but in the euro area growth is fast (Figure 3, Figure 4 and Figure 5).

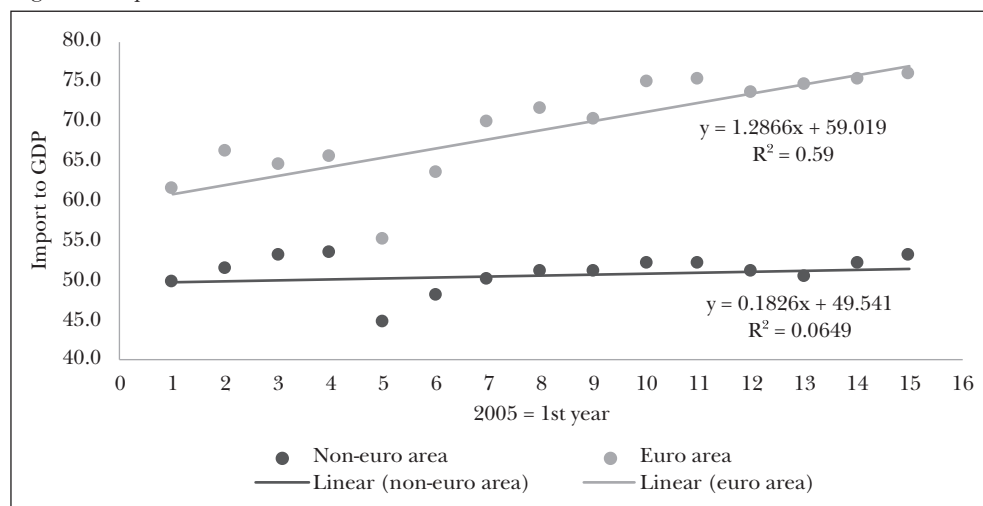
On this basis, belonging to the euro area is accelerating development, so Hungary should reconsider whether it is worthwhile to join the euro area. Areas where improvements are achievable should be determined in order to accelerate progress; and focus should be placed on a number of areas. Trade may be one of the areas where we can have significant potentials.

Figure 4: Minimum and maximum values in import to GDP, 2005–2019



Source: World Bank database (2020b) and own calculation

Figure 5: Import in euro area and in non-euro area Member States, 2005



Source: World Bank database (2020b) and owned calculation

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Judit Sági

Certain Issues of Green Bonds and Their Perception by Financial Markets, with Focus on Hungary

SUMMARY

The environmental load of the economies and climate change have increasingly necessitated green investments, financed by the so-called green bonds, invented by financial markets. The author analyses the green goals to be achieved by issuing green bonds as market instruments, and the structuring of funding in terms of risks and cash-flows, through specific cases in progress. The Hungarian sovereign green bond issue is an example of a successful fundraising from the capital markets, and the central bank initiative is a case for helping the private sector in the green transition. It is found that the success of green financing depends primarily on the financial market participants' perception of the safety of investment in green bonds. An essential element is certification by an external third party, to assure investors that the project being financed will not only result in financial returns but also in environmental benefits.

Journal of Economic Literature (JEL) codes:

G10, H63, O16, Q50

Keywords: green bonds, sustainable investing, environmental objectives, green growth, climate change

INTRODUCTION

Terms such as “global warming”, “melting of large-scale glaciers”, frequent “forest fires”, “extreme weather”, or “COVID-19” teach us a more general lesson: ecology and pandemics know no borders: human beings are of the same community of destiny. With environmental pollution, resource waste, ecological environment deterioration and other conditions gradually affecting people's lives, the idea of advocating low consumption and high efficiency of green economy has become the direction of the development of the world economy (Wiśniewski and Zieliński, 2019; Tripathy, 2017). There is no doubt that the emergence of green finance to solve the problems of the difficult and expensive financing of green projects

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is of utmost importance (Zhou and Cui, 2019). Green bonds, as the most common financial instrument in the green financial market, have received extensive attention (Dou and Qi, 2019, which gave significance to the current study.

This paper describes the market development of green bonds by differentiating these instruments from the other types of sustainable instruments, and investigates into the practical issue and trade of these financing instruments, by introducing some best cases.

LITERATURE REVIEW

According to the literature, environmental finance is not simply defined as the adoption of financial decisions without neglecting the impact of the decisions on the social and surrounding environment, but rather as the use of financial resources for investment into projects that provide environmental benefits (Bieliński and Mosionek-Schweda, 2018; Hafner et al., 2020) and lead to transition to a low-carbon global economy (Sartzetakis, 2020). The referenced environmental benefits include, inter alia, reducing air, water and soil pollution, and greenhouse gas emissions, and improving natural energy efficiency, mitigating or adapting to climate change, and so on. Green financing therefore uses financial markets and resources to solve existing environmental problems (Agliardi and Agliardi, 2019).

Green finance links the global environment to the economic system. A growing population, rapidly rising living standards and frequent extreme climate-related events are putting enormous pressure on the environment. In order to alleviate these pressures, industry should be encouraged to produce and use resources within safe limits. As an instrument of green finance,

green bonds are issued to alleviate the risks associated with environmentally-neutral investment decision making criteria (Gianfrate and Peri, 2019). As a result, green finance can not only promote environmental protection and governance, but more importantly, guide resources from high-pollution and energy-intensive industries to sectors with advanced ideas and technologies (Lebelle et al., 2020).

Green bonds are acknowledged by investors as advantageous financial opportunities that carry higher added value compared to risk (Chatzitheodorou et al., 2019; Deschryver and De Mariz, 2020; Tang and Zhang, 2018), as a means for resource-efficient investments (Cochu et al., 2016). Flammer (2020) documents the signalling effect of green bonds: by this act the issuers credibly signal their commitment towards protecting, maintaining or restoring the environment. This, in turn, strengthens the issuers' commitments towards tracking their declared sustainable development goals. Due to these positive perceptions, green and sustainable bonds (especially the certified bonds, Hyun et al., 2019; Li et al., 2019) are priced at premium on financial markets (Fatica et al., 2019; Hachenberg and Schiereck, 2018; Zerbib, 2019).

As green and sustainable bonds constitute a prospective dimension in global debt markets (Laskowska, 2017), as a means of raising financial resources to develop economies that are low-carbon ones and resistant to climate changes, it is reasonable to systematise the stimuli of the evolution of this process. On debt markets one may find several examples for layering risks and cash flows (Czelleng, 2019), i.e. via structured trade finance (Kozár and Suták, 2012), the pre-financing of development banks (Neszmélyi, 2019) or credit guarantees

(Sági, 2017; 2018). Therefore, it is recommended to apply these tools – together with community-based trust funds (Vallyon, 2011), green credit guarantee schemes, spill-over tax, etc. – to green finance (Taghizadeh-Hesary and Yoshino, 2020). Besides, green and sustainable bond issues might strengthen the resilience of the financial intermediaries that have a proactive role in green project finances, especially in less developed countries (Saleem and Ashfaq, 2020; Ampah and Kiss, 2019).

There is consensus in the literature that macroeconomic and institutional factors increase green bond issuance volumes (Tolliver et al., 2020). Governmental incentives, *per se*, are applicable to create a legal and institutional frame in which corporations may grow and prosper (Lentner, 2019), improve financially (Sági et al., 2020), and become socially more responsible (Migliorelli and Dessertine, 2019). Green bonds play an essential role in shifting capital to more sustainable economic activity (Maltais and Nykvist, 2020). This may, in turn, initiate corporations to invest into green projects, and thus to enhance green creativity (Zhang et al., 2020). In relation to this, Györi and Ócsai (2014) identified the preconditions of remaining profitable for businesses with an ecological focus. One of the preconditions is that these businesses are committed to follow their environmental and ethical goals. This persistence of greenness, if credible, may contribute to long-term sustainability of economies.

EVOLUTION OF GREEN BONDS AND THEIR CLASSIFICATION

After initial emergence of the concept of green bonds in 2007, the European Investment Bank (EIB) issued the world's first en-

vironment-friendly bond, named climate-awareness bond, to finance its renewable energy and energy efficiency projects. The term “climate awareness” makes it clear that the money had been raised was used for financing the implementation of green projects, under given terms and conditions (Lo Giudice, 2017). In 2008, the World Bank issued the world's first green bonds, with the purpose to raise money for projects to mitigate climate change. Since then, the issuance volume and scale of green bonds has been constantly increasing, alongside with the necessary improvement of the market infrastructure (Migliorelli and Dessertine, 2019).

Since then, green bonds have started to develop rapidly on an international scale (Climate Bonds Initiative, 2020). By the end of 2019, the global total issuance of green bonds had been about USD257.7bn, which set a new record for the annual issuance scale, with a year-on-year increase of 51 per cent (the data at the end of 2018 was about USD170.6bn). However, despite of the intense scaling of green bonds, there is no uniform definition for the term. The World Bank, which first came up with the concept of green bonds, classifies them as regular fixed-income bonds, but what makes them special is that they create a way for investors to protect the global environment and improve the climate. The Organisation for Economic Co-operation and Development (OECD) defines green bonds as “debt instruments used to finance green projects that deliver environmental benefits. A green bond is differentiated from a regular bond by its commitment to use the funds raised to finance or refinance “green” projects, assets or business activities” (GFSG, 2016). The purpose of the issue can be either raising capital for projects

or for re-financing purposes, or freeing up capital and leading to increased lending.

The most specific and rigorous definition of green bonds in the bond market is one that the International Capital Markets Association (ICMA), in conjunction with several institutions around the world, has come up with. According to this definition, a green bond is a debt-type financial instrument, whereas the funds raised by the product should only be applicable to undeveloped or existing green projects, which deal with climate issues or other projects with the goal of sustainable development (International Capital Markets Association, 2018).

In a more general context, green bonds, similarly to social and sustainability bonds, carry proceeds from environmental and social projects (TEG, 2019). In the case of green bonds these proceeds are exclusively applied to finance or re-finance projects with clear environmental benefits in agreement with the four core components of the Green Bond Principles. Environmental benefits should relate to renewable energy, energy efficiency, pollution prevention and control, eco-efficient products and/or products adapted to a circular economy, production technologies and processes, green buildings, terrestrial and aquatic biodiversity conservation, clean transportation, etc.

In comparison, social bonds finance projects that directly aim to address or mitigate a specific social issue and/or seek to achieve positive social outcomes for a target population. Social project categories include, among others, providing and/or promoting: affordable basic infrastructure, access to essential services, affordable housing, employment generation, food security, or socioeconomic advancement and empowerment. Sustainability bonds relate to

financing or re-financing a combination of green and social projects and which are aligned with the four core components of the Green Bond Principles and Social Bond Principles.

In conclusion, any of the aforementioned bonds have been designed to finance (or re-finance) environmental and/or social purposes. Green, social and sustainability bonds are regulated instruments subject to the same capital market and financial regulation as other listed fixed income securities (International Capital Market Association, 2020a).

CASE STUDIES FOR GREEN BOND ISSUANCE: 1 THE UNITED STATES' MUNICIPAL GREEN BOND ISSUE

Back in 2014, a historic USD 350mn issuance represented Washington DC Water's inaugural green bond issue and the first "certified" green bond in the US debt capital markets with an independent second party sustainability opinion (International Capital Market Association, 2020b). The bond has a maturity of 100 years and a yield of 4.814 per cent to maturity. According to Moody's, the credit rating of the project is Aa.

The environmental link of bond financing is obvious: due to climate change, a series of rainy days made the local precipitation increase rapidly within the territory of Washington DC. As a result, not only the local water quality has been affected, but the workload of sewage treatment plants also increased. This sewage system project – laying water-absorbing bricks on the ground and build an ecological regulation pool which facilitates environment-friendly water-treatment – was designed to have a positive effect on the ecological environment and meets the standards of a green bond.

The structuring of financing is as follows: Vigeo Eiris, the French corporate social responsibility agency, has green-certified the bonds. In this process, the agency checked the project evaluation, fund management and reporting disclosure of the project in accordance with the four principles of Green Bond Principles, and, as a result, it confirmed that the project met the standards of green bond, and issued relevant report to investors based on the certification status. In addition to this report, DC Water has invited international institutional investors (mainly investment banks and pension funds) to promote the green municipal bond offering. The approval of these institutions and the “second opinion” given by the third-party certification agencies have ensured the standard issuance of green municipal bonds and attracted certain investors, laying the foundation for the successful issuance of the bond. The project has also attracted the attention of many socially responsible investors because it helps improve the city’s public environment and facilities. That enabled DC Water to raise more money for the project at lower bond rates.

Similarly to any structured financing, a strict monitoring of the use of the funds follows. The follow-up supervision of this green municipal bond fund is to be performed by the third-party certification agency (Vigeo Eiris). The issuer shall disclose the information according to the use of funds, the progress of the project and the impact of the expected effect every year, and report the information to the investors. At the same time, for this sewage treatment facility construction project, the government agency has also set up a corresponding supervision group to carry out irregular supervision on the fund operation status of the project and report the situation to the

investors. Strict regulatory system and disclosure requirements ensure that the green municipal bond project is dedicated to the fund, preventing the occurrence of irregularities in the use of funds.

This green municipal bond has a specialty of a performance-based payment mechanism. According to this term, the third party shall calculate and evaluate the effect of the green project. If the effect is positive and meets the certain standard, the bond investors can get an extra USD 3.3mn in return. If the effect is not sufficiently positive, the investors shall pay USD 3.3mn to DC Water. If the effect falls between the two criteria, the investors gain an agreed return. This special “performance-based payment” incentive mechanism increases the attractiveness of the bond among investors to subscribe, besides the fact that the bond is highly ranked (Aa) and is safe for institutional investors.

CASE STUDIES FOR GREEN BOND ISSUANCE: 2 HUNGARY’S SOVEREIGN GREEN BOND ISSUE

The rationale for the initial Green Bond Scheme of Hungary has been to support its commitment to combatting climate change and biodiversity loss, and to raise funding from the capital markets. By the issuance of green bonds, Hungary declared its intention to proactively contribute to the development of Sustainable Finance both in international and in Hungarian capital markets. In addition, the Green Bond Scheme responds to international investors’ demand for green bonds issue, and contributes to the further diversification of Hungary’s investor base (ÁKK, 2020).

Based on the Green Bond Scheme, Hungary issued its first international green

bond in June 2020, in a total amount of EUR 1.5 billion. The bond series has a 15-years term, and a fixed coupon rate of 1.75 per cent per annum. The chief underwriters were the Credit Agricole CIB, the ING Bank and the J.P. Morgan. The issue was in line with the conventional sovereign Bonds of the Hungarian State and referred directly to the Green Bond Scheme (which is in line with the voluntary guidelines of the Green Bond Principles published by the International Capital Markets Association) for the use of proceeds and reporting commitment.

The net proceeds of the green bond issuance are intended to finance or refinance expenditures within Hungary's central government budget contributing the transition to a low carbon, climate-resilient and environmentally sustainable economy. Hungary includes eligible green expenditures within the category's renewable energy, energy efficiency, living use and living natural resources, waste and water management, clean transportation and adaptation.

Based on the third-party agency review, the rate the Hungary's green bond framework CICERO Medium Green. CICERO Green considers four factors in its review of the issuer's governance processes: 1) the policies and goals of relevance to the Green Bond Scheme; 2) the selection process used to identify and approve eligible projects under this framework, 3) the management of proceeds and 4) the reporting on the projects to investors (Cicero Shades of Green, 2020). Among the six environmental categories, renewable energy projects were marked by dark green in the case of Hungary, land use and living natural resources by medium green, energy efficiency alike to waste and water management as light to medium green, clean transportation as

light to dark green, and adaptation to climate change as medium to dark green.¹

As a key component of the issue, investors were invited from a broader scope, and their interest was outstanding: more than fivefold, and the bonds were successfully sold above the original price quote (EUR midswap + 240 bp) by 50 basis points.

Regarding the future use of these funds, the National Bank of Hungary in its regulatory role in respect of the commercial banks, has laid down the fundamentals of green finance (MNB, 2019a). In this respect, the National Bank of Hungary complies with the green taxonomy of the European Commission (TEG, 2020a), including the energy efficiency criteria for housing.

The European Union's green taxonomy is a tool designed to identify projects aimed at green transition, changing polluting activities, and access to finance adoption of low-carbon activities. Funding for these green projects is mainly generated through the issuance of green recovery bonds (TEG, 2020b).

An important issue was raised in relation to the Capital Requirements Regulation (CRR) of commercial banks, on whether the supervisory authority may differentiate capital requirements, depending on sustainability considerations, i.e. to encourage financial intermediaries to increase lending in green finance. The European Banking Authority is expected to prepare a directive by 2025 on the eligibility of easing capital requirements in the case of green lending portfolios (MNB, 2019b).

Consideration of a Green Supporting Factor (GSF) or a Brown Penalty (BP) for capital reserve requirements is also consistent with EU climate and sustainability objectives (2° Investing Initiative, 2020). According to estimates, the effect of a re-

duction in capital requirements associated with a GSF would likely be significantly lower than a brown penalty through strengthening capital reserves. The main reason behind the stronger effect of the latter is the widespread use of high/carbon assets compared to sustainable green assets. Nevertheless, transition to a greener economy would imply a supporting factor in capital reserve requirements, too.

The rationale behind lower capital requirements in retail banking is that in comparison to other housing loans, lower credit risk is attributed to green housing loans. This argument can be explained by the lower probability of default and the lower loss given default of the later (MNB, 2019a). On one hand, the homeowners of energy efficient properties can dispose of a higher income available for repayment after paying overhead costs, which reduces PD. On the other hand, green properties – due to increasing demand and stricter regulations – can be expected to retain their value even in the longer terms, so as their collateral value in the case of default of the mortgage loan (lower LGD).

Accordingly, preferential rates of capital requirements will be applied for the Hungarian-resident commercial banks' credit exposures of green (sustainable) mortgage and consumer loans. The reduction is 5 per cent in the case of renovation and in the case of building or purchasing a property with 'BB' rating, and 7 per cent in the case of building or purchasing a property with at least 'AA' rating. However, the preference is maximised to the 1 per cent of the total risk exposure amount (TREA) of any individual commercial bank (so that a maximum reduction of 1 percentage point of the SREP capital requirement can be earned). Also, the supervisory capital requirement is de-

termined using end-of-year data during the Internal Capital Adequacy Assessment Process (ICAAP) review conducted in the following year (MNB, 2019b).

The precondition for the preferential rate of capital requirement to be received is that the commercial bank offers lending at an interest rate lowered by minimum 0.3 percentage points. This lowering, compared to the average interest rates of 4-5 per cent and 12-13 per cent typically granted in the previous months on housing loans and personal loans, is not deteriorating the commercial banks' profitability, but is still providing substantial benefit to the borrowers (MNB, 2019b).

Lastly, only credit institutions that undertake to comply with the complementary green reporting requirement are eligible for green capital requirement reduction. This requirement, among others, will strengthen the supervisory role of the National Bank of Hungary.

DISCUSSION: FACTORS INFLUENCING AN EFFECTIVE BOND ISSUE

The best cases, like the ones described in above, reveal the necessary elements of a successful issue of green (or sustainable) bonds. The green or sustainability purpose is the grounding for raising funds via these financial instruments. If the implemented capital expenditures of the project correspond to climate risks and impacts, the implementation provides rationale for the issuance of the green bond (Baulkaran, 2019).

In the above cases, the institutional market framework has been provided as well, in order to support the underwriting, allocation and advisory of the bond issue. Anh Tu et al. (2020) points at the fact that legal infrastructure, official interest rate of green

bonds, and the economic stability of the issuer's country are the most important factors directly affecting green bond market expansion. Bachelet et al. (2019) also reveals that green third-party verifications are essential to increase investors' confidence and thus to promote the successful issue.

According to their pricing, green bonds are affected by price spill-overs from fixed-income markets (Reboredo, 2018; Reboredo and Ugolini, 2019). Partridge and Medda (2020) found that there is no clear indication in the literature as to whether or not there is a "greenium," or green premium in the case of the issue of environment-related bonds (on the primary markets), although there is a stronger signal for greenium in the secondary markets. Also, green issuers are supposed not to be incentivised to price their bonds higher for fear of pricing themselves out of the market; as this happened in the case of DC Water. However, at the Hungarian green bond issue, a 50 basis points premium was noticed.

SUMMARY AND CONCLUSIONS

Green finance includes economic activities that support environmental improvement, cope with climate change and, more importantly, guide resources from high-pollution, high-energy industries to technologically advanced ones. Through selection of project categories with clear environmental benefits, green bonds aim to provide investors with certainty that their investments deliver environmental returns and financial returns.

Practical implications were drawn from the case studies, so that the issuance of green municipal bonds could provide funding for the modernisation of the water and sewage system. The Hungarian example shows that the issuance of green sov-

ereign bonds is best suited within a green bond scheme, which aims at contributing the country's transition to a low carbon, climate-resilient and environmentally sustainable economy. There is a fair indication that the green sovereign bond issue will play a good benchmarking effect, helping to guide more funds to the green field.

The initiative of the National Bank of Hungary for green preferential capital requirement predicts increase in the supply of green finance. Commercial banks which decide to participate in lending for green housing, will benefit from the decrease in their capital requirements, and, in accordingly, will lessen the interest rates applied to borrowers, and thus to encourage energy-efficiency related housing projects. Assuming that the green housing loans bear lower credit risk because the PD is lower, and that the mortgages maintain their collateral value in the long term because of the green value (therefore lower LGD is expected), commercial banks are exposed to lower risks on their green loans.

The author expects that due to the global pandemic COVID-19, public attention to ecological and green projects will intensify. Efforts at promoting green awareness will make investors realise that the current ecological environment is in a state of crisis. Thus, when making investment, they will tend to consider not solely the yield of bonds, but also the positive environmental effects generated by the projects supported by these bonds.

NOTE

¹ The shading methodology of CICERO aims to provide transparency to investors that seek to understand and act upon potential exposure to climate risks and impacts. In this regard, the scaling tops with dark green (allocated to

projects and solutions that correspond to the long-term vision of a low carbon and climate resilient future), and bottoms at brown (allocated to projects and solutions that are in opposite to the long-term vision). Within the scale. Medium green represents steps towards the long-term vision, but are not quite there yet.

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Péter Karácsony

Effects of the Coronavirus Crisis on Hungarian Small and Medium-Sized Enterprises

SUMMARY

Today's coronavirus crisis has affected not only public health but also the economy. The coronavirus has led to a significant increase in unemployment and a transformation in employment. Each government tries to save its own economy in different ways, primarily by launching programmes that help companies maintain employment. The crisis has also generated spill-over effects throughout the supply chain. Available studies on the economic effects of the coronavirus are currently limited. Based on empirical research, this study endeavours to show the impacts of the coronavirus on the Hungarian economy. Based on the findings, it can be said that as a result of the coronavirus, Hungarian small and medium-sized enterprises are struggling hard to overcome financial difficulties and declining demand for services/products, and consequently government subsidies and measures are vital for them.

Journal of Economic Literature (JEL) codes: E60, F23, M21, O11

Keywords: COVID-19, Hungary, economic effects, government measures, crisis

INTRODUCTION

Today, our world is in awe of a dangerous virus, the so-called coronavirus (COVID-19), which has claimed a great number of human lives since its spread in late 2019. Initially, it raged in Asia and then gradually spread throughout the world. It is now certain that the virus is not only a threat to human life but is also increasingly threatening the world economy.

COVID-19 is a viral respiratory disease caused by a coronavirus. Currently, 7 coronaviruses are known to infect humans, including SARS and MERS (Ahmad and Hui, 2020). Today's coronavirus pandemic is caused by the SARS-CoV-2 virus, a disease called COVID-19 for short. The first cases were discovered in December 2019 in Wuhan Province, China. As with the SARS pandemic in 2002-2003, the economic effects appeared shortly after the disclosure of the

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first identified cases (Liu et al., 2020). The outbreak was declared a pandemic by the World Health Organisation (WHO) on 11 March 2020 (Shah and Farrow, 2020). In order to stop the spread of the pandemic and prevent its devastating effects, governments and large corporations have made drastic decisions (Inozemtsev, 2020). Some factories and businesses switched to survival mode to avoid mass layoffs, so they were forced to either reduce production or reschedule working hours (Martirosyan, 2020).

During the first wave the governments of the world realised that mass illness could not be avoided, and so they made efforts at containing the pandemic (Manjula Bai, 2020). The pandemic hit Hungary on March 4, 2020. In order to slow the spread of the virus, restrictions are in place throughout Hungary, of which the following are most perceptible for citizens:

- Social distancing (In public places people must keep a distance of at least 1.5 meters),
- Limited access to services,
- Mandatory covering of the mouth and nose in public places.

In addition to the restrictions affecting the internal market, a number of international regulations affecting cross-border movement have also been introduced. Special mention should be made of the 1 September 2020 ban on entry to the territory of Hungary by foreign citizens, with the exception specified by law. The primary purpose of this measure was to prevent the introduction of the virus from abroad. The most important first economic protection measures affecting Hungarian enterprises were announced by Prime Minister Viktor Orbán on March 18, 2020. The most important of these measures included the sus-

pension of the repayment of principal and the payment of interest on loans by private persons and businesses until the end of the year and the provision of government support to enterprises to facilitate the retention of employees.

Based on the international literature (Lund et al., 2020, Hite and McDonald, 2020), the coronavirus has had the most significant economic impact on jobs: numerous jobs have been lost and a great number of people have lost their jobs. It may be stated that the coronavirus will also have a significant impact on the Hungarian economy and society. Small and medium-sized enterprises (SMEs) play a significant role in the Hungarian economy, as more than two-thirds of the employees are employed by SMEs, and their production represents more than half of the national economy. Due to their flexibility and responsiveness, SMEs have an important potential for economic growth (Devins and Kimbara, 1997). According to the Hungarian Central Statistical Office, before the coronavirus crisis, there were more than 700,000 SMEs in Hungary, employing nearly 2 million people and contributing 53 per cent to GDP. The majority (almost 80%) of SMEs were service providers, mainly engaged in retail trade, tourism, hospitality, vehicle repair, and scientific or technical activities.

The aim of the study is to examine the impacts of the coronavirus on Hungarian SMEs.

LITERATURE REVIEW

In recent decades, the global business environment has been characterised by unpredictability and uncertainty. In the recent decades the most significant event that has affected and dramatically changed the

global business environment was the 2007-2008 global crisis. During the 2008 global financial crisis, which originated from the United States, several large companies went bankrupt or were forced to merge with their competitors (Foo and Witkowska, 2017). The coronavirus crisis is new in modern history, and we have never seen a similar health crisis affecting the economy to such an extent.

Every global economic crisis severely hits SMEs, which are important elements of national economies around the world (Gherghina et al., 2020). The OECD predicts that SMEs are the most exposed to the current coronavirus pandemic among the participants of the world economy. According to its experts, there is a danger that restrictions on free movement will be reconsidered in an increasing number of countries, and this may lead to a decline in production and in consumer confidence. Fernandes (2020) made an attempt at the quantification of the economic consequences of the coronavirus crisis, using the 1918-1919 flu pandemic as a basis of comparison. A global crisis like the one in 1918 will cost the economy USD 3 trillion, so the impact of coronavirus on the world economy can be expected to be around the same amount.

The COVID-19 pandemic is causing unprecedented devastation in global supply chains, which relies primarily on Chinese manufacturing performance and raw materials (Barua, 2020). There are two main channels for the effects of the global supply chain: one is production shocks and the other is shocks to trade flows, caused by transportation and logistics problems. Manufacturing shocks are large worldwide, with China accounting for 60 per cent of the global demand and supply and 41 per

cent of the global manufacturing exports (Baldwin and Di Mauro, 2020).

In times of crisis, as a first step, organisations reduce their costs as an effective crisis management tool. In the developed parts of the world, the most expensive cost is labour. Therefore, the first step in dealing with the crisis is usually to review the number of employees, reduce working hours, and temporarily suspend the hiring of new employees (Vasa and Mendelényi, 2010; Lindley, 2020). The workforce available for companies is reduced because workers are ill or have to take care of their relatives (children and elderly relatives) and thus stay at home in times of crisis. Furthermore, the dramatic and sudden decline in the income of SMEs has a serious impact on their ability to operate and/or causes severe liquidity problems. In addition, the income situation of consumers deteriorates, which reduces their daily consumption through fear of infection and increased insecurity. This can also cause a decline in the main consumer segments of SMEs, which can then culminate in financial problems (Lentner et al., 2020). In light of the above considerations, SMEs are likely to be more vulnerable to “social distancing” than multinationals enterprises.

Another problem is that SMEs are in a tight financial situation, have hardly any financial reserves, and have very limited access to external financial resources (e.g. bank loans). In times of crisis, banks are even less willing to lend to SMEs, thus further increasing the pressure on these companies (Vasa, 2010; Tău and Cretoiu, 2014).

The survival of SMEs is extremely important for countries, as they account for 99 per cent of the registered businesses in Europe, employing around 66 million people. OECD, in collaboration with Facebook and

the World Bank, produced two reports on the situation of SMEs, based on a questionnaire answered by tens of thousands of respondents. According to the report, 26 per cent of small businesses have disappeared due to the pandemic. Two-thirds of those surveyed reported a decline in income, and the remaining one-third was forced to reduce their headcount. Only a few per cent of the respondents (23%) received financial support. Businesses want additional wage subsidies, tax cuts, and soft loans in order to manage their spending and falling demand (Facebook/OECD/World Bank, 2020).

METHODOLOGY

The aim of the research was to assess the impact of the COVID-19 crisis on the economy through the example of SMEs in Hungary. A structured questionnaire survey was used for collecting data. Two criteria were set up for participating in the survey: the business was required to have been operating continuously for at least 5 years, and to carry out its activities in the Western Transdanubia Region. This region was chosen because currently it is the third most developed region in Hungary after Budapest and the Central Transdanubia Region. According to the data of the Central Statistical Office, the gross domestic product per capita in the Western Transdanubia Region is 101.3 per cent of the national average. Győr-Moson-Sopron County, where a significant part of the respondents (61%) are located, has even better results: gross domestic product per capita is 121.8 per cent of the national average, which is the second best indicator after Budapest (KSH, 2020a). In 2019, the number of economic organisations registered in the Western Transdanubia Region was 189,764; of which more than

90 per cent were classified as SMEs (KSH, 2020b). Respondents were selected by convenience sampling, using databases from a previous research. This technique is faster and easier to perform compared to other sampling techniques. The questionnaire was sent to Hungarian SMEs in an online format between May and September 2020 and 743 SMEs provided responses suitable for evaluation.

The questionnaire included open, closed, and Likert-scale questions on the following topics: general characteristics of the enterprise, employment characteristics, the impact of the crisis on the enterprise, managing the effects of the crisis, role of government measures, etc.

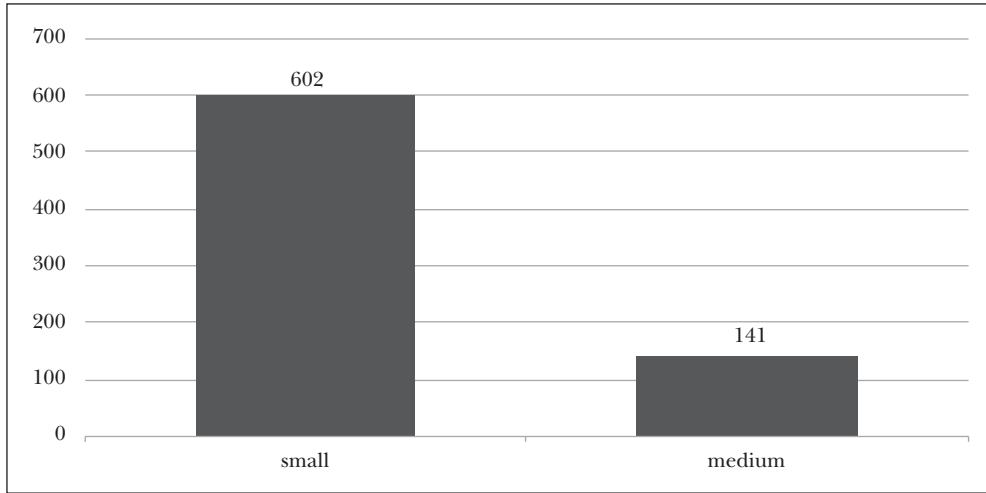
FINDINGS AND DISCUSSION

Figure 1 shows the distribution of enterprises participating in the survey, in a breakdown by size. According to the data depicted in the chart, the survey was mostly attended by small enterprises (602). An enterprise is considered small if the total number of its employees are less than 50, and its total annual net sales do not exceed EUR 10 million. Figure 2 below shows the scope of activities of the surveyed enterprises.

The majority of respondents (283) were engaged in retail trade at the time of the survey, followed by tourism and hospitality (127), and financial services and consultancy (74). Agriculture (49) and the beauty industry (68) also contributed a relatively high number of respondents, while the lowest share of respondents was from mechanical engineering (19) and the construction industry (18).

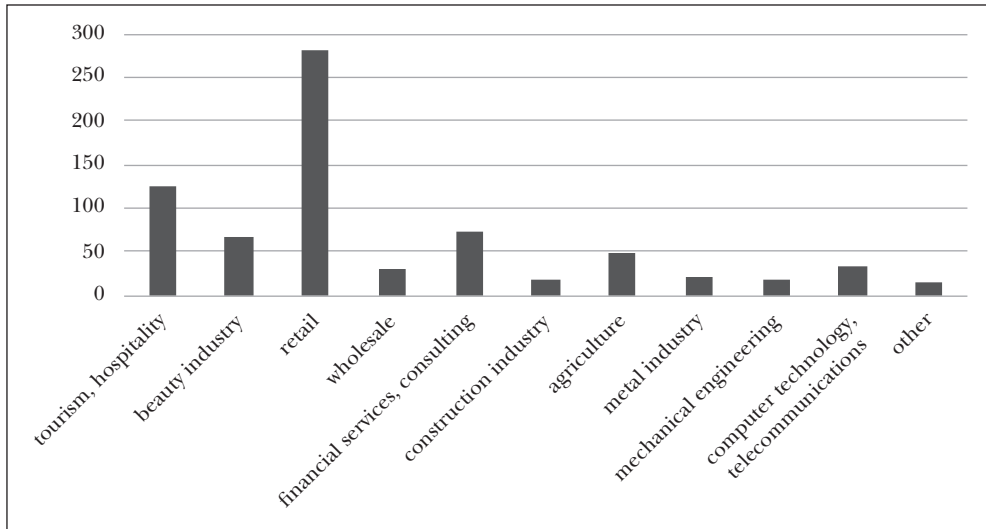
To the general question about the impact of the coronavirus crisis on the company, most of the respondents (85%) chose

Figure 1: Enterprises participating in the survey, by size



Source: Author's own elaboration (2020)

Figure 2: Activities of the enterprises participating in the survey

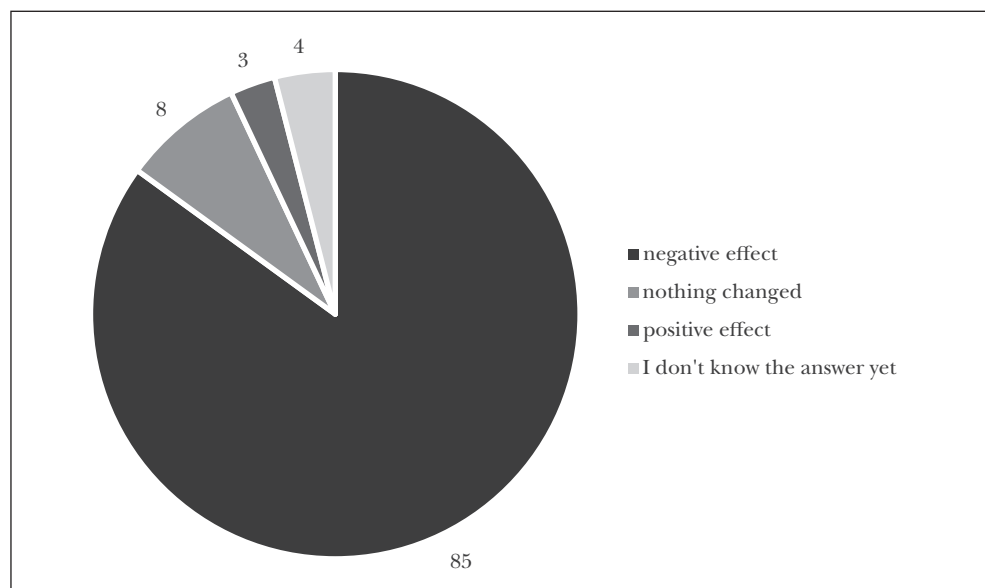


Source: Author's own elaboration (2020)

the option “adverse effect”, followed by “no change” (8%), while the option “favourable effect” was selected by only 3 per cent of the respondents, and 4 per cent could not answer the question at the time of the survey (Figure 3).

The above results confirm the findings of international research: the coronavirus will have a significant impact on the world economy (McKibbin and Fernando, 2020; Dennis, 2020). The COVID-19 pandemic is a global shock that disrupts supply and de-

Figure 3: What impact has the coronavirus crisis had on your business? (%)



Source: Author's own elaboration (2020)

mand in the global economy. On the supply side, infections reduce labour supply and productivity, while enterprise closures and social isolation also cause supply disruptions (Veselovská, 2020). On the demand side, redundancies, the loss of income, and deteriorating economic outlooks are reducing household consumption and business investment (Zoidov and Medkov, 2020).

Based on the answers, it can be stated that SMEs were hit hardest by the coronavirus in Hungary, as it has affected their economic situation and daily operations. The most common adverse effects of the coronavirus on the enterprises were assessed on the basis of the survey.

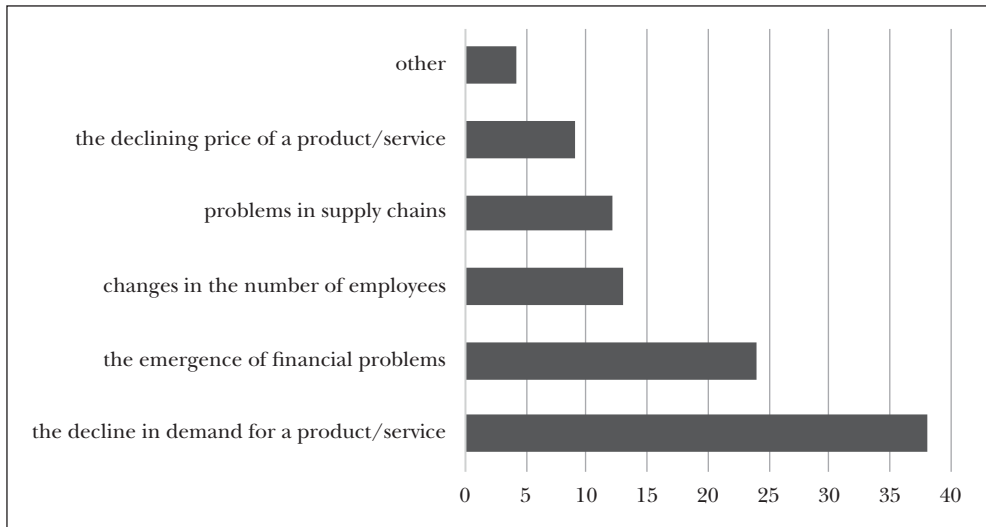
According to Figure 4, the first of the adverse effects was the decline in demand for the product/service (38%), followed by the emergence of financial problems (24%), changes in the number of employees (13%), problems with supply chains (12%), drop in

the price of the service/product provided (9%), while the option “other” was picked by 4 per cent of the respondents.

The following Figure 5 shows the most important crisis management measures the surveyed companies had to take in order to mitigate the adverse effects of the crisis. The figures show that around 35 per cent of the surveyed companies were forced to take financial austerity measures, followed by work from home (22%), the revision of contracts with partners (16%), the dismissal of employees (12%), the involvement of external capital (7%), and finally, 4 per cent of respondents were forced to close down their businesses.

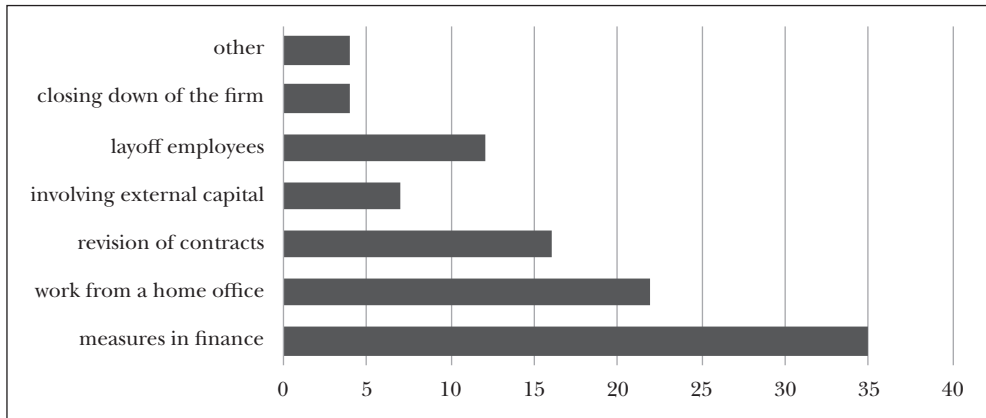
Governments have an important role to play in crisis management in all economies. In Hungary, without the help of the Hungarian government, enterprises would have found it difficult to survive the first wave of the coronavirus crisis. Among the most im-

Figure 4: What adverse effects did your business perceive after the appearance of the coronavirus? (%)



Source: Author's own elaboration (2020)

Figure 5: What crisis management solutions did you use to mitigate the effects of the coronavirus? (%)



Source: Author's own elaboration (2020)

portant measures, support to job retention should be highlighted. Similarly to any other crisis, during the coronavirus crisis employee retention is jeopardised most. Many Hungarian SMEs could have got into trouble without the support of the government. These job retention benefits directly helped enterprises by taking over a signifi-

cant part of workers' wages. Among the other economic measures, the reduction of taxes and incentives to direct economic activities should be emphasised, which all serve the maintenance of competitiveness for Hungarian businesses.

Hungarian businesses do everything within their power to avoid lay-offs, because

they expect to be disadvantaged after the economic recovery if they cannot restart with a sufficient number of employees. Unfortunately, 3 per cent of enterprises surveyed went bankrupt because of the coronavirus. These results have been confirmed by several international publications (Zhili and Qingqing, 2020 and Dolbneva, 2020).

Government measures played an important role in all countries, and the economic protection action plans launched by the Government of Hungary were also of great assistance to SMEs. Based on the responses received, the surveyed enterprises generally had a favourable perception of the impact of government measures.

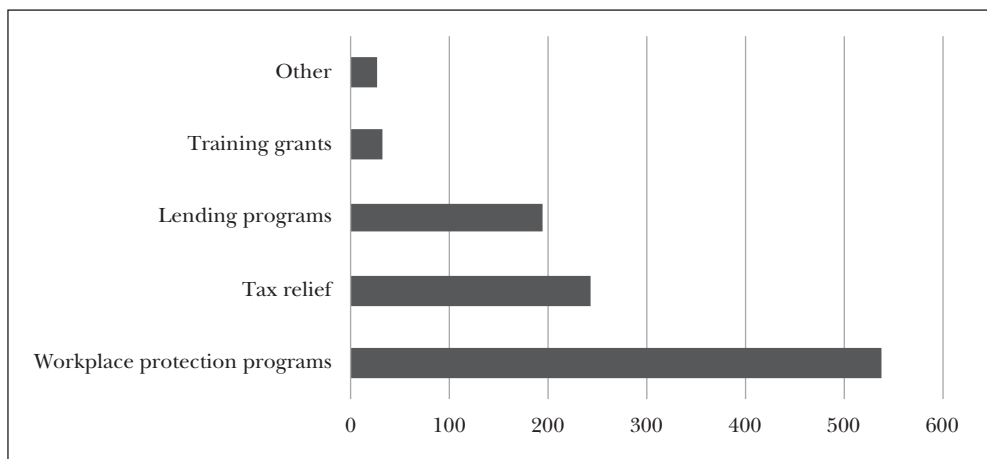
As multiple responses were allowed, it was made clear that many enterprises benefited from more than one options offered by the government to mitigate the effects of the coronavirus crisis.

According to Figure 6, the surveyed enterprises identified job protection programmes (541) and tax relief (245) and lending programmes (196) as the most effective governmental actions. The largest percent-

age of respondents would like the Hungarian Government to help SMEs by reducing taxes or temporarily suspending taxes. Furthermore, employment-type subsidies are also important for SMEs that have not dismissed their employees. This is, moreover, in line with the statement by the world's major organisations that governments should temporarily take over part of the wage costs so that they can save jobs. Training grants (34) were marked as the least efficient, probably because they are less helpful to the SMEs surveyed in combating the coronavirus crisis than other action plans.

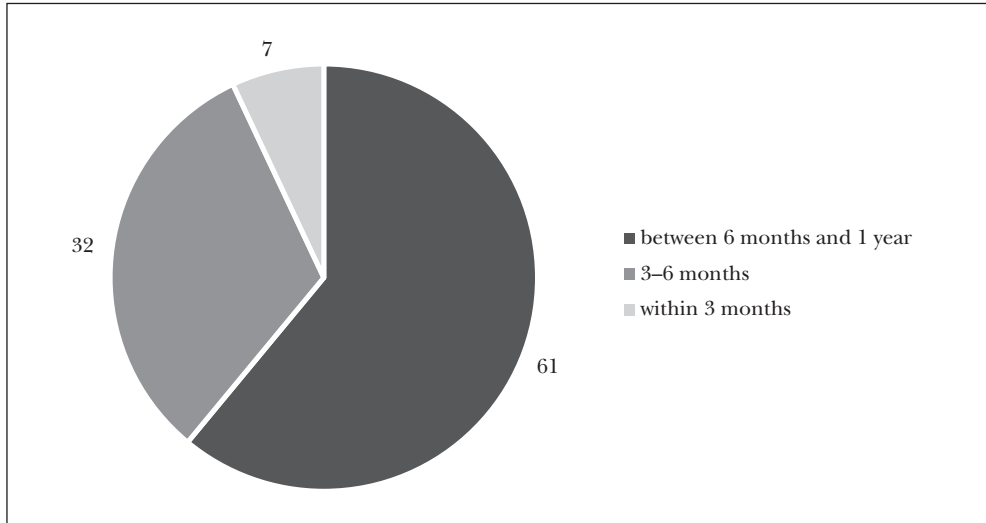
Based on the responses regarding the expected time of business recovery, the managers of the interviewed Hungarian SMEs think that 6 months to 1 year is the most likely (61%) length of time required for recovery, followed by 3 to 6 months (33%), and the most favourable version (within 3 months) was only chosen by 7 per cent of respondents (Figure 7). Based on these, it can be concluded that the post-crisis recovery is planned by the respondents in the medium to long term range.

Figure 6: What government measures has your business taken to alleviate the coronavirus crisis?



Source: Author's own elaboration (2020)

Figure 7: Expected time of business recovery (%)



Source: Author's own elaboration (2020)

The study also proved that 2020 was a very difficult year for Hungarian SMEs. They faced a crisis they had never experienced before, the coronavirus crisis, which had a profound impact on their daily operations. Numerous enterprises were adversely affected, mainly manifest in financial problems and declining incomes, which in turn had an impact on employment. There is uncertainty about the future, and although the vaccine is already available, it is still not known when the economy will return to pre-crisis levels. According to forecasts, if the vaccine proves to be successful, rapid growth may start in the world economy, and this will also have a favourable impact on SMEs, which are critical factors in the functioning of any national economy.

CONCLUSIONS

In addition to the number of ill and deceased citizens, recently the news also re-

ported the fact that the coronavirus has had a significant effect on the economy. The key question for the future is how governments will be able to help enterprises keep this adverse economic impact to a minimum.

The research has shown that strengthening SMEs is essential for strengthening the economy, as they are the engines of any local economy and the largest employers in any country.

The results of the described research has also confirmed that a significant part of Hungarian SMEs face the adverse effects of the coronavirus. Note that there is a correlation between the coronavirus and the daily operation of Hungarian SMEs. Due to the coronavirus, working from home has also become widespread in Hungary, as the surveyed enterprises have switched from the traditional work schedule to flexible forms of employment.

According to the enterprises surveyed, government measures are important, and

they would not be able to survive without them in the long run.

Thus, it can be said that supporting SMEs in crisis situations is a particularly important issue, but the economic strength of SMEs and the awareness of their managers, especially in financial, production, and management, need to be strengthened.

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Announcement about Challenges of Fruit Wine Industry in Hungary

SUMMARY

Everywhere in the world, the culture of grape wine goes back centuries or even millennia. In Hungary, the consumption of Hungarian grape wine plays a significant role in everyday life, while fruit wines are regarded by consumers as unknown, unusual, inaccessible premium products or as beverages for occasional consumption. In the 19th century, the drinking of fruit wine used to be preferred in Hungary. Over the years, a culture of fruit wines and production wineries has evolved throughout Europe on a fairly strong basis, and has, in an unusual way, escaped the ‘attention’ of Hungarian producers and consumers. The aim of this study is to explore the values and opportunities of the fruit wine sector. It is not well-known in Hungary, but there is a great deal of potential in this sector, which, as opportunities unfold, would become more widely known to the consumer soci-

ety. It could become one of the potential sectors of our country besides the production of *pálinka* and grape wine.

Journal of Economic Literature (JEL) codes: L11, L22, Q02, Q13

Keycodes: grape wine, fruit wine, agriculture, production of wine

INTRODUCTION – THE CURRENT SITUATION IN AGRICULTURE

Agriculture is a strategically important sector in the national economy, which is justified not only by its contribution to GDP, but also by the role it plays in safe and healthy food production, the efficient and sustainable management of natural resources, rural employment and the maintenance of the rich and diverse rural landscape (Lentner, 1998; Popp, 2017). Averages from the past few decades show that the joint share of

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agriculture and the food industry in gross domestic product was 5-7 per cent, in investment 7-8 per cent and in employment 6 per cent in the last years, on average. Agriculture is one of the key sectors; however, it is also one of the most exposed to external factors (such as adverse weather conditions and natural hazards, market vulnerability).

In Hungary, the structure of agriculture is sufficiently diversified, and – similarly to other nations – it has a dual economic structure, which means that

- Capital intensive partnerships which have long-term relationships with banks and fully comply with the economy of scale principle and

- Smaller, typically sole proprietorships that often have financing issues are simultaneously present.

As in terms of management, the sector is rather fragmented, in smaller farms, both the need for and the possibility of implementing modern management instruments are at stake, and it is assumed that smaller farms do not always employ highly qualified professionals, which could significantly influence effectiveness, efficiency and financing. There are differences in the financing structure of agri-businesses from the perspective of their being present in foreign markets, carrying out export activities. Hungarian agriculture – based on CSO data – has a significant weight in export-import (in 2019 the export grew by 8.2 per cent and the import by 8.1).

To ensure future prosperity in agriculture, it is necessary to

- improve companies' competitiveness, in both domestic and global competition,

- increase employment in the food industry,

- maintain or increase the number of jobs in rural areas;

- encourage research, development and innovation (which are closely linked to EU grants)

- and expand the fourth industrial revolution's, Industry 4.0 toolkit (which is present in digitisation, robotisation, processing massive amounts of data and process optimisation (Nagy et al., 2018).

The COVID-19 pandemic has drawn attention to the importance of countries' economic structure. It has become clear that the economic structure makes much difference. The coronavirus has also affected this sector; however, in contrast to other sectors, the pandemic has had a lesser impact on agriculture. This leads to the conclusion that agriculture, and more specifically e.g. agricultural innovation, promoting Hungarian, local products, etc. should be assigned higher priority.

THE FRUIT WINE SECTOR

Hungarian viticulture was mostly destroyed by Phylloxera, Peronospora and other disasters at the end of the 1800's, which in turn boosted fruit winemaking. Fruit wine is a fermented alcoholic beverage not made of grapes, like wine, but from other fruits. Fruit wine as a beverage which corresponds to the type of fruit, the only difference from the original fruit juice is that the sugar it contains and the added sugar are converted into alcohol. In the 19th century, fruit wine as an alcoholic beverage had a priority in Hungarian consumption; however, owing to breeding, wines made from grapes gained more ground again on the consumption ranking list. Although grape wine culture has a centuries- or even millennia-old history, it is quite inconceivable how a recently privileged product can become so forgotten that it appears as an unknown

concept to the general public. Despite the fact that a rather strong base culture of fruit wines and production wineries has evolved throughout Europe, or in the neighbouring countries, it has, in an unusual way, escaped the 'attention' of Hungarian producers and consumers.

Fruit wine does not exist as a legal term; it belongs to the group of other fermented beverages. Not only is the name fruit wine associated with quite a few recognised products in Hungary, but its production is also rather similar to grape wine, from purchasing the raw material to delivering the finished product to the consumer – with the exception of a few materials. Regarding its origin, Hungarian consumers prefer Hungarian to foreign wines, which may result from the dominance of Hungarian wines on the shelves. In our country, the consumption of Hungarian grape wine plays a significant role in everyday life, while fruit wines are regarded by consumers as an unknown, unusual, inaccessible premium product or as a beverage for occasional ingestion.

The aim of the study is to explore the values and opportunities of the fruit wine sector. It is not well-known in Hungary, but there is a great deal of potential in this sector, which, as opportunities unfold, would become more widely known to the consumer society. It could become one of the potential sectors of our country besides the production of pálinka and grape wine.

THE TIMELINESS OF THE TOPIC, THE RESEARCH PROBLEM

Today is the renaissance of the wine and culture relationship; it is an age when customers receptive to culture are more selective in their choice, as well as value and enjoy the moderate consumption of a noble drink.

These changes in the environment require the consumer to appreciate the range of products, be willing and able to make a choice and support the sector and the operators in the sector by their purchases (Hofmeister and Totth, 2006).

Those who wish to operate a fruit winery are strongly recommended to pay a visit to as many wineries and factories as they can (either wine or fruit wine). Winemakers need to be open so that they can accept adequate and good advice easily. This helps vintners avoid obvious mistakes, moreover, it is easier to develop based on a few good tips and advice and practical experience is also important regarding the time-consuming nature of the business. Starters can obtain help and support from visiting other wineries and cellars, and talking to master winemakers in order to produce quality wines, increase their income and avoid costly mistakes (Dominic, 2007).

Unfortunately, this level of directness does not work in Hungary; that is one of the reasons why the Hungarian fruit wine sector has less than 1 per cent of the entire wine production. It is not easy to enter the fruit wine market; it requires strong competitive spirit while numerous factors influence keeping the costs low. Increased investment may improve future profit potential; however, it also increases the chances of increased failure (Mokos, 2016).

The best advice that can be given is perseverance, intelligence, morale, creativity, contact skills, attention to detail, strict differentiation at tasting and quality, and finally, luck is another key to success. Financial factors must be considered in this sector, as well. Several winemakers are not business people. They have to assess the weaknesses of their enterprise, be open and up-to-date in order to hire the appropriate person for

eliminating shortcomings and weaknesses with a view to prospective profitability.

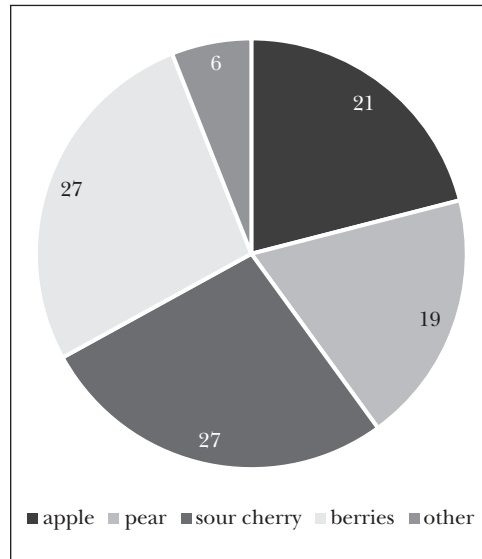
For those planning to open a fruit winery, the continuously increasing sector is a confidence factor, not to mention the growing trend of fruit wine consumption. However, it is of utmost importance to carry out repeated financial analyses with great care, sensibility and in detail. It is also worth learning from others' mistakes, and especially when starting up a winery, hiring an experienced winemaker. It is cost-effective, as there is a lot to learn from an experienced winemaker, which means lower error rates and it could help avoid additional costs, too. Attention must be paid to a number of areas, ranging from starting up the company, production, sales and marketing to the entire day-to-day operation of the business. Focus should be on setting up the company, production and sales, with financial details entrusted to accountants.

The results of the Corvinus University of Budapest study on willingness to taste fruit wines show that approximately 30 per cent of respondents are willing to taste sour cherry and berry products respectively. Only 19 per cent of Hungarian consumers are willing to choose perry, which enjoys great popularity in England (Perjési and Podruzsik, 2011) Figure 1 shows the well-known and common fruit wines in Hungary, which are worth integrating into supply chains, and thereby, the broadened spectrum can ensure a streamlined product flow process in the future.

SUPPLY CHAIN IN THE FRUIT WINE SECTOR

Today, it is not companies but entire supply chains competing against each other on the market. The winners of market competition are those who can operate the supply chain

Figure 1: Willingness to taste fruit wine



Source: Perjési and Podruzsik, 2011

the most efficiently (Kozma, 2018). To remain competitive, companies are forced to attract customers with first-class products and services, at the lowest possible price and shortest possible delivery time. The relationship between supply chains and logistics entails confusion, misuse and synonymous use (Salamonné, 2010).

A supply chain is an activity integrating key processes from the producer to the final consumer, during which process a product, service and information with value in use are created. Supply chain management is based on consumer needs and it manages all those processes that are required in delivering the value to consumers (Morgan and Monczka, 2001). Firstly, the supply chain is the group of those companies among which the product and service flow during their production. Certain individual organisations may encompass all the parts of the supply process, the production of the product and its delivery to customers – ranging from purchasing raw ma-

terials and producing parts, wholesalers and retailers, to logistics providers. Organisation in the above definition mostly refers to an international large company, whose subsidiaries can be found worldwide and together they form a single large organisation. Looking at traditional supply chain operators, the chain begins with the supplier, whose role is to provide producers with the items needed for production. Producers manufacture the product or create the service and sell them in big batches to wholesale distributors, who in turn, supply retailers according to their respective catchment area. Retailers sell the product to the final user, the consumer. The relationship among the operators in a chain is characterised by logistics services and information relationships.

A short supply chain (SSC) is comprised of a small number of economic operators, who are committed to co-operation, local economic development and close geographical and social relations between producers, processors and consumers. At present, traditional SSCs are relatively easily accessible to consumers and producers alike; however, without developing cooperation, the sustainable operation of both modern SSC types and traditional forms is highly uncertain. In addition, farmers, especially smaller enterprises that are not competitive independently, find it hard to react with development to new challenges. The need to strengthen the social recognition of short supply chains means that SSC producer and consumer visibility and recognition need to be strengthened alike (Szabó, 2014).

Local food and the related short food supply chains attract more and more attention from consumers, consumer representation and rural development civil society organisations, producer organisations and decision-makers at all levels. There are sever-

al problems concerning the sustainability of the traditional food industry (Duleba, 2006) (environmental impact, economic and ethical problems due to the dominance of multinational retail chains, food safety considerations, etc.); short supply chains could provide a solution to these problems for consumers and producers as well. A short supply chain means that production, processing, transportation and consumption occur in close proximity (Duleba, 2008), that is, these processes take place in a predetermined area (according to the relevant Hungarian regulation, within 40 km), and the number of the intermediaries between the producer and the consumer is low (Benedek et al., 2014; for SSC forms: Szabó, 2013).

Direct: the producer sells to the final consumer in person or in cooperation:

- “Open farm”: farmyard, village guest table, U-pick, community supported agriculture
- “Points of sale”: market, producer market, festival, fair, farm shop
- “Home delivery”: box system, online sales, moving shop.

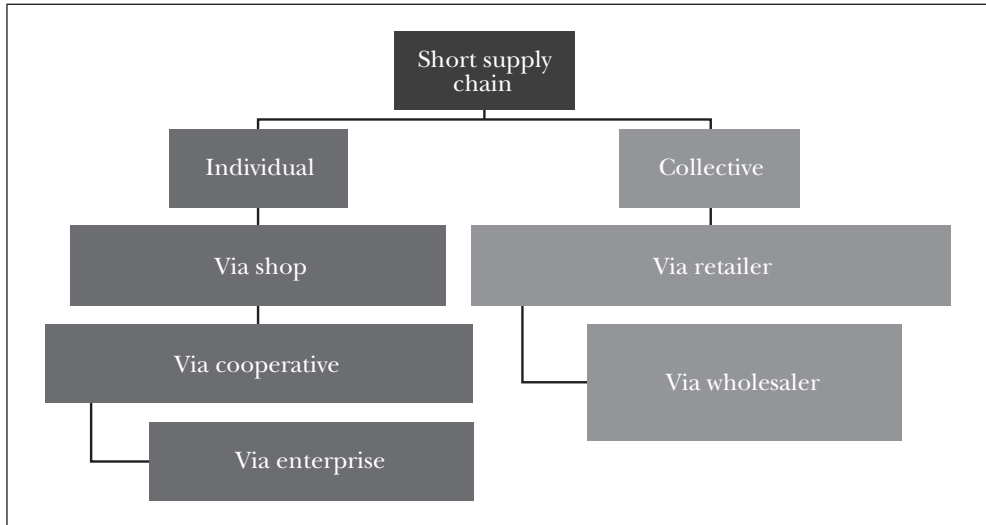
Short: the producer sells to an intermediary in person or in cooperation:

- Catering,
- Mass catering,
- Food retail.

THE FOOD MILE (FOOD KILOMETRE) CONCEPT

The European Agricultural Fund for Rural Development (EAFRD) regulation defines short supply chain as “a supply chain involving a limited number of economic operators, committed to co-operation, local economic development, and close geographical and social relations between producers and consumers”. Small geographical distance is

Figure 2: Sales channels of the fruit winemaking supply chain



Source: Authors' elaboration

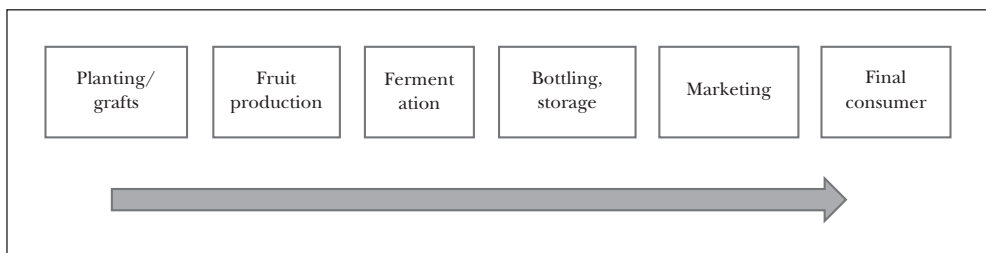
a key to SSC; however, based on consumer surveys, “local” has multiple understandings. While in Hungary regulations determine local products within a 40km distance, in the United States of America, it means a distance of 400 miles (644 km). Obviously, the applied measure influences what is socially acceptable in terms of the distance food travels, that is, how big the energy demand and the emission of greenhouse gases of transport are (Benedek et al., 2014).

Unlike the path of a product in traditional supply chain going through various opera-

tors, in certain companies multiple supply chain processes are concentrated within the activity frameworks of one business. In case of wineries, it is often not possible to differentiate purchasers/suppliers, producers and intermediaries, they are involved in a single organisation.

Based on Figure 3, it is clearly visible which stages of the short supply chain fruit wine as a final product (in the case of winery with own vineyard) goes through, from planting the vineyard to delivery to the final consumer.

Figure 3: The process of fruit wine traveling along the supply chain



Source: Authors' elaboration

FRUIT WINE POSITIONING

In Hungary, the annual wine sale is about 2.5 million hl, with an annual per capita wine consumption of approximately 30-32 litres, while according to surveys, half of the Hungarian population does not consume wine at all. There are historical reasons for the significant consumption in Hungary. In 2007, 27 per cent of the wine came directly from winemakers or Hungarian production (Konkoly, 2012).

Traditional Hungarian winemaking is maintained by 5-8 per cent of the wineries, of which 10-12 leading producers predominate in Hungarian chain stores. Naturally, smaller wineries are also present in supermarkets, albeit with smaller selections (Domán, 2009). Presently, there are hardly five registered businesses producing a marketable amount of fruit wine in Hungary; however, product awareness among the public is due to Hungarian production. Fruit wine barely amounts to 5 per cent of the total wine consumption, within this, own consumption has a remarkably high rate at about 75 per cent. Although Hungarian wine-drinkers tend to be open to novelty, they would rather choose established practices, customary tastes and convenience in most cases.

One of the consequences of oversupply characterising most consumer markets is that today's consumers are getting more sophisticated, although it is significantly hindered by subjective perception partly determined by limited information uptake and partly by intensive marketing activities from companies. Consumer needs, however, are greatly formed by companies as well; spontaneous real consumer demand is less and less prevalent owing to the rapid technical and technological development. The desire

for fully catering to demands, or, from the business perspective, for profit maximisation, encourages and forces companies to get a full understanding of these consumer expectations and adjust their production capacities accordingly (Szűcs, 2008).

In the food industry, and more specifically, in the beverage trade, supply hardly ever meets demand, since consumer behaviour and their demand for the products cannot be determined. Therefore, to avoid potential market shortages, there is often oversupply on the market, which is more intensive in the case of fruit wines, as the majority of consumers are not prepared for noticing the products well enough to ensure their mass sales. In order to achieve a better utilisation of demand, the application of promotional marketing instruments that are closely linked to consumer needs is required.

Advertising, and in general marketing communication provides ample examples for referring to value. From the perspective of wine, it is sad that several values that we traditionally associate with wine, are linked to one of the most significant wine substitutes, beer, as a value related to the beer brand, e.g.: friendship, company, entertainment, cheerfulness, intimacy (Deák, 2013).

When using adequate marketing and other instruments, pricing also shows a different direction from the point of view of the product. The applied pricing strategies are different for New World and European wine. European producers focus on low-price Popular premium, and high-quality and costly Ultra-premium categories. In contrast, New World wine producers prioritise the Super premium segment by expanding the selection of high-quality and high-price wines. They regard Central and Eastern European wines low-price, in the lack of

image, which, as added value, could bring extra profit to winemakers (Sidlovits, 2008). Fruit wines that now appear as a rarity on the market are in the premium pricing category, while their production and treatment are greatly similar to that of grape wines. Thus, to ensure greater awareness, pricing should be lower in the future, or it has to be established in the sector for once that fruit wines are meant to meet the demands of a higher, more sophisticated consumer group.

In the countries of the European Union there are different rules and regulations regarding fruit wine production and placing on the market. They prescribe the amount of distilled alcohol that can be added to achieve the alcohol strength, the concentrated fruit content of the base, and, obviously, compliance with quality criteria regarding the final product. All European rules allow the addition of water. Sugar and honey addition are a constant debate; however, there are hardly any products on the shelves of Hungarian supermarkets that do not contain a considerable amount of added sweetener – beside the sugar needed for fermentation. The European Cider and Fruit Fine Association provided guidelines regarding standardised fruit wine production. In view of the above, entering the export market is a possibility. The domestic oversupply could primarily be sold in countries with a greater consumption culture, such as Great Britain, France and Spain.

FRUIT WINE-MAKING MACRO ENVIRONMENT (PEST ANALYSIS)

We examined the situation of fruit winemakers using direct sales and indirect product distribution using a PEST (Political, Economic, Socio-cultural and Technological) analysis, along four dimensions.

Economic policy factors

Premarketing qualification obligation is specified by law. According to Article 24/A of Act XVIII of 2004 on Viticulture and the Wine Industry (hereinafter: Wine Act), wine industry products – with the exception of fresh wine-grape, concentrated wine-grape, botrytised wine-grape, crushed fresh wine-grape and grape must – can only be marketed for public consumption, or exported from Hungary for further processing, if the Hungarian wine authorities have carried out analytical and organoleptic tests and have established the quality, or an authorised body of a party to the Agreement on the European Economic Area, or other legally determined European organisation has established and approved their quality as compliant with the regulations they are subject to.

Fruit wine is not listed as an excise good in excise legislation; however, other fermented beverages (e.g. cider, perry) fall under tariff heading 2206, and fall into the excise good category as other still fermented beverages, based on Article 3 (3) 10 b) of Act LXIII of 2016 on Excise Taxes (Horváth, 2017).

At present, beside value added tax, fruit winemakers and vendors are only subject to paying one type of tax (which can be viewed as excise tax), which involves the payment of a ten-thousand HUF tax per hectolitre according to regulations.

Economic factors

At the end of the 1800s, viticulture was mostly destroyed by Phylloxera, Peronospora and other disasters all over Europe; in Hungary until 1897 out of 666,820 (kataszteri) hold (equivalent to app. 383,700 ha)

vineyard 391,217 (app. 225,000 ha) was destroyed. Afterwards, wine production significantly decreased and fruit winemaking started to boom and become slightly more prominent. During this time, the attempt to refill vineyards with selected vine stocks as substitutes, as we all know, was a major success. Nearly one hundred years – while fruit wine substituted wine on the market – were not enough to improve its public awareness and acceptance.

The accession to the European Union brought increased union regulations and administrative burden to winemakers. In addition, the effects of the 2008 economic crisis are still felt in the sector, after which willingness to purchase wine became significantly lower and it is still stagnant.

Social/cultural factors

It is an important factor that fruit wine does not have a historical past and the concept, the taste and the product itself has a low level of public recognition. In general, 80 per cent of the Hungarian population have already tasted fruit wine, some even prepared it at home as a hobby or made it for domestic consumption in the family.

The age pyramid of Hungary shows a constant aging trend, which is not necessarily a positive prognosis with regard to fruit wines, as older generations are less likely to accept novel innovative products and their consumption is based on habits. In contrast, younger consumers do not represent enough consumer power to influence customer standard means, despite having entirely different expectations than their ancestors regarding alcoholic beverages. The young generation is open to novelty, and can learn about unknown products that piqued their interest easily due to in-

creased information flow. Nowadays, a high priority is given to the consumption of exotic products, and fruit wine as a product falls into this category. Eating and drinking habits have also changed: grape-wine, which used to be an everyday product, has become an indulgent product, thereby table wines have disappeared from regular meals and they have been replaced by the less frequent, occasional consumption of quality wines. Fruit wine is characterised by lower quantities of consumption; a particular section of society drinks it as a dessert wine.

Technological factors

After the European accession a wide range of opportunities opened for active factories and new wineries. Especially in the 2007-2013 programming period, when several billion HUF agricultural and rural development grants (Popp et al., 2017; Popp et al., 2018a; Popp et al., 2018b) were made available to provide producers alternatives for using new technologies and techniques, and investing in machinery and equipment. Sadly, however, the technological upgrades and investment could not ensure an advantage in the fruit wine sector, since, as detailed earlier, according to legal definition, fruit wine does not belong to the wine family and thus no grants were available for process development or production.

There is only one instrument to improve fruit wine recognition in the lack of grants and innovation: a method, which integrates wine products made from fruit as diversification among the products of well-known wineries and cellars. An example for such a process was applied by the Mokos Winery. Starting as wine producers, the company grew into a recognised winery in the Villány

wine region. Then, carrying out sectoral expansion in a year of good harvest, they began producing and experimenting with fruit wines. The winery has dealt with fruit winemaking and sales since 2007.

PRIMARY QUESTIONNAIRE CONSUMER SURVEY

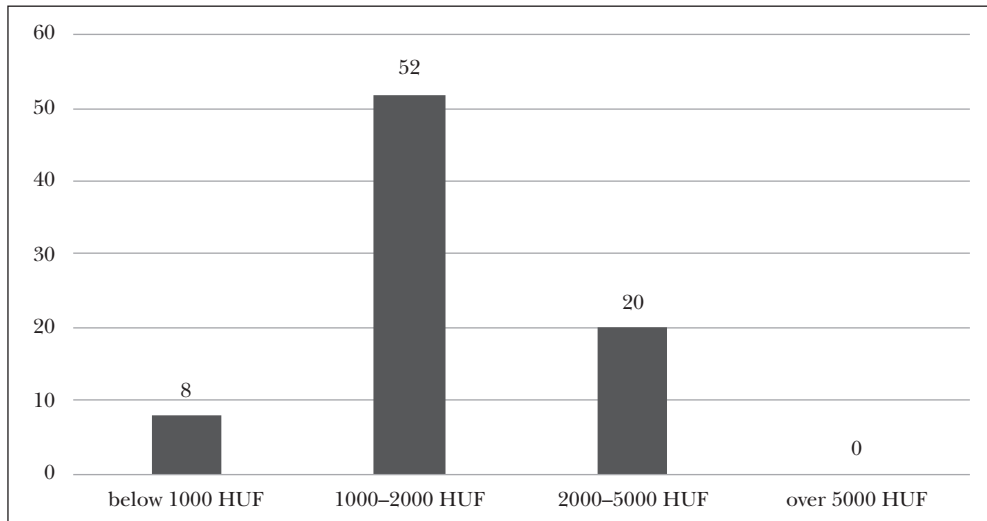
In order to explore the situation of the fruit wine sector compared to its competition, grape-wineries, we conducted a questionnaire survey among consumers to measure consumer readiness for innovation. Due to their characteristics, fruit wines belong to high-price category products. Production costs and intrinsic value draw the lowest line in pricing at 2,000 HUF/bottle (0.5 litre) at present. The taste itself is not compatible with every meal or even everyday consumption. Considering the price and the quality, it is mostly targeted at the better-off. Figure 4. shows well how much the respondents are willing to spend on certain fruit wine

products. Based on the above, respondents remained in the common 1000-2000 HUF price category, since they used grape-wines for reference due to unfamiliarity with the production and the value of the product.

80 per cent of the respondents said that they would love to try fruit wine, or consume it alongside wine. In comparison with fruit spirits, they regard fruit wines exotic, premium products. Therefore, building on consumers open to innovation, winemakers marketing fruit wine as a diversified product could achieve stable sales and profit.

Fruit wine as a product only appeared in Hungary in the mid-2000s, and is therefore considered an unknown product on the market. Winemakers that has made a name for themselves with grape-wine have grape-wine machinery and equipment acquired on EU grants, and a solid customer base. Based on their references, the introduction of a new product, besides improving local value added, could help attract more consumers and raise the public's brand awareness.

Figure 4: Willingness to spend based on price categories



Source: By the authors (2019)

The new generation of fruit wineries and cellars that did not receive grants and have lower rates of working capital, could use the handcrafted concept as a resource to attract customers. Today production is characterised by automation and mass production; consequently, customers highly value products manufactured with hand and without the use of external power.

Hungary's first handcrafted fruit wine manufactory, the Sápi Tímea Handcrafted Fruit Wine Manufactory applies the appropriate, detailed method which gives them competitive advantage. They only use natural ingredients, process first-class fruit immediately and fermentation happens at a regulated temperature. Fermentation is done using reduction, that is, in containers in an oxygen-free environment. To ensure the sweetness of the wines, fermentation is stopped by cold crashing. The yeast dies but the internal content value remains intact. Another benefit is that they use 100 per cent fruit during processing, the products do not contain any flavour or fragrance enhancers. This earned them the Hungaricum premium rating as their wine products do not contain artificial ingredients and have high quality. Bottling and corking are done without the use of machinery. They do not use bottling lines, they manufacture wine manually, just like in the old days. Focusing on preserving traditions, they are planning to continue manufacturing this way. Although it requires more work, a quality product deserves the attention. The basic principle is quality, so mass production and multinational marketing are non-objectives. The company has won several prizes in prestigious Hungarian and foreign competitions. What they are proudest of is the Hungaricum premium qualification, which is a trade mark at the same time. In March 2019

they introduced their novel wine named Blue Blood, made from natural ingredients. When the Kossuth Radio learnt about the news, they made an interview, which was a huge success for the company.

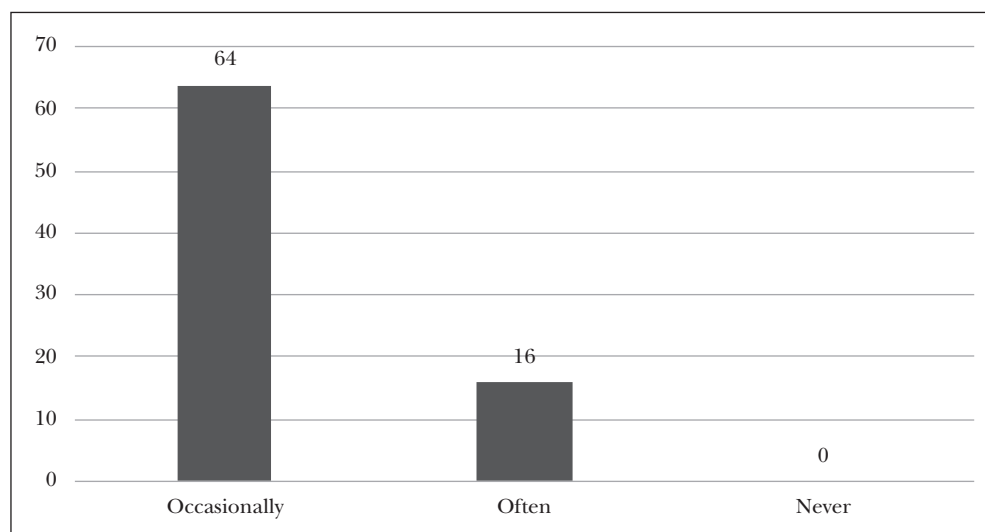
It is a debated issue whether fruit wine can ever stand in competition with grape-wines. Grape-wines have a great long history with a well-beaten path and high recognition all over Europe, and in Hungary, as well. Despite this, fruit wine recognition is particularly low in our country.

The study clearly showed consumer readiness. Interest has a decisive role, however, as the figure also shows, that the frequency of consumer willingness is rather low: consumers would only open a bottle of fruit wine on holidays, for important events. The figure would be just the opposite for grape-wines in terms of occasional and more frequent consumption (Figure 5).

Based on the above, although in consumers' knowledge fruit wines enjoy premium status, they would not go beyond a one-time or occasional tasting and consumption. In contrast to grape-wines, they could only gain priority again, if people's tastes in wines underwent a radical change or new devastating vine diseases appeared in the future.

Figure 6 shows that, based on available 2017 data, the size of orchard territories exceeds the overall size of vineyards by 20 per cent. Considering the flavours and the various types of fresh fruits, not many people give a thought to the fact that similarly to grape-wines, it is possible to ferment fruit to make alcohol and wine. Regarding the territorial distribution of plants, we can say that on the considerably larger orchard plantations, the volume of wine production could reach comparable, if not better, results as the amount of wine produced on

Figure 5: Fruit wine consumption frequency



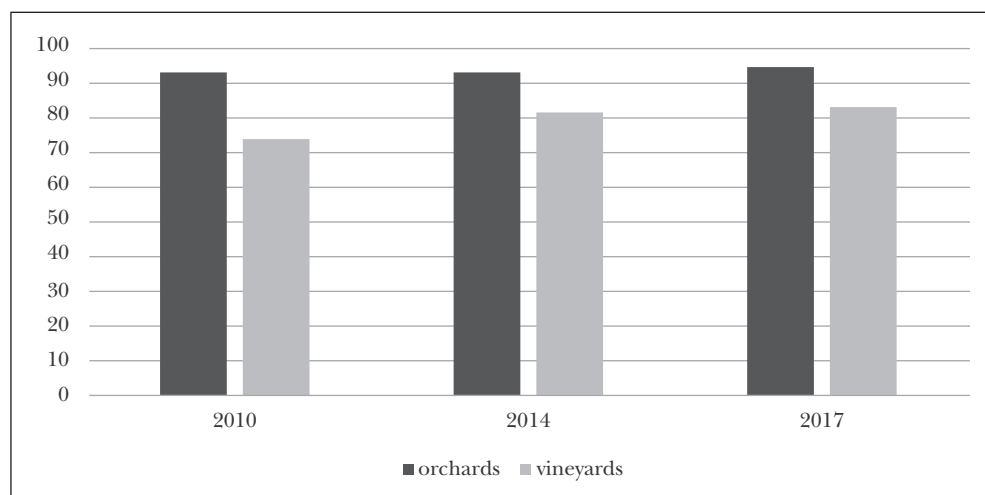
Source: By the authors (2019)

the smaller vineyard areas (which also grow fresh fruit produce).

In Hungary fruit winemaking barely goes back to a decade; therefore, the concept itself is relatively unknown (does not even exist in legal terms), the product is not

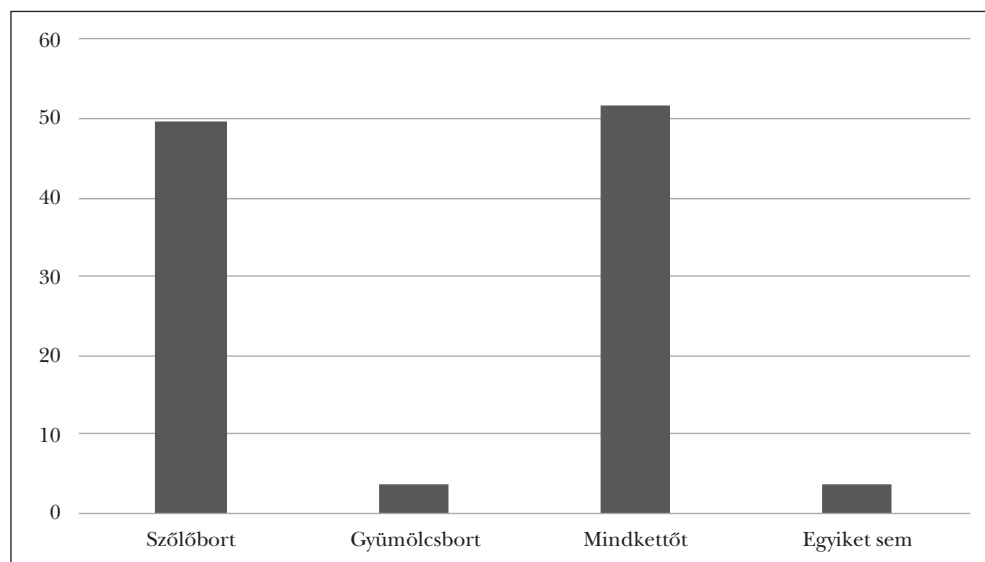
integrated into public awareness, and, consequently, it is often neglected. The Hungarian people are becoming more open to innovation, yet, the majority of consumers still assume that grape is used for wine-making, while fruit is used for making pálinka.

Figure 6: Hungarian orchards and vineyards, in 1,000 ha



Source: By the authors based on KSH datas

Figure 7: Type of wine customer choice



Source: By the authors (2019)

Alongside grape-wines, fruit wines are becoming more common on the shelves of supermarkets. Consumers have the opportunity to choose from the two types. Customers are willing to buy innovative products, the majority of respondents would purchase and try both types of products to ensure that in case the fruit wine does not live up to their expectations, they could still resort to the grape-wine of usual quality. As the figure shows, given one choice only, the popularity of grape-wine is four times that of fruit wine (Figure 7).

CONCLUSION

The fruit wine sector is a production sector in the initial phase of development, whose supply chain is relatively vague and the process is uncertain. The product has two routes: it can go through the areas and actors of the chain in the traditional or the SSC way. Hungarian grape-wine (and spirit)

production dominates the market, while wines made from fruit barely reach a 1 per cent wine market share. Thanks to the geographical features of the Carpathian Basin, numerous types of fruit thrive in Hungary, and this characteristic and the potential is too great to be missed. Given the size of our country and its cultural heritage, the fruit wine sector is less prevalent, yet both its values and opportunities are among the best in Europe.

The questionnaire consumer survey has shown that although consumers are willing to accept innovation and they do not reject fruit wine as a new product, potential consumers are still not ready for exclusivity or greater consumption. In view of its fruit quality and values, Hungary has the ability to produce for the world (export) market; however, the Hungarian fruit wine market is dwarfed by its foreign counterparts. The primary objective is to achieve expansion on the local market.

Alongside grape-wine production, the volume of fruit winemaking should be given a boost, which would be ideal and beneficial for the entire wine sector, Hungarian and foreign alike. Hungarian grape-wine marketing on the world market is relatively low standard – mostly because of the limitations from the size of the country –, but they have gained popularity within the borders and in the neighbouring countries, as well. However, the same does not apply to fruit wines; in their case, improved marketing areas could help product awareness, recognition, and make them more tangible and accessible for consumers.

In contrast to fruit spirits, fruit wines are viewed as exotic, premium products. Therefore, building on consumers being open to innovation, winemakers marketing fruit wine as a diversified product could achieve stable sales and profit.

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Márton Gellén, Anita Mária Rácz

Motivation and Professionalisation in Hungarian Civil Service – an Empirical Analysis on Hungarian Regional Civil Service

SUMMARY

The article displays and analyses the results of empirical research, in the context of mainstream public sector motivation PSM literature, and in the context of the recent Hungarian legislation on public service personnel management. The aim of the article is to clarify the impact of the new legislation on the motivation of Hungarian civil servants. The findings ought to be interpreted with references to the complexities of practice in Central and Eastern European civil service, widely considered as Weberian, although with significant elements of legalism, politicisation and post-Soviet management style. As this public administration culture is heterogeneous and its components are contradicting, changes in public personnel management policies might lead to unexpected or largely vary-

ing effects. This article presents the findings of public personnel management policy change through the evaluation of the responses of civil servants in regional civil service. The article concludes that the subjective value of job security is less than expected, but satisfaction with the pay is significantly above expected. Streams for promotion are frozen, good workforce is difficult to retain in civil service but those who remain in the service consider themselves highly motivated, receiving helpful support from their supervisors and feeling that they have a rewarding job in serving the public.

Journal of Economic Literature (JEL) codes: H83, J45, O18

Keywords: public sector motivation, leadership, public administration culture

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PUBLIC SERVICE MOTIVATION THEORY
IN BRIEF

Public Service Motivation (PSM) theory was, for the most part, developed by James Perry, who separated motivation, as a certain passion of serving the public, and the general management motivation theory, which was created to meet the needs of the business sector. The main finding of the PSM theory is that staff motivation in the public sector is characterised by significantly different features than motivation in the private sector. Civil servants indeed have very different internal preferences than workers in the market sector. Furthermore, certain motivating factors that are applicable in the business sector prove to be even counter-productive when it comes to the public sector.

Perry et al. (2006) found that financial incentives slightly influence work performance in the public sector but far from being as effective as one would instinctively think. In fact, changing the way of thinking about the effect of financial incentives in the public sector was one of the main intellectual achievements of PSM theory. Stajkovic and Luthans (2003) based their findings on an empirical research of 72 cases, and concluded that financial incentives have 23 per cent impact on work performance while social recognition correlated to work performance by 17 per cent and feedback from the supervisor contributed to work performance by 10 per cent. Any single one of these factors hardly improved performance but if conducted in a combined way, their overall impact was 45 per cent, which can be considered as a significant and tangible performance growth. Bucklin and Dickinson (2001) found that individual financial incentives – such as pay by performance – do have beneficial impact on individual

motivation but such incentives are more effective if they are applied in combination with feedbacks from supervisors. Perry et al. (2006), however, insist that this finding was based on research that has a rather low validity in relation to public service.

According to the studies of Milkovich and Wigdor (1991) pays based on performance do have a tangible impact but only if the remuneration policy is embedded into a fair and effective process. The actual feasibility and comprehensibility of the practice followed by any given public institution is almost as important as the potential pay itself.

Contrary to the theorists of public service motivation directed to increase individual performance, Perry et al. (2006) found that group incentives are more efficient than individual motivators. In content, group incentive means that a certain percentage of the pay is tied to the collective performance of a given group, unit of sub-unit. Perry et al. (2006) base this statement on the results of DeMatteo, Eby and Sundstrom (1998) as well as on Honeywell-Johnson and Dickinson (1999).

Naturally, there were substantial differences between the research designs listed above but the authors have consensus in concluding that equally distributed, relatively small groups were the most receptive to group incentives.

Work schedule, planning and the organisation of work also strongly correlate with motivation. At this point affective and behavioural motivations need to be differentiated based on the works of Griffin et al. (1981). Perry et al. (2006) agree with Griffin et al. (1981) that measuring work results is much more difficult than measuring workers' satisfaction, while these two factors do not necessarily correspond to each other.

Civil servants' participation in decision-making is another important element in public-sector motivation according to Cawley et al. (1998). Gellén (2016) detected a strong desire among civil servants for involvement in public sector decisions. According to Wagner (1994), participation may contribute to better decisions but its causal connection to motivation is limited. Participation is linked to leadership by objectives, which was among the most intensively researched fields in the USA in the 1990's (Mitchell and Daniels, 2003). Setting objectives and motivating personnel towards objectives proved to be difficult a task due to multiple contextual elements that influenced motivation. If objectives are too abstract or too difficult to comprehend, it tends to discourage civil servants and thus often diminishes their motivation (Locke and Latham, 2002). According to Perry et al. (2006), motivation by objectives provides tangible results if the objectives are matched by feedbacks and performance-based remuneration. Desmarais and Gamassou (2014) question the generally assumed high correlation between PSM and hierarchic position. They found that relatively high PSM can be measured even at the lower ranks of the (French) civil service. They explain their finding by an *a priori* existing altruistic mind-set in civil servants and by the cultural specificity of Francophone countries that civil servants feel rewarded by being able to do something for the public (Cartier et al., 2010).

The correlation between PSM and age (Bright, 2005) and PSM and position in the hierarchy are also discussed by various authors. Naff and Crum (1999) found that PSM slightly increases throughout the long years of the public service career. Perry (1997) also demonstrates this phenomenon and explains it by assuming that there

is a higher probability of occupying leadership positions at a higher age, furthermore, merit-based promotion systems tend to select those to higher positions who have high motivation in general.

According to the PSM theory it is an improper approach to assume that general management techniques can be automatically implemented in the public sector. Appreciation and "the ability to do something for others", similarly to "being involved in important things" (Gellén and Kudo, 2015) are nearly as important motivating factors as an appropriate pay.

The motivation to choose a public sector job largely stems from the trust that such jobs are more stable than those offered in the private sector. This perception is, however, increasingly less accepted, and therefore lifelong loyalty and commitment are less typical than they used to be (Bozeman and Ponomarev, 2009). Köllő indicates that relative pay position is the decisive factor to encourage cross-sector mobility (Köllő, 2013). Another chunk of theory has its focus on more subtle factors, which are difficult to detect, such as the principal–employee relationships (Jurkiewicz and Brown, 1998). Instead of searching for a single factor of motivation in cross-sector mobility, Ito conducted his research in three clusters of public service, including technical, professional and leadership positions (Ito, 2003). He focused on motivations to apply for a public sector position. According to his findings – based on a sample of 310 Canadian federal administrators – the key motivating factors see in Table 1.

According to Ito's findings (2003), in the case of Canadian civil servants, commitment to the common good or to the agency are not among the top priorities of choosing a public service career.

Table 1: Jack Ito's numeric results on the motivational factors in Canadian civil service, 2003

Priority	Percentage points	Response
1.	89%	The opportunity just came at the right time
2.	69%	I had the opportunity to practice the profession I have a university degree in
3.	48%	Good career opportunities in public service
4.	47%	I scrutinized other private and non-profit job opportunities as well
5.	41%	Salary
6.	41%	I can serve public good
7.	29%	The goodwill of the given public agency

Source: Authors' own elaboration

EMPIRICAL FINDINGS ON MOTIVATION IN HUNGARIAN CIVIL SERVICE

Hungary is generally considered as part of the Weberian public administration culture. It is also said to be highly legalistic (see Hintea et al., 2006; Hajnal, 2014), while having tendencies towards politicisation (Meyer-Sahling, 2006). Cameron and Orenstein (2012) add the perspective of the near past, claiming that a certain flavour of post-Soviet leadership style is also present in the public sectors of the entire region. Out of the layers of complexities, we consider the Weberian aspect to be the most profound and decisive. Empirical findings on motivation ought to be interpreted taking Weberian legacy as a contextual element.

Empirical research on PSM in Hungarian civil service is not as abundant as it could or should be. Characteristic findings made back in 2016 serve as points of reference to the recent empirical research described in the following part of this article (Gellén, 2016). One might argue that there were substantial differences between the data collection methods of the two research projects, the former conducted in

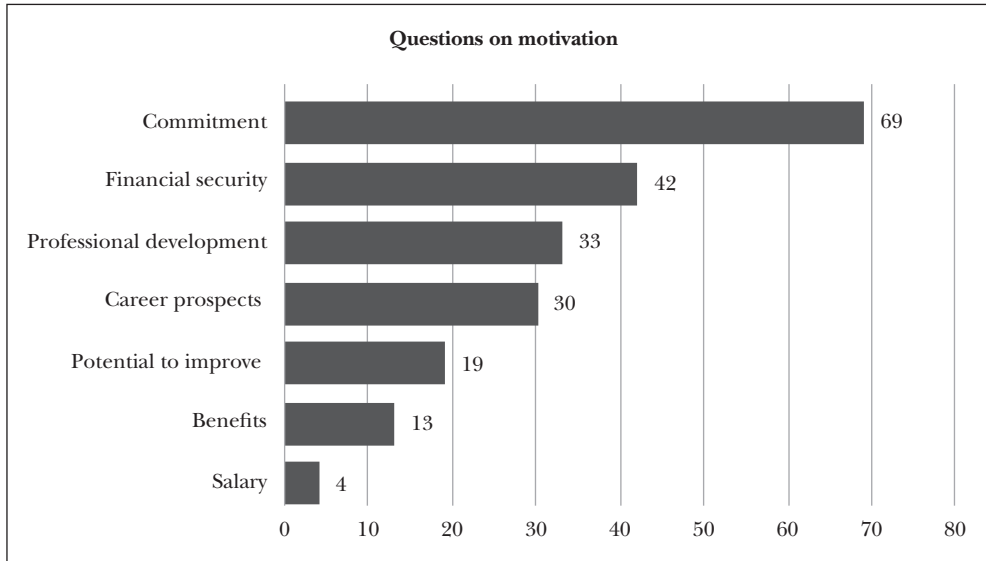
2014 and the latter in 2019. Such remarks are valid. Still, both research projects were conducted mostly in regional civil service, namely in the ranks of County Government Offices, and both were focussed (in the former case partly) on motivational characteristics in Hungarian civil service.

Figure 1 displays the numerical results of the research on motivating factors in Hungarian civil service.

The original questionnaire was compiled in a way that responses shed light on the reason for choosing a public sector job. According to the 2016 article, respondents (10,004 in total) almost equivocally denied that their motivation was based on their salary or on other benefits. On the other hand, intrinsic motivating factors, such as commitment, were rated relatively high.

Rácz collected empirical data at four public administration authorities in the second half of 2019. She approached 31 public administration institutions by electronic questionnaires during the research (supplemented by personal phone calls), however, only four of them agreed to engage in the proposed empirical research. One of the letters of rejection from a public administration explained their refraining from

Figure 1: Findings related to motivation in Gellén, 2016



Note: Figures show responses on a Likert scale of 1-5, extrapolated to a 0-100 interval.

Source: Authors' own elaboration

the research by the 2018 Act on Public Sector Staff (Kit.), which cast heavy workload on the civil and public servants, and thus, unfortunately, they had insufficient time and resources to participate in other activities beyond their regular office work. In fact, Rácz's research was conducted at a time when the new act redesigned the landscape of the central and regional public administration in terms of human resource management.

Out of the four respondent authorities, three were County Government Offices and one was an autonomous public administration agency.

As anonymity was guaranteed to the respondents, the public administration institutions involved in the research are marked by numbers. One of the strengths of the research was that the respondents included civil servants in both executive and non-executive positions.

The total sample contained 1249 respondents, including:

- 404 respondents from Authority 1,
- 513 respondents from Authority 2,
- 305 respondents from Authority 3 and
- 27 respondents from Authority 4.

The composition of the sample regarding executive positions was the following:

- Top leaders: 16 respondents,
- Directors, heads of divisions, heads of units: 139 respondents,
- Civil servants: 1084 respondents,
- Physical staff: 10 respondents.

The respondents had the opportunity to rate questions on a 6-degree Likert-scale (from 0 to 5) indicating 0 as total negation and 5 as total affirmation. The questionnaire contained 38 questions, which suggests a fairly thorough analysis. The Table 2 gives an overview of the responses analysed in more detail.

Table 2: Summary of numeric results of Rácz's survey on civil service motivation, 2019

	0	1	2	3	4	5
To what extent does your employer support balance between work and private life?	4.64	4.8	8.65	22.42	30.66	28.8
Evaluate your employer's efforts at retaining good workforce.	15.13	14.6	15.13	22.74	21.62	10.8
Does your position offer long-term stability?	4.48	6.81	13.61	30.5	33.94	10
Are your duties rewarding?	0.88	3.52	6.65	20.74	44.28	23.9
Can you utilise your professional knowledge and skills at your work?	1.44	2.96	8.09	17.61	40.3	29.9
Do you feel motivated in your job?	6.33	7.45	11.05	22.58	34.03	18.6
How good do you think your organisation's incentive system is?	22.02	15.3	18.33	26.02	14.73	3.6
Is your workplace's remuneration scheme competitive relative to the private sector?	29.46	20.9	21.78	19.14	7.45	1.28
Is your performance proportionate to your salary?	15.69	17.5	19.46	25.38	18.17	3.84
How satisfied are you with your pay?	15.05	16.3	19.38	25.38	20.48	3.12
How satisfied are you with your other benefits?	42.43	17.8	15.53	12.73	8.25	3.28
How satisfied are you with the number of days off?	14.81	13.6	18.09	20.18	22.42	10.9
How clear are the expectations and tasks to you?	1.68	2.96	6.97	18.17	43.55	26.7
How satisfied are you with the professional competence of your supervisor?	2.48	2.88	5.84	11.29	29.46	48.1
How much does your supervisor's professional support?	3.68	4.96	6.81	12.33	27.7	44.5
How satisfied are you with the leadership style of your supervisor?	4	3.44	6.73	13.85	29.78	42.2
Do you get enough feedback from your supervisor?	4.96	5.75	9.21	18.41	32.67	29
To what extent do you feel the symptoms of burnout?	14.17	13.9	13.85	26.18	21.06	10.8
To what extent is work stress tolerable for you?	5.68	9.93	17.45	36.99	24.82	5.12
Is your professional development supported by training?	13.13	14.7	17.13	23.7	22.58	8.81
How important do you think collegiality is?	0.16	0.24	0.56	3.36	21.86	73.8
Do you make a good team with your colleagues?	0.72	2.16	5.04	16.01	43.63	32.4
How much does your employer recognise and value talent?	15.61	15.1	14.97	24.82	22.1	7.44
Is it possible to get promotion by merits at your institution?	22.26	15.8	18.49	24.98	15.05	3.44
My job motivates me to do my best.	11.61	12.3	14.97	27.3	23.38	10.4
Are you satisfied with your working conditions?	5.04	9.53	16.49	29.38	30.42	9.13
How satisfied are you with the motivational features of the new act on public service?	22.42	15.5	16.73	28.58	13.85	2.88

Source: Authors' own elaboration

In the columns of the table the ratios of the respondents choosing the given weight of preference to the total number of respondents are specified. In each column the expected ratio is 16.66, indicating that one-sixth of the respondents prefer each answer at a particular weight. There are significant extremes both upstream and downstream, and this requires additional explanation.

In order to establish correlation with the briefly indicated PSM theory, the following groups of questions are further scrutinised.

First, the results are analysed according to traditional, external motivating factors, namely pay and job security, and then internal motivational elements are analysed (Figure 4). Leadership and interpersonal motivating factors are displayed in Figure 5 and Figure 6.

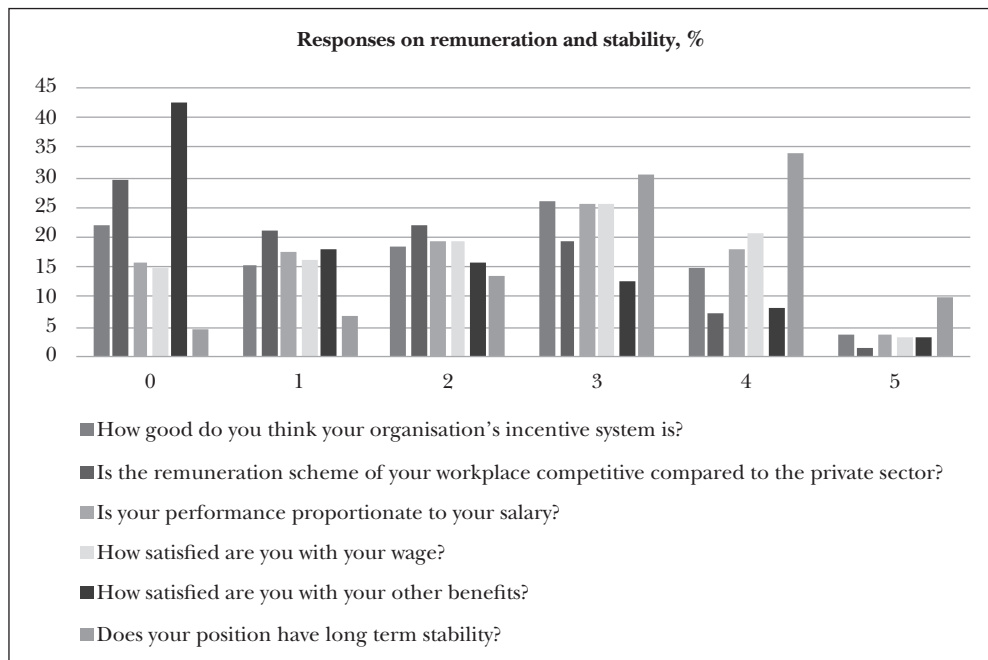
ANALYSIS OF THE 2019 EMPIRICAL FINDINGS

Figure 2 shows the aggregate distributions for the response ratios in a breakdown of questions. Being not overtly satisfied with one's pay is generally normal; therefore the top pay satisfaction category has relatively low support.

Figure 2 allows two characteristic remarks. Primarily, it is apparent that "other benefits" are frustrating rather than rewarding or comforting, let alone motivating. "Other benefits" include the following:

- Contribution to rental fees or to the purchase or construction of a new flat or house,
- Support to young families,
- Social benefit,
- Prepayment on the salary,

Figure 2: Response ratios, remuneration and job stability in Rác's 2019 empirical research



Source: Authors' own elaboration

- Scholarship, contribution to professional training or to learning a foreign language,

- Holiday benefit.

It is characteristically recognisable that job stability is still highly appreciated compared to other motivating factors. Legal provisions regulating job stability in civil service have undergone significant changes with the adoption of Kit. in 2018. The merit-based – or at least long-term loyalty-based – promotion system has been a decisive characteristic of Hungarian public personnel policy since the early 1990's, when labour law, the act on public service and the act on civil service were adopted. In 2018 (with effect from 1 January, 2019) the previous system of rewarding long-term loyalty with higher salary was replaced by a fixed position system. The overall perception of motivation by the new act is shown in Figure 3.

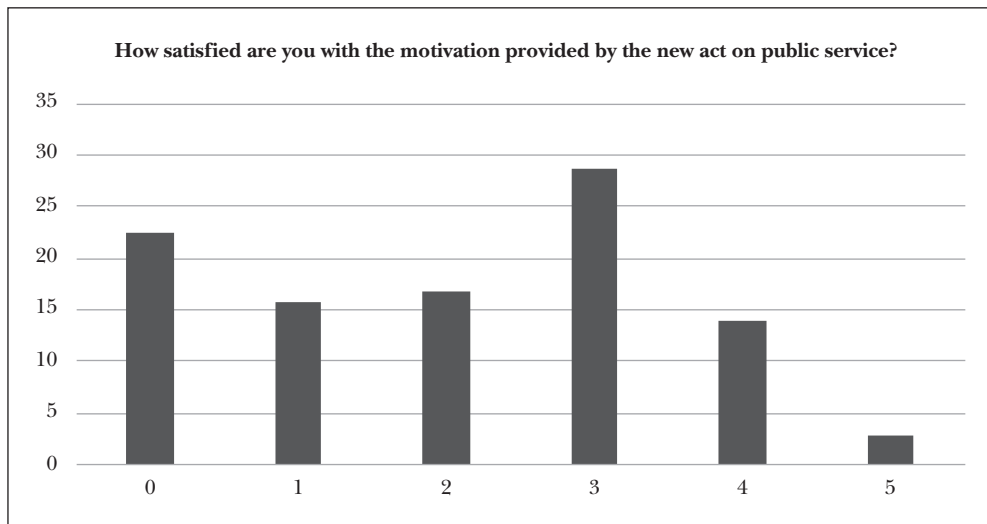
Figure 3 shows a split between moderate dissatisfaction (3) and strong dissatisfaction

(0) with the motivating features of the 2019 act on public service, after a quarter of a year following its entry into force.

Under the new conditions, a new candidate enters civil service in a given position, he or she remains there until there is an opportunity to take someone else's higher position. Automatic or at least prospective promotion is excluded. Pay rises may be given within the financial framework of the given category. When a civil servant reaches the top position in his or her employment category, there are no further career perspectives ahead. This may be considered as an up or out system in civil service, which is characteristically contrary to the existing and culturally embedded Weberian bureaucratic culture. Despite this legal context, respondents were not concerned about their job stability.

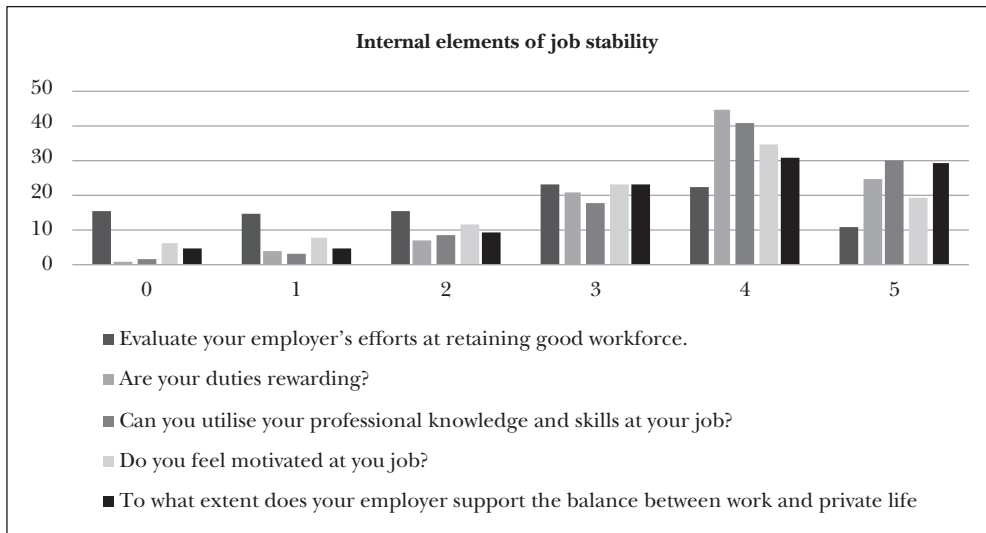
Public sector salaries are apparently seen as moderate but balanced. This however, should be considered a great leap forward compared to the previous research

Figure 3: Scores of the motivation by the new act on public service (Kit.)



Source: Authors' own elaboration

Figure 4: Ratios of responses to questions on the internal elements of job stability



Source: Authors' own elaboration

(Gellén, 2016) cited above. Actually, significant efforts have been made to increase pays in civil service simultaneously with new legislation on employment: pay hikes added up to 30 per cent on average, and must have had a beneficial effect on the respondents' perception. On the other hand, comparison with market wages reflects the common perception in the Hungarian public sector that market jobs are paid considerably better than public sector jobs, although factually this is not necessarily true.

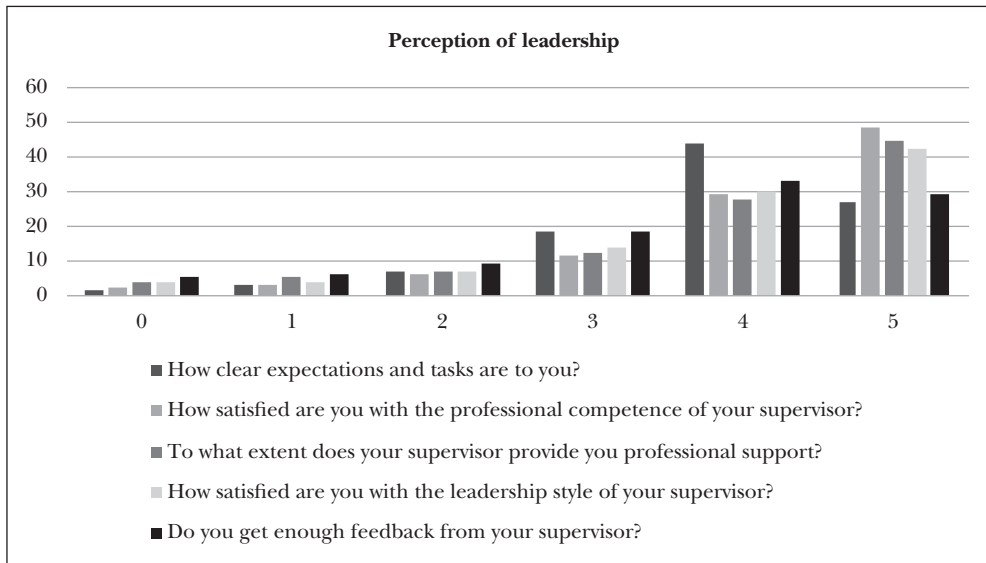
Figure 4 shows the distribution of the ratios of the internal elements of job satisfaction. Employers' efforts – and probably ability – to retain good workforce are relatively ambiguous, with a dominantly even distribution, while the content of public jobs appears to be outstandingly positive (duties are rewarding). Reliance on professional skills, the feeling of self-motivation, and balance between work and private life appear to be characteristically granted. These elements have significantly improved com-

pared to Gellén (2016), whereas commitment was characteristically admitted, but all the other factors, such as career prospects, professional development and potential to improve were predominantly perceived by the respondents as non-existent.

Figure 5 displays the ratios of the responses to questions on leadership. Interestingly, the picture is outstandingly positive. At this point (especially regarding the question on supervisor' leadership style), it appears to be legitimate to think of a control bias.

Supervisors' professional competence was also rated outstandingly high. In this case, control bias is even more complex to untangle than with the direct question on the supervisor's leadership style. One of the remarkable results of Gellén's (2016) research was that the Weberian public administration culture embraces professional competence and almost instinctively relates it to leadership and vice versa. According to this bureaucratic mind-set, one is selected

Figure 5: Distribution of responses to questions on leadership



Source: Authors' own elaboration

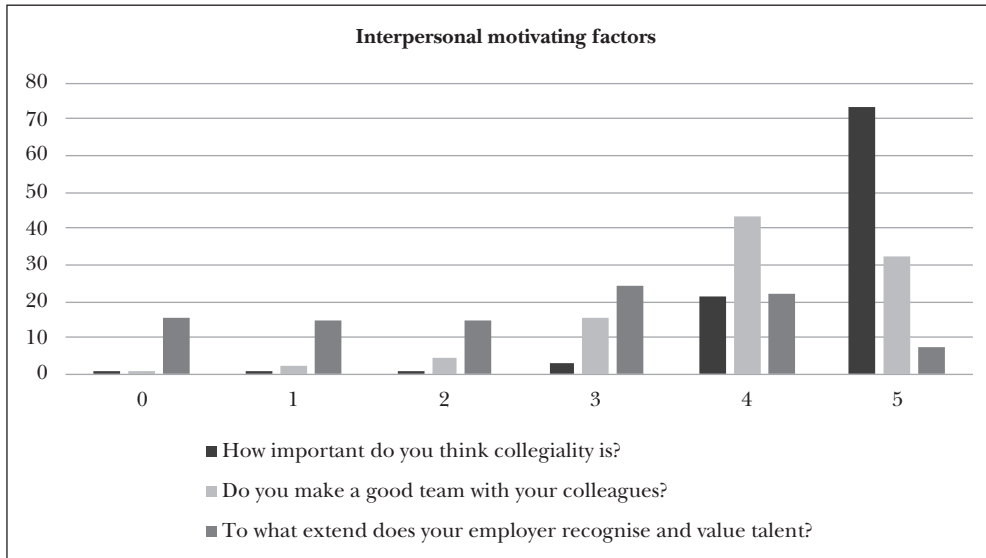
to act as a leader because of his or her professional competence. Leadership position places the leader in an aura of competence even if professional competence is objectively untrue. This cultural setting matches the directive leadership style (Van Wart et al., 2015) that is fairly exhibited by high scores assigned to the “professional competence of the leader”, “professional support” and “feedback from supervisor”. If these factors are so highly appreciated by the respondents then how is it possible that the public institutions of the respondents tend not to be able to retain good workforce? It is a legitimate assumption that good workforce is incompatible with directive leadership style, which cannot flourish in the midst of excellent workforce.

Interpersonal motivating factors are somewhat different in Hungary than those described by Perry et al. (2006) as collective incentives in the United States. The establishment of collective incentive schemes by

splitting the amount of salary to private and collective portions is unknown in Hungarian civil service. Instead, collective motivation factors are rather related to the subjective value of belonging to a community that shares the same commitment to serving the public or to a given group of clients.

There are two dimensions in interpersonal motivating factors: one relates to horizontal interpersonal relations, namely collegial, peer to peer, intra-unit or intra-organisation relationships, and the other connects the civil servant to upstream supervisors or managers. Figure 6 plots both dimensions. Most remarkably, collegiality as an abstract value scored 73.8 per cent, far more than any other figure in this research. Hungarian civil servants appreciate peer to peer solidarity and collective experience. Interestingly, when it comes to action, their enthusiasm substantially fades. Making an actual good team with colleagues is considerably less supported than the abstract idea of col-

Figure 6: Ratios of responses to questions on interpersonal motivating factors



Source: Authors' own elaboration

legality, although support to making a good team still scores very high compared to the other results in this research. This correlation reveals the two parallel realms of desires and actual experience. The question about the importance of collegiality as a general, abstract concept may instinctively spike pleasant emotions, while directing the respondent to the actual group around him or her might raise doubts in the respondent.

Recognising and valuing talent is an important interpersonal leadership skill, but this factor does not enjoy unequivocal support. In fact, affirmation for this motivating factor is rather ambiguous. How come that the respondents who have previously stated that they are motivated and receive good professional support from their supervisors are so unconfident concerning talent recognition and support from their employers? In our assumption, the answer to this question may be traced back to the previously mentioned directive leadership style that creates

the image of a highly competent leader but fails to involve competence and talent from the subordinate civil servants.

CONCLUSIONS

The article has verified much of the general PSM theory but in a different social, cultural and institutional context. According to the current research, slight changes have taken place in the internal characteristics of the Hungarian civil service PSM, which may be attributed to the recent changes in the legislation regulating human resources management in the public sector.

There is a significant improvement in pay satisfaction compared to Gellén (2016). This appears to be obvious, as pays have actually been increased. On the other hand, certain desperation is detectable in civil service ranks, suggested by the limited ability of civil servants to have their talent recognised and appreciated, since the prospect of working

well and staying in service for a long time, gaining increasing appreciation over time and loyalty is excluded. The internal channels of “organic” development have become limited. Paradoxically, this enhances their hierarchical relationship with their supervisors and enhances the image of the professionally competent, directive leader. What we claim is not that leaders should not be professionally competent. On the contrary. Still, there is much more potential in maintaining motivation in civil service by allowing them feel that they can gain recognition and establish solid careers if they cherish the ambition of their individual development.

The message of collegiality should be taken seriously. The unprecedented high support to collegiality reveals that Hungarian civil servants are beyond the social psychological level of solely individual public endeavours. The research has shown that it is time to endeavour to find collective organisational solutions that would enable the operation of civil service units at a higher level of internal autonomy.

NOTES

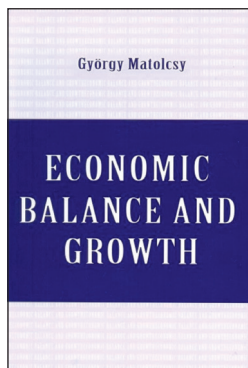
- ¹ Anita Mária Rácz is a PhD student at the Doctoral School of Public Administration at the National University of Public Service (NUPS), Budapest. She also works as a HR officer at the Office of Education in Central Budapest, a public institution employing 1,500 people. Assistant professor Márton Gellén is her PhD supervisor at NUPS, and a visiting associate professor at Kwansei Gakuin University, Japan, who also served as deputy state secretary for victim support and legal aid.

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György Matolcsy:
Economic Balance and Growth

Kairosz Kiadó, 2016, p. 680
ISBN 9786155318030

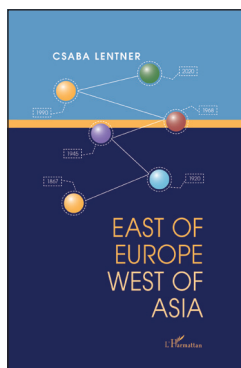
The book, written by Governor György Matolcsy and entitled *Economic Balance and Growth*, was published as the first volume of the book series of the Magyar Nemzeti Bank on economics and monetary policy in 2015. The MNB decided on launching this book series in compliance with its mandate, as its statutory tasks include the development of financial literacy and this way economic thinking in Hungary and – without jeopardising its primary objective – the support of the economic policy of the Government.

Economic Balance and Growth aims at the analytical assessment of a period of special importance, namely the consolidation and stabilisation of the Hungarian economy between 2010 and 2014. *Economic Balance and Growth* provides a detailed presentation of all the new economic policy concepts, innovations and instruments that resulted in the success of the Hungarian economy between 2010 and 2014, which was significant from the aspect of economic history as well, achieving fiscal and financial stabilisation, and thus creating the fundamental conditions for sustainable growth.

The volume provides a complex evaluation of the stabilisation leading to a shift towards growth in a way that it also examines the relevant developments observed in previous decades through the economic policy formula ‘economic balance or growth’. As a result of the sometimes new and innovative measures taken, Hungary has reached an exceptional position in recent years, as its economy is simultaneously characterised by balance and growth, which provides a secure basis for a successful future.

<https://pallasathenekiado.hu/konyvesbolt/economic-balance-and-growth/>

<https://edigital.hu/nemzetkozi-gazdasagtan/matolcsy-gyorgy-economic-balance-and-growth-p440262>



Csaba Lentner:
East of Europe, West of Asia – Historical Development of Hungarian Public Finances from the Age of Dualism to the Present

L'Harmattan Publishing, 2020, p. 302
ISBN 978-2-343-18706-8

Compared to Western-European countries, the adoption of Christianity, the founding of the state, then the establishment of the inherent western-type state administration has begun in the Hungarian Kingdom several hundred years later, from the 11th century. From the middle of the 16th century, this process was wrecked by the losing wars against the Ottoman Empire, followed by the subjection to the Habsburg Empire. Armed, blood-stumbled fighting against oppressive powers, the Revolution and War of Independence

Book Recommendation

in 1848–1849 or the 1956 Revolution against the Soviet Empire have all increased the determination of the nation for implementing a successful economic policy. Hungary, losing in World War I and II, came into the Soviet Union's sphere of influence, but was able to hold the position of the “happiest barrack” and “showcase country” within the Soviet-type planned economy system. Financial aspects of a raw market economy following the disintegration of the socialism, as well as that of an active state operation after 2010 may both provide interesting pieces of information.

<https://www.amazon.com/East-Europe-West-Csaba-Lentner-ebook/dp/B08GQC9HDT>

<https://www.editions-harmattan.fr/index.asp?navig=catalogue&obj=livre&no=66234>

https://media.harmattan.hu/lentner_en/



Financial and Economic Review

**Published by Magyar Nemzeti Bank
(National Bank of Hungary)**

Printed ISSN HU ISSN 1588-6883, ISSN 2415-9271

Online ISSN HU ISSN 2416-3201, ISSN 2415-928X

The Financial and Economic Review (In Hungarian Hitelintézeti Szemle) edited and published by the Magyar Nemzeti Bank, following a significant content and formal renewal of recent years, has become one of the most widely read economic and financial scientific journals in Hungary, which also has a large readership abroad. In 2014, the management of the Magyar Nemzeti Bank in connection with its social responsibility activities and in the framework of broad support for education, financial literacy and scientific activities, decided to take over the Hitelintézeti Szemle, a scientific journal with decades of history, from the Banking Association and renew it.

The MNB set the objective that the journal – with its easy-to-understand but scientifically sound studies processing applied results, as well as its valuable essays, book reviews and conference reports – should effectively promote the examination and international presentation of the economic performance of the Hungarian economy and financial system and, where appropriate, that of the Central and Eastern European region, as well as the analysing evaluation of the current issues of the economics, finance and related disciplines, thereby also contributing to the successful renewal of economic thinking and economic policy activities. In this way, the Financial and Economic Review aims to create a unified platform for domestic and foreign researchers, educators and readers with a scientific interest, which can be used as a starting point for a deeper understanding and analysis of the region's economic and social processes. At the same time, the journal also helps the authors of academic papers to be references at international level. In pursuit of these goals, the Financial and Economic Review relies on an experienced and high-skilled international editorial board, and in the course of peer review, the scientific knowledge and professionalism of renowned experts of higher education institutions and research institutes.

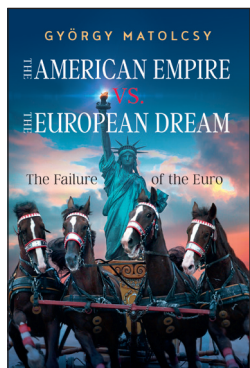
Since the Magyar Nemzeti Bank first published the Financial and Economic Review, more than 200 separate writings have been included in the regular issues of the scientific journal in the form of peer-reviewed studies, essay-type papers, book reviews, reports on conferences and other scientific activities.

The result of the renewal of the Hitelintézet Szemle is also confirmed by its scientific qualification. In addition to a category B rating from the Doctoral Committee on Economics, the journal of the Hungarian Academy of Sciences, as of 2017, also has a category B rating from the Regional Scientific Committee and a category C rating from the Demography Committee as a recognition of professional work at the editorial office. Since 2017, besides the Hungarian MATARKA and the international IDEAS/RePEc systems, the articles published in the journal are also listed in the Digital Object Identifier (DOI) system, which also supports the ever-wider presence in the international scientific community.

The Hitelintézet Szemle, in addition to having become one of the widely known and recognized journals in the economics and finance profession in Hungary, is gaining more and more attention on the international level because of the contents available in English as well as Chinese. This is partly due to the fact that the published studies contain not only scientific and practical conclusions for further thinking, but also, in many cases, examples and suggestions that are very useful for economic policy, economy and financial system. The issues the journal, published also in English, are available in some 70 countries around the world.

In addition to quarterly publications, thematic special issues have also been published elaborating some topics of high public interest (such as the Structure and Evolution of Banking Systems, China). Since 2018, as a result of further development of the journal, a Chinese-language publication has also been published: a volume of selection containing the most read articles of a given year. Writings of the Hitelintézet Szemle are thus available in Hungarian, English and, where appropriate, in Chinese as well as, and also electronically.

<https://en-hitelintezetiszemle.mnb.hu/introduction>



György Matolcsy:

The American Empire vs. The European Dream

Pallas Athéné Publishing, 2019

ISBN: 9786155884528

Our age is defined by many different often contradictory values and processes of which the dominance of the American Empire is the most important. Europe with its fundamentally failed euro project challenged both the political and monetary hegemon status of the Empire and attempted to create a new empire. The American Empire did not put up with a rival global currency, so it has waged all types of modern warfare to prevent this attempt. That is how the vision of a European Empire turned to be a nightmare instead of a sweet and nurturing dream.

The book – using an unconventional approach and a broad historical perspective – analyses the American Empire, the current world order, its defining features, the relations and motiva-

Book Recommendation

tions of the major players and the grand strategies that they outline. In this multi-valued world, what goals and guidelines can safely lead us towards global prosperity? Do we need to set frameworks for our national visions in the 21st century, and if so, what are our main reference points in this volatile, uncertain, complex and ambiguous world?

In order to restore the global balance of power, Europe have to give up its imperial ambitions and it has to return to its 16th century roots when European open-mindedness, cultural diversity and spiritual revolutions led to the cradle of future breakthroughs in science, technology and governance. The new global player, China also has an important role in restoring the global balance of power. The USA and China, the two world powers that complements each other in character can bring the new golden age of the global community.

By understanding these processes on individual level and as a nation, Hungary can develop new and successful strategies that incorporate eastern wisdom and western openness with which it can move closer to being one of the winners of this changing world order.

<https://pallasathenekiado.hu/konyvesbolt/the-american-empire-vs-the-european-dream/>
<https://www.lira.hu/hu/konyv/gazdasag/the-american-empire-vs-the-european-dream>



PUBLIC FINANCE QUARTERLY

Published by Állami Számvevőszék
(Hungarian State Audit Office)

ISSN 0031-496X (Printed)

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Journal of Public Finance Quarterly, published every quarter
(four times a year)

Founder and Owner: Ministry of Finance, Hungary, since May
1954, State Audit Office, Hungary, since July 2005.

The Public Finance Quarterly welcomes to receive professional papers in English and/or Hungarian. It is to be noted that articles capable of attracting international interest are published by the Editorial Committee in both languages in the same issue.

This professional periodical deals mainly with the issues of public finances, is published quarterly under the administration of the State Audit Office of Hungary as editor, it includes in a single volume the Hungarian and English versions of the published writings, has more than fifty year tradition, an up-to-date typographic design, a permanent structure of topics for the published writings and has undergone a major renewal resulting in an enrichment of its' contents.

Aim & Scope: The Public Finance Quarterly pursues the primary goal of providing a credible picture on the financial systems, the main features of the operations of public sector and national economy, the efforts to catch up with economically developed countries and build future and on the related professional debates. Other goals are to achieve that the professional results published in our periodical are utilized as much as possible, promote the spreading of a better financial culture, provide solid foundations for decision-making in the fields of finance and economic policy, and contribute to good governance.

Book Recommendation

Primarily, we publish in the periodical articles analyzing monetary and fiscal policies from a theoretical or empirical point of view. Likewise, we welcome practical assessments, analyses on financial and accounting issues that were prepared by using Hungarian or international data-banks. Articles presenting novelties in financial instruments, derivatives, accounting techniques (of corporations/national accounts alike) or introducing how to calculate the yield and risk of financial investments, securities, loans or scrutinizing the development of financial sector (e.g. that of the Stock Exchange, money market) in a macroeconomic context are also well received. Public Finance Quarterly intends to expand the scope of financial knowledge in Hungary through publishing the most up-to-date theories, approaches. Therefore, we are also awaiting articles on financial mathematics, or studies that belong professionally to the forefront and introduce the latest financial innovations, techniques. The bibliography reviews included in the periodical on recently published books serve the same purpose.

<https://www.penzugyiszemle.hu/pfq/>



Civic Review Learned Paper for Economic and Social Sciences, Hungary (Polgári Szemle)

Published by Civic Review Foundation
ISSN 1786-6553

This publication is the recognised specialised journal of the conservative intelligentsia, and in 2021 is in its 17th volume. From this year onwards it will also be published in an English language version to provide the international audience with scientific analyses about Hungary, research results obtained in Hungary and economic and social developments in the region. The publication has been

reviewed and has been qualified by the Hungarian Academy of Sciences. It is a popular publication space for Hungarian and international authors. Both the publication and the peer-review processes are subject to the highest level of moral and ethical principles.

Our editorial board, which consists of renowned experts from Hungarian academic life and the state administration, considers its main goal to be the professional and authentic presentation of current economic and social changes. Many years ago, when the journal was launched through the hard work of György Matolcsy (Chairman of the Editorial Board) and Balázs Botos (former Editor-in-chief) and with support from the Polgári Magyarorszáért Foundation, its principal endeavours were formulated as providing opportunities for publication for the conservative intelligentsia and scientists representing concepts that were outside of mainstream thinking, and enabling the publication of essays with a conservative approach to economic and social disciplines. The ideas of the experts and authors organised around Polgári Szemle greatly promoted the first steps and the work of the conservative government that has been in office since the summer of 2010, given that during the years spent in opposition valuable studies and workshop discussion papers and books were born of the inspiration of collective thinking and a value-creating atmosphere.

Since January 2011, when the current editorial board took on the role of their predecessors in carrying out governmental functions, particular importance has been placed, in the board's

strategy to function as an academic workshop and in the studies by the associated circle of authors, on the presentation of the taxonomy applied in the fundamental transformation of economic policy and in state reorganisation. In addition to foreign affairs and international business, the articles by our authors with an international perspective touch upon the struggles of the European Union and the numerous territories in the euro area that are challenged by problems, and their implications for Hungary, the renewal of public finances and social policy. The changing conditions and operation of regional policy, regional development, public administration, public and higher education and healthcare – in other words, the challenges for public administration and social policy – are also discussed through easy-to-understand and yet academic presentations.

And what if we need a “softer song”? You can read articles about the origin of the Hungarian language by professors of literature, about our history and the brave actions of our ancestors and the fateful events of world history, and reviews of books published by Hungarian authors and of essays by foreign authors with relevance to Hungary and influence on our daily lives.

Our purpose is to provide space in our bi-monthly issues for the lecturers and PhD students of provincial universities and for young conservative intelligentsia, and an opportunity for less well-known academics at the beginning of their careers to publish their writing. Please keep sending us your papers both from within Hungary and from beyond our borders!

<https://eng.polgariszemle.hu/>

<https://eng.polgariszemle.hu/foszerkesztoi-bekoszoonto>



TRIANON 100

10 x 10 Years in Numbers – The Economic History of Hungary for the Last 100 Years

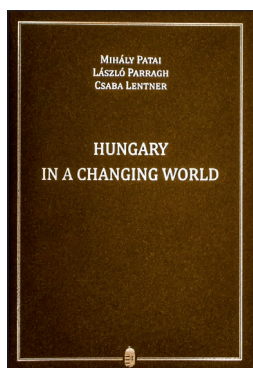
**Edited by deputy governor Barnabás Virág
at Magyar Nemzeti Bank (National Bank of Hungary)**

**Published by Magyar Nemzeti Bank, p. 336
ISBN 978-615-5318-38-2**

Over the last 100 years, in addition to domestic economic aspirations, world wars, global crises and sharp political shifts have shaped Hungary's economy and society. Moreover, partly linked to, and partly regardless of, these events, the Hungarian economic policy's tendency to external indebtedness returned from time to time. Unsurprisingly, under such conditions, our growth cycles were short, while our adjustment periods were more frequent than usual. Catching-up was rare, and mostly financed through external indebtedness. Then, in 2010, domestic economic policy chose a new path, breaking with decades of old habits, and turning the choice between balance and growth into a duo of balance and growth. In 2013, we opened a new, unique catching-up period compared to the previous ones, which made the last 10 years the most successful decade of the last 100 years. As for the new decade, however, the Covid-19 pandemic has created an unprecedented threat to the whole world, including Hungary. The aim of this publication is to present the crucial moments of the last 100 years of the Hungarian economy through a short journey in economic history. Our world is

undergoing significant transformation due to the pandemic and the new megatrends defining the 21st century. Knowledge of past experience, coupled with the innovations of our time, is a compass that can be used even in the most difficult moments. With this, if applied properly, even in turbulent times, we can continue our economic convergence, which has never been seen before in Hungary's economic history.

<https://www.mnb.hu/en/publications/mnb-book-series/trianon-100>



**Mihály Patai – László Parragh – Csaba Lentner:
Hungary in a Changing World**

**Éghajlat Publishing, 2019, p. 200
ISBN 9639862967, 9789639862968**

According to the 19th century Hungarian statesman István Széchenyi, true patriots always wish “the possible” for their country. However, in these decades of turbulence, it is difficult to tell what is even possible. Not only because what was possible yesterday may become useless or impossible tomorrow. Is this a time of lost decades, lost generations, torn nations, uncertain hopes, or just the opposite: a starting point, a chance for renewal? Where did we start from and where are we headed? The pressing mysteries of recent decades and our everyday experiences suggest many possible answers. Have we changed? Is the world around us changing at a faster pace? Can we see its axis and directions? Is there a “possible”? Are there opportunities? Can we tolerate their absence, or can we create them, conserving and expanding what we have? It is time for a review and a comparison of various histories of this period. This book of dialogues, almost symbolically, attempts to present the essence of the thoughts and ideas of three generations, and their possible answers. We should also always remember that the pragmatic, the technocratic and the nationalistic approaches are all backed up by a high level of expertise. And, even in the heat of debate: Heart and Intellect. “Wishing the possible” is difficult, but taking action to achieve it is our duty.

https://books.google.hu/books/about/Hungary_in_a_changing_world.html?id=TdBGzQEACAAJ&redir_esc=y
<http://eghajlat.hu/>

Polgári Szemle

ISSN 1786-6553