This study analyzes the puzzle of Hungarian economic drifting in a long run perspective. The underlying puzzle for the investigation is why bad policies are invariably popular and good policies unpopular, thus why political and economic rationality never overlap. The first part of the article summarizes in eight points the basic features of the postwar period. Then six lessons are offered, which might be useful for other countries in transition or for students of comparative economics and politics, lessons that can be generalized on the basis of the individual country experience.

**Keywords:** Hungary, economic policy, transition, postcommunism, reform, privatization

**The Puzzle of Hungarian Drifting**

The saying from Scripture reminds us of a feature that triggered the separation of economics as a special discipline, distinct from public administration, political science and mere accounting for the wealth of the sovereign. It has been the observation of the rise and decline of nations that turned economics into a separate field of inquiry. Over the past 300 years or so analysts have rightly been puzzled by the following fact: arrangements – policies and institutions – that functioned fairly well and productively served the rise of a nation in a given period of time, have turned into an obstacle of adjustment and change. Thereby the very same arrangements that had once been brought about glory, later turned out to be at the root of nemesis of the same country or regime. While examples in history abound – from the Roman Empire to the Soviet Empire – it is relatively rare for contemporaries to observe something similar in a smaller scale, but unfolding in front of the eyes of a single generation.

More than two decades following the fall of the Wall the economic and social miracle expected by many of the agents of change has yet to materialize. The sober estimates that are being produced by national and international agencies, from
ministries of finance and central banks to the IMF, the OECD and the European Commission, invariably talk about a slowdown of the long run trajectory of growth. While the decade in the 1998–2008 period saw unprecedented convergence to the core of Europe, this dynamics of growth is unlikely to return, not even to the Baltics, where the catch-up potential seem to have been the greatest.

Even more striking is the case of Hungary, where the catching up potential started to ebb up well before the eruption of the global financial crisis in 2008–09. Moreover Hungary, having been accustomed to a leader position in terms of systemic reforms ever since the late 1960s, has lost momentum by 2002–03, i.e., just at the time when entry into the EU would have called for – and allowed for – radicalizing structural reforms and anchor expectations by joining the stability club, provided by the single currency of the EU. Instead tinkering with change, the exclusive role of low politics and a polarized political elite has missed the opportunity of introducing major changes in good time. As a consequence the drift and the ensuing laggard status has become a fact of life already by about 2006. Ever since the slowdown of growth, the increase in unemployment, the stagnant international competitiveness, explosion of public and private debt and sustained high inflation indicate the cumulative costs of doing nothing.

Therefore it might be of broader interest to investigate how Hungary has lost its traditional pioneering position and why is the return to normalcy, i.e., a leader status in terms of change, is among the less likely options for the future. In the first part we summarize major features of postwar changes, and in the second part we draw some general conclusions of broader relevance from a comparative perspective. Needless to say that we do not aim to be exhaustive either in terms of analysis or in terms of referencing and documenting our claims.

A Short Narrative of the Hungarian Model

1. Hungary has never been a typical fully-fledged Soviet type economy as modeled in comparative economic systems’ textbooks, with vertical dependencies and exclusive state control and full seclusion from global markets. As was documented at the time (Bauer, 1983; Berend, 1988; Csaba, 1990) only the short period between 1949 and 1953 was like real socialism (Stalinism). In the preceding period, in 1945–48 pluralist elections, noncommunist government, predominantly private property were the dominant features. In the post-1953 period several versions of market socialism were introduced, tried and tested, and the outcome of the experimentation was a relatively smooth and organic transition to a market economy without adjective in 1988–93, with a fairly large degree of continuity in both policies and institution building before and after the democratic transformation of polity.
This period can be assessed in two ways. In the first we stress – as contemporaries tended to do – the advantages goulash Communism tended to enjoy over other socialist models inside and outside the Soviet bloc. In the second, we may highlight the path dependencies a failed modernization attempt created for the following decades, both in terms of structures and in terms of institutions, social norms and behavioral standards (Kádár, 1994; Kornai, 2001; Muraközy, 2010).

The two explanations are in fact rather complementary than mutually exclusive, stressing the different aspects of the same ambiguous development. For instance, delegating de facto property rights to socialist enterprise managers in 1984–87 did weaken central Party control over the economy and induced truly entrepreneurial spirit in many of those firms. Meanwhile the same arrangement precluded any conscious, planned, controlled and thus socially acceptable forms of large scale privatization in the period following systemic change, since the ‘initial owners’ were already self-selected by the nomenclature. In other words, competing privatization projects following the political turn, have largely been rendered inoperative by the pre-emptive moves of the preceding period. True initial and final owners rarely overlapped – like in any other real world market economy, in 10 or 20 years after the process started.¹ Seen historically, the process was, as a whole, forward-looking, still the macro performance of the country remained notoriously weak, leading to the brink of bankruptcy by March 1990, when the democratic government was formed.

2. As richly documented in the sources cited above, Hungary did enjoy the advantage of being an ‘early bird’ in terms of systemic reforms. Particularly in the 1987–89 period a series of institutional reforms were launched, which actually have laid the foundations for a market economy. Without intending to be exclusive we mention just a few. Property reform, besides quasi-privatization included liberalization of the small business sector. In 1987 a two-tier banking system based on commercial banks were created. Foreign entry, both to banking and industry, was made possible and even supported by the government. Prices were gradually liberalized and so was foreign trade. The straightjacket of state trading, based on obligatory interstate quotas in Comecon, was replaced by trade in convertible currencies. The local currency, the Forint was gradually made convertible and most restrictions on trade abolished. Further legislation on financial institutions, foreign investment, restitution, etc. were elaborated.

In sum, with the benefit of hindsight, we may note, that the last two outgoing Socialist governments of Károly Grósz and Miklós Németh actually delivered much of the stabilization–liberalization–institution building – privatization or SLIP agenda commonly seen as the backbone of successful transition. However, as seen above, macroperformance remained weak, inflation reached 30 percent. External imbalances developed into unsustainable dimensions, as big firms continued to export to insolvent Eastern markets, and the financing gap was bridged.
by western credits. Since exports to the west stagnated, this was a suicidal game. Rescheduling in 1990 could only be avoided through concerted action of the IMF and major European governments, such as the British and the German.

3. The economic platform of the opposition parties (Laki, 1991) tended to be built on the negation of the market tendencies of the late Communist period. Thus these were in part utopian, in part statist, anti-market in nature. It goes without saying that exigencies of governance pushed the new center-right government into much more market friendly policies than their language would have suggested. Most of the institutional reforms, including the law on banking, the tough law on bankruptcy and most big privatizations to strategic western investors were completed on time. By adopting the Kupa program of 1991 the conservatives committed themselves to what was by and large a continuation of systemic changes of the preceding period.

In this cycle of 1990–94 macroeconomic performance remained weak. While restructuring did go on, thereby laying the groundwork for future improvements, unemployment skyrocketed to 13 percent by 1992, against decades of full employment and even over-employment under Communism. This was a real shock, to economy and society alike. It also stood in sharp contrast to the “Czech economic miracle” of the period, when putting off structural changes allowed the Czech economy to grow and keep unemployment low.

4. Recovery in the mid-1990s is being attributed, by most analysts, to the Bokros adjustment package of March 1995 (Kornai, 1997; Antal, 1998). With the benefit of hindsight this set of measures, though having provoked broad segments of the Hungarian society, has actually contributed only marginally to the recovery of the following decade, i.e., from 1997 to 2006. While macrofinancial re-balancing was, to some degree, a technical minimum, the structural measures of Bokros hardly survived the 13 months he spent in the Ministry of Finance. Symbolic measures, such as tuition fees and co-payment were revoked, most structural measures, except for a part of pension privatization, not even launched.

On this ground we may claim that the return of growth from early 1997, to a rate of over 4 percent over a decade, can and should not be attributed to measures that were either not taken or quickly revoked. Instead we may observe that the harvest from a decade of institutional reforms, enacted by and large in a synergic fashion, could be collected at long last. Broad measures like privatization, or setting up new rules of the game, via bankruptcy legislation, are bound to act with considerable delay. Societal learning is always slow, and the first reaction to any change is mostly resistance, later accommodation, and only later playing by the new rules. The third phase matured by 1997–98 and the subsequent years. In fact, little if any new, domestically owned and initiated reforms took place until 2002 save for the – quite significant – measures of adopting EU standards in the 31 areas of life stipulated by Community legislation. Once again, macro indicators
– from exports to employment – improved precisely at times when policies were rather bad, or not very forward looking, to say the least.

5. It would be false to claim that in the 1997–2004 no reforms took place. What we claim is more nuanced: in this period the EU acted as an anchor for the entire political class, at least for those parts who could come any close to governing positions. The common national aim of not to be left out of Europeanization prevailed over a variety of divisions, long and short term strains. This has streamlined major policy decisions irrespective of the composition of the government and legislation.

The external anchor allowed the EU to push through a number of measures which otherwise might not have come through, from abolition of death penalty to empowering the competition agency with real powers of trust busting and monopoly control, further streamlining the foreign trade regime and introduce capital account convertibility. However most of these and other measures were not domestically owned, but were introduced to please Brussels.

In turn, when the accession agreement was signed in December 2002 in Copenhagen, the stimulus for change has weakened, often simply disappeared. Lacking domestic ownership reforms were bound to fall prey to domestic politics, myopic maneuvering and fishing for votes in the simplest possible manner. Neither professional nor political will seem to have prevailed and the loss of perspectives was imminent. In a way, the lack of trust and the ensuing populist short termism in politics in general is to be found behind the drift into fiscal alcoholism in the very moment EU monitoring was easing up and membership in EMU was seen as a done deal (Darvas and Szapáry, 2009; Antal, 2009) – even if it has proven to be otherwise.

6. This leads us to one of the most paradoxical periods of Hungarian history, the years between 2002 and 2008. Expectations were high, both domestically and abroad. In terms of growth, convergence to EU standards and institutional improvement alike. In reality, a period best described by *carpe diem* followed. We are unaware of any major policy or structural change, that would have even aimed at, let alone delivered, improvements to be harvested in the next period of governance, despite the hectic and often improvised reform zeal and intensive preaching of the left-liberal coalition in 2006–08. Policy adjustments and corrections, as dictated by the consideration of the day were numerous. But none of them were broad, forward looking and sufficiently deep going. Meanwhile macroeconomic performance was still relatively good, growth rates increased from 3.7 percent in 1996–2000 to 3.9 percent by 2001–06. The structure of exports improved, with machinery and equipment accounting for over 62 percent in sales, or the double of the value of Italy and Spain. FDI continued to flow and Hungarian firms also started to expand, primarily southward and eastward (more on these in Csaba, 2011). But the writing on the wall was not to be missed.
How can we explain the paradox of bad policies – good outcomes for this period? At least four factors must have been in place. First: the generally upbeat mood, in economic terms, positive expectations, tended to prevail and create an atmosphere of everlasting boom. Knowing the “animal spirits” of the markets, noted already in the 1930s by Ludwig von Mises and Lord Keynes separately, this time the tendency to overlook weaknesses and underrate risks, while hoping always for the best outcome triggered a series investments, and far not only in the residential sector. Second, as the entry to the Eurozone was seen as a given, nobody cared about exchange rate and interest rate risks. Hundreds of thousands of households and thousands of firms accumulated sizable debt in foreign currency. This made the country vulnerable to external shocks. Third, FDI continued to flow, thus the expectations of further structural improvements seem to have been born out by the facts. Finally money was cheap and in great supply on international financial markets, interest rates stagnated at historic lows. This created the impression of sunny days’ lasting forever, when only a fool would forego yet another lucrative investment to be financed from debt. The story – so familiar from the Great Depression – replicated itself.

7. Unsurprisingly, as all parties, this party also ended. And it ended sour, not least because of the lack of the precautionary measures conventional rules of good fiscal housekeeping would have required.

Hungarian growth stopped in the middle of 2006, 2007 registered a mere 0.8 and 2008 0.7 percent, with 2009 closing with a truly bad –6 percent contraction, quite rare during peacetime. Let us note, that stagnation started way before the global financial crisis could have hit. But the collapse of Lehman Brothers in September 2008 and the ensuing credit crunch struck Hungary particularly heavily. This was caused not only by the vulnerability noted above, but also by the ill-fated communication of the leftist government, proclaiming dynamic growth for 2009 in their fiscal plan, thereby uncovering their ignorance of the change of tide on global financial markets. The situation was saved by signing a last minute jumbo stand-by loan of 20 bn euros – 25 bn dollars – in an unprecedented concerted rescue action by the EU, the IMF and the World Bank in October, 2008. The Socialist government collapsed and gave way to the caretaking Bajnai Government, which, from March 2009 managed to consolidate the situation by the new elections of April, 2010.

In the 13 months of its tenure the technocratic administration, backed openly or tacitly, but exclusively by the former ruling parties only, actually started to clean up the mess with a degree of resoluteness. Politically corrupted personalities were removed from office, criminal investigations started. In the economy increasing the retirement age was made. Previous excesses, as 13-month pensions and 13-month wages in the public sector were abolished, subsidies cut, administered prices increased. Public sector employment was cut and conditions for unemploy-
ment benefit severed. Meanwhile current economic indicators remained weak and the opposition had an easy run to blame the government for each and every ill, irrespective of its nature, origin and length of existence. While the success of consolidation was evident by the fact that over 60 percent of the jumbo credit line was never drawn, no banks had to be bailed out, and Hungarian debt/GDP ratio never exceeded the EU average, the drop in living standards and employment paved the way to the unprecedented landslide victory of one single movement, the FIDESZ–KDNP alliance in 2010. The logic – sound policies, bad perceptions – survived.

8. Finally the period since the formation of the government with two thirds majority is an open ended story at the time of writing. The first year has seen a combination of two contrarian policies. On the one hand, visionary projects to re-tailor basically everything, from the Constitution to the system of regional control, could be heard. True, very few of these have ever been delivered in full, not even after the promulgation of the convergence program as of April, 2011. On the other hand, the government was obviously taken by surprise by the evolving Greek, Irish and Portuguese crises. EU policies were focused on the problem countries, and near-problem ones had to endure more rigidity, especially in terms of potential for fiscal flexibility. For this reason the second Orbán government was induced into a series of austerity measures, which were mostly improvised and lacked sustainability, let alone domestic ownership. While this was the way to forestall yet another rescue package, which was a success, the broader projects fell victim to the need to balance the fiscal accounts.

As most observers would agree that the “non-conventional” policies of the government lacks sustainability in the medium run, macroeconomic indicators undoubtedly improved. 2010 already saw a year of growth of 1.2 percent, 2011 in the range of 2.5–3.0 percent, riding on the robust German locomotive. Hungarian treasury bonds were sold at advantageous prices and new inward FDI deals as of Mercedes and Audi concluded. Exports grew by 17 percent in 2010 and also double digit in 2011, thereby showing signs of growing out of debt. Returning the largely unused buffer funds will diminish external debt substantially, and the debt/GDP rate target of 65 percent by 2014 – instead of 80 percent in 2010 – is seen as realistic by most market players. In sum, while policies are controversial, most economic indicators improve steadily, even if not so exorbitantly as previous governmental statements would have implied.

Broader Political Economy Implications from the Case Study

In the second part of our paper we join the ever growing international literature on the political economy of policy reform. This approach, in contrast to rational
choice paradigm, which takes inability to change for granted, bits and pieces of how to orchestrate successful change for the better is being analyzed. Under this angle the axiom is that change is though conceivable, but by no means inevitable.

At the level of policy analysis therefore it is both of historic and analytical interest to identify what can be learned by others from the mistakes committed by some under given political, historic and economic circumstances. In other words, if there is anything to be generalized.

In our case this might be a quite relevant issue. For one, we still have countries under Communist rule. Some of them, including Vietnam and Cuba, are just on the road of marketization. Here the earlier Hungarian experience of introducing markets under single party rule. In other instances experiences transcending the usual stabilization and structural adjustment packages of the IMF (Arpac et al., 2008; Eke-Kutan, 2009) might be of interest. In other words, some of the postcommunist experience may well be generalized for being relevant for transitions in other parts of the globe. Being aware of the limitation of any such broad enterprise we formulate some tentative conclusions, which should be read with a grain of salt.

1. As we have documented repeatedly in telling the Hungarian story, lag is an important explanatory factor. Lag in economics denotes the timely distance between action and outcome. This might be days, in case of exchange rate or interest rate liberalization, and decades in case of pension or schooling reforms.

What we are concerned with here is the following. Most of the measures related to systemic change, such as privatization and institution building, are typically ones that exert their influence with considerable delay. Millions of agents need to internalize the new rules. For instance bankruptcy legislation needs to bite first, so as to be taken seriously. The problem of non-payments and barter, once figuring among the sexiest topics of transition economics, is simply abolished once nonpayment leads to suspension of the management rights, trigger painful restructuring and layoffs, and in case of recurring, even to the liquidation of the firm.

It has been a recurring feature of Hungarian experience that the myopia, typical also of other mass democracies, does not allow for sitting out the time needed for the final decision over the merits or de-merits of individual measures. Even if actual policies do not suffer major reversals, the fruits of major measures tend to be harvested by the successors, or the successors of the successors, as in the case of the Antall government. Therefore the perceptions, on which democracy and media-based political engineering is built, tends to be ignorant and misleading. Public perception of outcomes often is the opposite of what causal reasoning would imply. Therefore sound policies tend to counter mounting resistance even under the best of circumstances. The opposition of the time is no slow in capitalizing on the pains associated with reform and restructuring.
2. Long run economic performance can and thus should not be explained by factor endowments and the combination of factors. While the role of innovation and entrepreneurship is undisputed ever since von Mises and Schumpeter, the consensus ends at this point. Precise mechanisms of growth, let alone of policies and institutions conducive to sustaining development, are yet to be identified in theory and practice.

Hungarian experience warns against overgeneralizations and reliance on policy cookbooks built on international experience only. While the basics of the SLIP agenda, discussed above, are not contested, the precise way of sequencing, timing and most importantly, of crating social acceptance is certainly a subject of debate among analysts.

Being participant observer of the change over the past quarter of a century, we tend to agree with the more agnostic – and also more traditional – views on what optimal policy mix may consist of, in the past, currently or in the future. One should not underestimate the role of external factors, especially for a small open economy like Hungary. The collapse of Soviet planning and fuel exports, the severing of international financial markets were instrumental in bringing about change. By contrast, lavish external funding in 2001–08 allowed for, or even positively lured in, policy-makers to a drift, as the sunny days seem to have become normalcy.

Second, intellectual fashions play an important role too. Fashions and perceptions based on them are formative in taking crucial economic decisions. For instance the blind faith in efficient markets definitely contributed to the adventurous lending of many banks as well as to the indiscriminate acceptance of dubious financial innovations. Likewise the euphoria surrounding EU enlargement, the conviction that entry in the Eurozone is a done deal, created expectations and decisions that led to overlooking the harsh realities on the ground by otherwise stern and materialistic financial investors. The latter included external imbalances and internal procrastination of the new EU member-states including Hungary.

Third, no matter how trite it may sound for analytical social science, pedestrian factors such as luck may become formative for the outcome of policies. This idea is an old one among central European economists (Dornbusch, 1993; Wagener, 2011), but is rarely invoked in explaining the outcomes. For instance the ability to secure major external funding at times of deep crises, as in 1981, in 1990, in 1995 and in 2008 was clearly beyond the factors under the control of the Hungarian government of the day. The timing and robustness of German recovery, astounding many observers, benefitted the second Orbán government in its first year.

3. No long term overview is complete without asking the obligatory question, if real convergence, in terms of per capita income and in terms of quality of life materialized or not. Such convergence is forecast by the now dominant neoclassical view on economic growth. Furthermore public opinion in the region in general
and in Hungary in particular, expects, as a sort of an axiom, the process of catching up with more advanced economies.

Answering this question would lead to a different paper, most probably to a book. More recent contributions to this traditionally emotional field of statistical analysis I rely on two recent contributions, based on meticulous analysis of data, and conducted by two of my colleagues (Muraközy, 2011; Tomka, 2011). Recalculation of earlier evidence, supported by releases of upgraded and updated international data, shows the following. Hungary rarely if ever experienced any kind of real convergence. In the golden age of the post-1867 period Hungary has not been converging, “just” keeping pace with Germany. But Germany at the time was the center of global industrial and cultural development (even if in terms of finance it lagged behind). Inflated statistics of the Socialist period have long been discarded, and all recalculated figures in the past two decades show a below average rate of economic advancement. In the 1989–93 period transformational recession took place, with a loss of 20 percent of GDP. Thus recovery of the pre-crisis levels lasted until 1999.

Interestingly, if corrected with components of quality of life, some convergence can be shown for the 1994–2007 period. These calculations, transcending the usual GDP and industry based first glance rehash assessments of official statistics, indicate a structural and qualitative upgrading, but no quantitative catching up in the period mentioned. This is supported by the improvement of the export pattern and the continuous inflow of FDI to competitive sectors including R+D. Actually, nearly the whole of business expenditure on R+D comes from the transnationals.

In sum, while convergence is not demonstrable, upgrading and relative gains against other transition economies are observable. But those very relative gains are gradually but demonstrably being eroded in the period following EU accession. One may wonder, if talking about complacency, both of local intellectuals and EU policy-makers and analysts, is justified, when recalling the very low voice in which any doubts were sounded in the 2001–08 period.

4. The role of broader external environment needs to be stressed separately. If Hungary enjoyed a modernization and growth push in the post-1867 period, owing the dynamism of Germany of the day, this time is different. The formative environment for Hungary in the two decades was the European Union. The latter, especially in 2000–10, tended to show signs of sclerosis in more than one area. Internal reforms, initiated back in 1997, to prepare for enlargement, were largely diluted. Attempts to create a political Europe ended up in the watered down Lisbon Treaty of December, 2009, cementing the status quo rather than opening up new areas. The economic renewal envisaged by the 2005 edition of the Lisbon Strategy fell victim to the global financial crisis.
Without wishing to enter in a different field, let us just observe, that the ambiguity in EU matters continues. While the visionary Europe 2020 strategy is a cookbook for renewal, actual policy making is entirely immersed in day-to-day crisis management and the ensuing short-termism. The debate about the European Fiscal Stabilization facility and later the permanent European Stability Mechanism, alone exceeding the size of the seven year financial guideline, leave little room for major structural innovations and restructuring. Thus the EU remains a sluggish environment for the country, obviously lagging behind the US and China. No good news for real convergence in the future.

5. It is hard to overlook the nearly permanent and sustaining clash between pure economic and pure political rationalities. This is a platitude per se, but observing it for decades reminds the student of comparative politics and comparative economics of cases like Argentina, Greece, Portugal and other lagging nations. All in all we can see precious few cases in which lessons from other countries or periods were creatively adopted for solving this fundamental issue. Among the rare but important examples we may recall the elite consensus in 1989–92 over the need to change rather than merely improve the socialist system, to go through the “valley of tears” of the SLIP agenda, and the unwillingness to adopt non-market and non-democratic options, such as the storming of the Supreme Soviet in December, 1993 by the troops of Boris Yeltsin. Later such consensus emerged over the need to join NATO and the European Union.

But by the time accession was by and large accomplished, around 2001 a new type of elite consensus emerged. The latter revolved around populist, myopic policies, trying to maximize immediate benefits from staying in power and serving immediate – often perceived – needs of the electorate. The agreement over the possibility and even desirability of doing nothing, the wide acceptance of disregard for even medium term ramifications of measures taken in the current situation, has created a new culture of decision-making. The more politics in general and political movements in particular are hollowed, becoming “professionalized” and care about the marginal and swing voters rather than any kind of principles, values or lifestyles, the higher is the probability of the rule of myopic considerations, offering immediate material benefits, or delivering symbolic act that lead to “punishment of the guilty”.

The longer these features, which are by no means peculiar to postcommunist or even European societies, prevail, the lower is the probability of adopting, let alone implementing pre-emptive policy measures or being engaged in institution building or investing into areas where recoupment is uncertain and if ever, will materialize in the long run only. “Reform fatigue”, a term frequently used in the literature on policy reform in the continental European context, is therefore clearly a misnomer. It is not societal resistance, manifested in mass demonstrations, in violent actions or wildcat strikes which have slowed down the reforms in
Hungary (and much of continental Europe). It was the change in the self-interpretation of policy actors, in their perceptions, value judgments and manipulation technologies applied, which translated into inaction, or action in the wrong direction.

At one level of abstraction we may attribute the outcome to inherent features of media-led democracies. On the other hand, international experience with policy reform (Kopits, 2011) is indicative of the possibility, and indeed the growing occurrence of successful and sustaining policy improvement in countries where path dependency theory would not have allowed for that, be that in Brazil or Slovakia. Thus intellectual complacency is by no means justified.

6. If we venture into a degree of normative analysis it may well be asked if there is anything favorable to be deduced from Hungarian experiences, successes and failures over the decades since World War II. Our story is supportive of insights from the broader literature which stresses the importance of the quality of leadership (Kádár, 2007; Györfy, 2010) against the “usual suspects” of factor endowments, institution building, policy variables and external constraints/incentives. At the time of writing in Hungary fiscal retrenchment and fire-fighting improvisation prevails over broader considerations, thus investment into the future and especially in reverting the decay of public institutions is less than likely.

Epilogue

Quality, like many other among the softer variables, as non-corruptible managers, socially responsible firms or technocratic, impartial, disembedded public administration are hard to quantify. On occasion attempts to their “operationalization” in numbers leads to more confusion than clarity (Török, 2010), or simply to meaningless composite indicators not really indicating any real world phenomena to any degree. Economics over the world is on the way to rediscovering historic, institutional and qualitative aspects of societal phenomena. Our case study might serve as a minor contribution on this bumpy and long road. We tried to show why axiomatic and simple assumptions are unable to explain outcomes in the medium and long run, which is, after all the subject and main task of any analytical social science discipline.

Adopting the broader perspective helps us to understand why bad policies are popular and therefore became a recurring feature of Hungarian economic development. It does not allow for a naive, optimistic forecast. It does not allow for the naive political view, believing that changing of elites, or governments, or political institutions, as rewriting the Constitution or re-drawing the electoral districts, would do miracles. Also it does not allow for appreciating the widespread calls for
“serving justice” and “finally catching the thieves”. As legitimate as those aims may be, addressing them will not turn the tide.

But our story also cautions against the customarily naive economist’s view on diagnosis and therapy. Copying good policies, be those from EU or elsewhere, transplanting “best practices” and formal institutions reflecting those, as constitutional debt ceilings or inflation targeting, will also in the future be of little avail on their own. And, last but not least, good quality leadership, like honesty, is not a factor to be quantified, now or any time in the future. It needs to be nurtured, practiced and the results will emerge – perhaps in the long run. But success is not a must for any country in the globe.

References


Note

1 A uniquely detailed and internationally unprecedented detailed account of the process of property changes is provided in the two volume set by Péter Mihályi (2010).