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Similarities and differences in european crisis management

SUMMARY: The crisis of financial intermediary systems uncovered not only the consequences of the shifting of the centre of gravity of world economic development, and with it the structural problems of the European economy, but also highlighted the disequilibria of state budget management – of fiscal policy – more clearly than ever before. The problems primarily surfaced in countries where the harmony between economic performance and the financing of social services and welfare systems had been missing for some time and the consequences of the lack of performance were obscured by loans. In the resulting situation, it became clear that the fight against the financial-economic crisis would be futile without adjusting fiscal policy. The improvement of the efficiency of fiscal management is a strategic issue. Generating and maintaining the harmony between the performance of the economy and resources spent on publicly financed services is a condition of socio-economic stability. Under the circumstances of the crisis, this requires the solving of financing 'equations' that are adapted to new domestic and foreign policy qualities and social realities, the solution of which goes far beyond the world of traditional 'budgetary mathematics'. Our study will outline the common features and action patterns found within the measures of crisis management aimed at public finances. We will present the features and characteristics of the European practice of fiscal crisis management and in light of this try to position the measures of Hungarian fiscal practice.

KEYWORDS: fiscal policy, crisis management, debt management
JEL-CODES: E62, H12, H63

INTRODUCTION AND FOUNDATION OF THE FACTS SUMMARISED

One of the cardinal points[1] of the topic of the economic crisis that erupted in 2008 is the analysis and assessment of the various crisis management solutions. There are numerous analysts, whose work focuses on the issue of the crisis. The majority of these works, however, either concentrate on the events leading up to the crisis, the various symptoms of the crisis, or the specific plans for finding a way out of the crisis.[2] Our objective is *to help readers understand the characteristics, main tendencies and consequences of the steps taken at the international level, focusing our attention on the fiscal sector and public finances in particular, through a set of well-organised, analysed data and information and to contribute to more substantiated fiscal decisions in Hungary.*

This study,[*] which primarily focuses on the public finances of the Member States of the European Union, shows the various governmental crisis management measures taken in the *fiscal field of economic policy* grouped into so-called 'action matrices', essentially presented in a *draft-like format,* due to the obvious content restraints of the paper.

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Naturally, the presentation of the individual measures and measure packages made a considerable number of simplifications and merging of data necessary, which have been neutralised through the use of the excellent main arguments taken from the literature used, with the help of the categories shown in the table. We have undertaken to face the disapproval that might follow from the fact that even the most circumspect categorisations may very well turn out to be incidental, and that setting different boundaries and classes might be acceptable as well, as can be different opinions on measures saying that a particular measure is not related to the crisis, but it is a 'mere' reflection of a general intent to reform public finances. At the same time, however, it is the opinion of the writers of this paper that the summary provided herein – despite their necessarily oversimplified mechanical nature – should be regarded as a reliable source of information. The tables summarising the measures taken immediately after the eruption of the crisis in 2008 and the relevant characteristics for 2010/2011 not only make the time horizons, entry into force, eventual repeal (life cycle) and effects of the various steps easy to follow, but the condensation of identities and differences also enables identification of the characteristics of diverging public finance positions and models.

Accordingly, the crisis management measures taken, taking the relevant EU classifications into account, and featured in the action matrices are not merely presented as trends of identities and differences, but also taking the following considerations into account:

- how proactive, preventive they are, whether there is a solid theoretical basis for them;
- how conducive they are to promoting the restructuring of social and economic services and the effective operation of large public service systems;
- can they operate in the long term, create and enforce stable and harmonised regulatory and control frameworks, which ensure adequate conditions and incentives for the harmonious growth of society and the economy in the long term as well.

Therefore, in our conclusions we strive to find out the extent to which the measures geared towards public finances taken so far have contributed to weathering the crisis and whether they can provide a long-term, new development perspective or are merely suited to prevent – with various degrees of success – these problems from becoming so deep as to render the socio-economic model based on European integration, shared values and norms unsustainable.

GENERAL GOVERNMENT DEFICIT, DEVELOPMENT OF POSITIONS IN EUROPEAN UNION COUNTRIES, 2008–2011

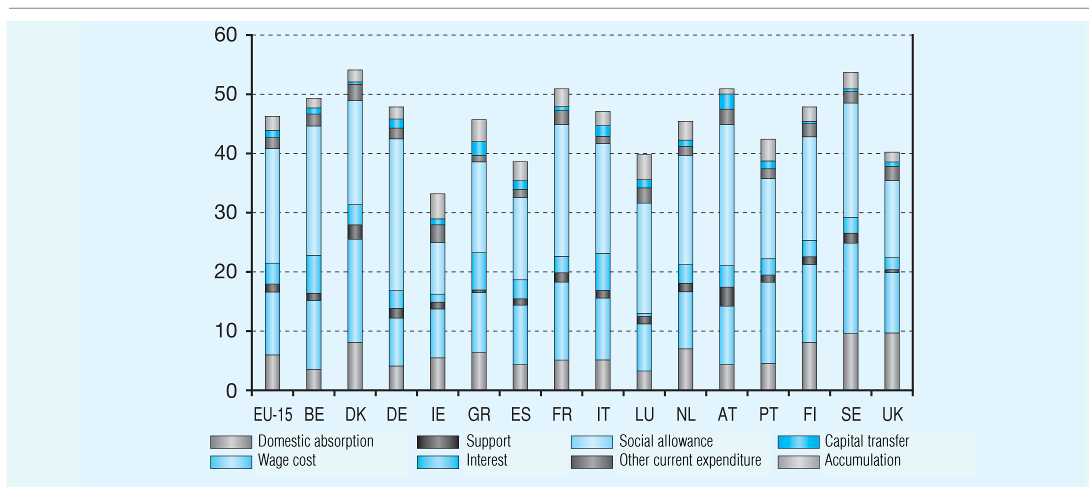
There is general agreement in the economics literature surveyed that the debt crisis that ensued as well as the decrease in economic output have put fiscal policies into a very difficult position, in and of themselves, and that this has only added to the challenges that have already been apparent for some time.[3] In the countries hardest hit by the crisis, the structure of public expenditure and particularly the uncovered growth thereof before the crisis had a fundamental role to play in the escalation of the financing problems of public finances (OECD, 2010; Inotai, 2011) [the Hungarian central budget deficit was at a record high in 2006 at 9.2 per cent, while the rest of the countries where experiencing a spectacular (albeit temporary) improvement in budget deficit figures].

Economic output and the operation of the state budget are mutually intertwined. Budgetary (over)spending has greatly increased the vulnerability of countries, which have

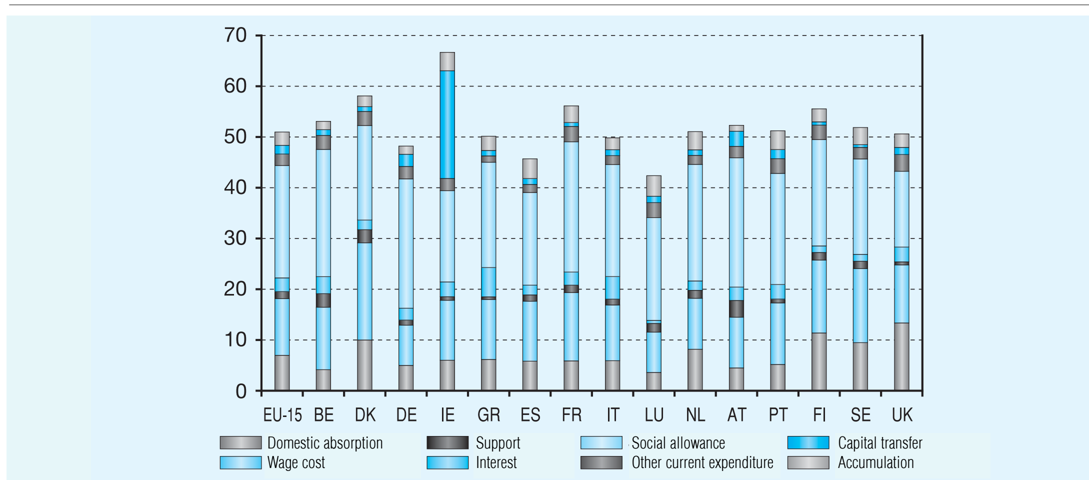
undertaken to finance social services that are not in accordance with their real economic performance in terms of structure as well as scope (Csaba, 2010). Therefore, the crisis has hit Eastern and Southern European countries on the periphery more severely than those located in the North, despite the fact that their welfare systems are quite similar, which put the approaches that assume a connection between the size of the state budget and its propensity for crisis into question (Kovács, 2011a; Muraközi, 2012). This is well illustrated by the structural composition of state budgets in one of the boom years preceding the crisis compared to figures from 2010. The bar graph clearly shows *(see Figures 1 and 2)* that the structural reform of public finances has brought very few results so far, that the structure of public finances is quite rigid, that it can only be changed substantially under very

Figure 1

THE STRUCTURE OF GENERAL GOVERNMENT EXPENDITURES IN THE EU-15 MEMBER STATES IN 2001



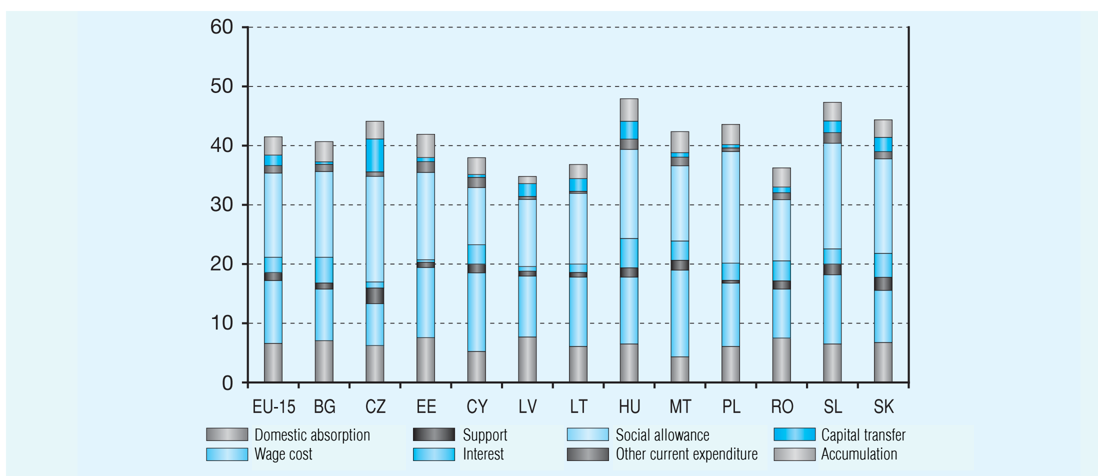
THE STRUCTURE OF GENERAL GOVERNMENT EXPENDITURES IN THE EU-15 MEMBER STATES IN 2010



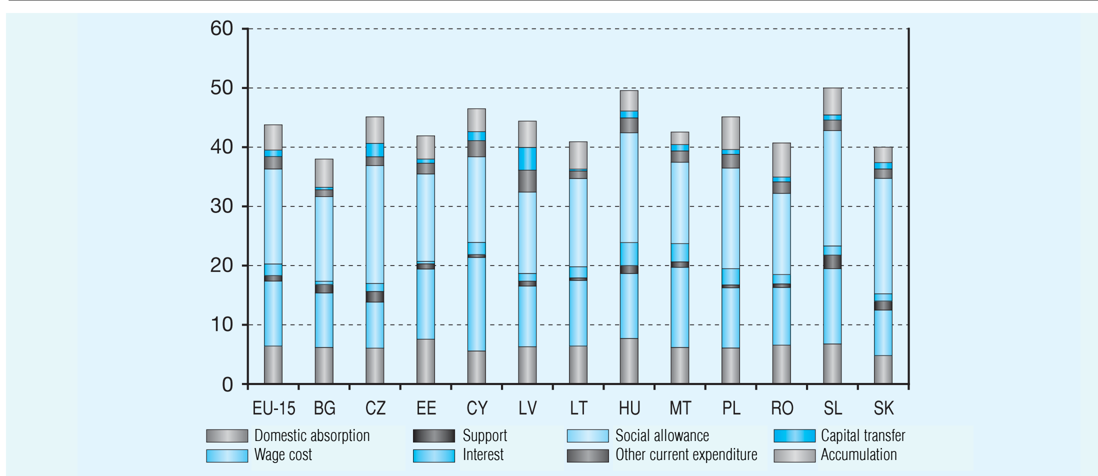
Source: own calculation

Figure 2

THE STRUCTURE OF GENERAL GOVERNMENT EXPENDITURES IN THE EU-12 MEMBER STATES IN 2001



THE STRUCTURE OF GENERAL GOVERNMENT EXPENDITURES IN THE EU-12 MEMBER STATES IN 2010



Source: own calculation

strong pressure and/or with the support of society and even then such changes create enormous tensions causing the state to have to go forward while shouldering changes and crippling shocks to its entire model of operation.

Compared to the previous years in 2009 the budget deficit of the EU 27 countries at 6.8 per cent of the GDP has nearly tripled and the same happened in the euro zone: the budget deficit reached 6.3 per cent of the GDP. Budgetary surpluses have disappeared in every country. Only Denmark, Finland, Sweden, Luxembourg, Estonia and Germany managed to keep to the 3 per cent deficit limit. The deficit was around average in France, Italy, the Netherlands, Slovenia, Slovakia and Poland. At 4.4 per cent, Hungary should be considered above average.

By 2009, the budget deficit of several countries came close to or exceeded the critical 10 per cent, so-called crisis level. Among the

countries of the euro zone, Greece (15.4 per cent deficit), Ireland (14.4 per cent), Spain (11.1 per cent) and Portugal (9.2 per cent) were faced with this situation. The United Kingdom (at 11.4 per cent), Lithuania (at 10.2 per cent), Latvia (at 9.2 per cent) and Romania (at 8.6 per cent) produced similarly high deficit figures.

The budget crisis continued in 2010/2011 and the average value for the EU-27 rose to 7.3 per cent. In 2011, only Sweden managed to achieve a budgetary surplus (0.9 per cent), and only 6 countries managed to perform below the 3-per cent level (Bulgaria, Estonia, Finland, Luxembourg, Malta and Germany) and keep their deficits at bay. Ireland (10.5%), Greece (9.5%), the United Kingdom (8.6%) and Spain (6.3%) also suffered from severe deficit problems. The following countries are also noteworthy in terms of their high deficit figures: Portugal 5.9 per cent, and 5.8 per cent for France, Poland and Slovenia. The latest closed deficit figure of the Hungarian state budget was between 3–4 per cent.[4]

European countries in the 2007–2011 period may be put into different categories when it comes to the reasons of their increasing public debt. The deterioration of the primary balance of the budget is the reason behind the 14.8 percentage point GDP proportionate public debt increase in Sweden, Romania, and Poland, as well as 13.7 per cent of the 14.6 percentage point increase in the Czech Republic, and 9.1 per cent of the 9.3 percentage point increase in Cyprus. The public debt increase experienced by Ireland, Greece, Portugal, Slovenia, Lithuania and the United Kingdom can only be partly (50 per cent) explained by the deterioration of the primary balance of the budget. At the same time, a marked deterioration in the interest conditions of financing, a drop in economic output and a slower rate of expenditure cutting measures in comparison[5] were also to blame for raising the public debt volumes in Italy and Hungary, while in other countries the reasons behind increasing public debt are even more varied. All this suggests that it is hardly possible to mitigate financing tensions without modifying the structures underlying public finances, despite the fact that this is the area that – as evidenced by the diagrams and our assertions – has produced less than impressive results.

The possibilities for recovery from the crisis are particularly bleak in countries, where debt servicing burdens of the deficit accumulated earlier continue to be so excessive – despite a positive net balance in the state budget and truly successful adjustment mechanisms – that create an unbearable financing burden for the country, which, in turn, drags down the default risk rating of the given country, increasing the cost of external financing and driving up the so-called CDS spread.[6] The prices do not tend reflect the actual values indicative of the situation of countries faced by a difficult situation, or tend to do so only through enormous swings[7] (European Commission, 2011; European Parliament, 2011).

THE MATRICES OF FISCAL INTERVENTIONS AND THE CONCLUSIONS THAT FOLLOW

Several leading economists already pointed out the lack of the harmonisation of economic policies and the 'softness' of the Stability and Growth Pact after the first of wave of the Greek debt crisis hit (Boefinger – Ried, 2010). These circumstances already suggested that Member States were going to manage the effects of the economic crisis on an individual basis. And that is exactly what happened. Ostensibly, Member States employed a 'mix of actions' driven by contingencies rather than scientifically based economic/social policies, which, however, had definitive elements impacting events in the long term. Although most international and governmental measures

employed were more or less a mixture of taxation, cost and service cutting, consumption constriction and of course economic growth stimulating tools, the proportions and scheduling of these measures, as well as the 'dosing' thereof varied according to the size of the country, the power and indebtedness of the economy in question, as well as according to what the prevailing social traditions, the position of the society allowed and what the opinion of the government was on these measures. Naturally, the results were varied as well. The same tool – for instance a lower personal income tax rate – in one country increased domestic savings, whereas in another country the resulting savings were either spent or taken abroad (Haan – Inklaar – Sleijpen, 2002).

According to the experiences of the analysis the period since the eruption of the crisis may be divided into two parts; whereas between 2008–2010 the first economic policy reactions primarily showed a similar overall picture in the individual countries, in as much as crisis management mainly focused on curbing public debt – which countries tried to supplement with appropriate stimulus packages. At the same time the re-escalation of the crisis in 2011 prompted countries to renew their crisis management strategies, including the set of tools at their disposal.

Stable characteristics defining the crisis management of the EU-27 or differences between the two periods may be found in the seven areas listed below:

- the reduction of public finance expenditures *in both periods* (in 2008–2009 and 2010–2011),
- the general raising of taxes, customs duties, and contributions *in both periods* (in 2008–2010 and 2011),
- interventions in the labour market *in both periods* (in 2008–2010 and 2011),
- the selective reduction of taxes, customs duties, and contributions in certain defined areas primarily characterising *the first period* (2008–2010),
- individual bank bailouts in the first period (2008–2010),
- changes introduced in the rules of operation, institutional organisation, and structure of public finances primarily characterising *the first period*[8] (2008–2010),
- special taxes aimed at the financial sector, *typical of the second period of crisis management* (2011).

The additional measures taken were quite different as well. The best tools to avoid unexpected financial and economic situations were thought to be related to strengthening the monitoring of financial and economic processes, creating supra-national control and coordination institutions and using these institutions as a sort of early warning system. *Hardly any progress is being made in this respect. It is conspicuous that the establishment of new bodies and agencies performing public finance, economic policy, advisory and control functions, welcomed in professional circles, did not translate into practice (Moser, 2011).*

It is apparent that the intense phase of crisis management was in the years 2008–2009 in both EU-15 and EU-12 countries, with the exception of Greece, Italy, Portugal, Spain and primarily Hungary, where we see the crisis escalate in spite of interventions. The number of new and upheld measures and intervention groups related to crisis management – according to our matrices – dropped quite significantly, from nearly 70 to 50 (EU-15), and from 60 to 40 (EU-12).[9] This, however, does not mean that the crisis is over, but rather that EU burdens its states with great differentiation which is reflected in public finance positions.

If their reasons are considered, naturally there is a connection between the intervention solutions contained in the 'action matrices' and the public finance position, the production and welfare systems, and the depth of the prob-

lems. It is also obvious that government activity is more 'active' – both in terms of extent and scope – where the structural transformation of the welfare system, the decrease and restructuring of the rate of general government expenditures have become urgent issues of key importance in the grip of sustaining financeability.

Naturally, the system of conditions of the application – social, stability, political, economic, administrative, etc. – of similar activity mixes is quite different; therefore obviously the effect mechanisms also vary from country to country. In other words, we could say that with respect to the solutions and techniques, identical or similar recipes and 'medicine dosage' could lead to different results.[10] All this makes drawing generalised conclusions extremely difficult. However, even within the constraints described above, it is a valid assumption that in terms of the depth of the problems and the level of activity displayed with regard to the use of crisis management steps, *one cannot unequivocally say that there is a significant correlation between the size and financing of the state budget and the given country's propensity for crisis.* Seeing the successful crisis management – or rather crisis free state – of Northern European countries and (to date) Slovenia,[11] and taking into account the significant scope of the services of these countries, we can draw the conclusion that the *question is not what model (role assumed by the state) these service systems follow, but rather whether they function effectively and whether their funding is in line with the performance of the economy in question.*

On the basis of matrix comparison, it became apparent that in certain areas of the economy in which production enterprises are engaged tax reduction was realised – as a stimulus – in a differentiated manner, with the general increase of tax burdens and the application of special taxes. The institution of special taxes and benefits introduced in Hungary was not an isolated phenomenon in crisis management. Its rate (e.g. very significant decrease of personal income tax and corporate tax), the (too) diverse application tool-set and the fragmentation of the tax system itself was essentially different and became more complex.[12]

With respect to bank taxes, it is worth noting that the institution of special taxes were not just applied by euro area countries (Austria, France and Germany), but by countries outside the euro area as well (the United Kingdom, Hungary and Sweden). It is at the same time also a fact that when looking at the size indicators and performance of the banking systems and the *total revenue figures* of the state budgets of countries that achieved a surplus of budgetary revenues (and partly redistributed the burdens) in this manner – in order to balance out the budget – *the solution employed by Hungary is incomparably more radical and extensive, so much so that it jeopardises the financing intensity of the banking system and therefore delays the re-start of economic growth.*[13]

THE FIRST PHASE OF CRISIS MANAGEMENT: 2008–2010

If we examine the reactions of the first period, countermeasures were taken in a basically classic manner. Government activity shifted to reducing real economic burdens and starting the engines of development. In general, income concentration became more modest. The growth dynamics of the welfare expenditures of general government dropped, what's more, in many cases, in an absolute sense, less was spent on these objectives. The general premise was that with/in spite of the selective decrease/increase of taxes burdening entrepreneurs, more funds are available for developments and innovation-related subsidies, which are essential for kick-starting growth.

Tax composition also changed as a result of the drop in performance; emphasis shifted from indirect taxes to social security contributions, and while social security contribution revenues increased personal income tax revenues decreased. In the majority of countries, these effects automatically brought the reduction of state expenditures as well as the deployment of economic stimuli (including benefits provided through the tax system and targeted measures increasing state expenditures). It should be noted, however, that the extent and *effect* of these remained modest.

The greatest activity in relation to crisis management was exhibited by the leading stable economic powers of the EU-15 (the United Kingdom, France and primarily Germany), as well as states that were most severely impacted by the crisis (Greece, Ireland, Italy, Portugal, and Spain), the latter in the more or less typifiable field of finance policy as described above. In Greece and Ireland, the changes in revenues and expenditures were accompanied by more fundamental budgetary transformations than other countries, in a way reflecting the gravity of their crises.

If we take a look at the financial intermediary sector in the context of the revenues and expenditures of the budget, we are faced with the contradiction that while the first reactions were aimed at the bailing out and recapitalisation of banks using state and budgetary funds; the second period was characterised by the opposite, e.g. some of the burdens of resolving the Greek crisis were shifted onto the banking system.[14]

Naturally, in every crisis where jobs are lost, the state strives to actively encourage employment and provide support and training to this end. Accordingly, various labour market programmes could be observed. One of the important measures applied during crisis management was the significant reduction and termination of 'benefits' which due to their welfare nature impeded the labour market activity of individuals (in Denmark, it was only in 2011 that the disbursement period of unemployment benefits was reduced from four to two years, and this was the year that unemployment benefits in the United Kingdom were reduced from 95 to 70 per cent of income).

In 2009–2010, incentive programmes were beginning to peter out due to the constriction of fiscal leeway (European Commission, 2010a). Unsuccessful labour market interventions, however, also indicate that governments failed to appropriately recognise the dynamics of the deepening of the crisis and its impact on the structural transformation of labour markets. However, short-term government interests related to maintaining social peace also played a part in the contradictory activities *(see Table 1).*

TYPICAL CRISIS MANAGEMENT MEASURES FROM THE SECOND PHASE

It became apparent that earlier stimulus activities, in the grip of the global crisis and burdened by the disequilibrium of the world market, were unable to induce substantive growth. Therefore, reactions and measures were for the most part one step behind events, and the stimulation of the economy using public finances also resulted in market risks shifting to the public sector. After a while a state budget that continues to be balanced with the help of newer and newer austerity measures, even when combined with a reduction of the burdens of the real sector, is no longer able to spur positive processes in the real economy (Farkas, 2009, 2010). In the majority of countries, experimenting with the stimulation of the economy resulted in an increase of deficits to 0.1–0.5 per cent of the GDP, and for this reason by 2011 it has completely disappeared from the tool set of crisis

Table 1

TYPICAL MEASURES APPLIED IN CRISIS MANAGEMENT, 2008–2009

Country	Measures/steps taken												
	Significant curbing of state budget expenditures	Increase of taxes, customs and contributions	Decrease of taxes, customs and contributions	Significant money market borrowing used for current financing	Borrowing from international organisations triggered by the constraints of the crisis	Introduction of special bank taxes	Special taxes directed at the service provision sector	Individual bank bailouts	New managing and/or control agencies in state budget management	Labour market interventions	Economic (consumption) stimulus programmes	Other individual measures (e.g. privatisation, utilisation of private pension fund assets)	Transformation of the rules of the operation of public finances
EU-15													
Austria			X							X			X
Belgium	X		X							X	X		X
Denmark			X							X			X
United Kingdom	X	X	X					X		X			X
Greece	X	X		X	X					X			X
Finland		X	X					X		X			X
France	X	X						X		X	X	X	X
Netherlands		X								X			X
Ireland	X	X						X		X			X
Luxembourg										X			
Germany	X		X					X		X			X
Italy	X			X		X	X	X		X			X
Portugal	X	X	X							X			X
Spain	X		X					X		X			X
Sweden			X							X			
EU-12													
Bulgaria	X	X	X		X					X			X
Cyprus		X	X							X	X		X
Czech Republic	X		X							X			X
Estonia		X								X			X
Hungary	X	X	X	X	X				X	X	X		X
Malta		X								X	X		
Poland		X	X		X					X			X
Latvia		X	X							X			X
Lithuania	X	X	X							X			X
Romania	X	X		X	X				X	X			X
Slovakia		X	X							X			X
Slovenia		X	X						X	X			X

Source: own calculation

management (European Commission 2010a; 2010b; 2010c; 2011).

In the opinion of *Tibor Palánkai* and other authors, the current euro crisis primarily appears as a budgetary and public debt crisis, or in other words: as a *sovereign debt crisis,* but one that affects only certain (southern) countries of the euro area (Carmoy – Combes, 2011; Palánkai, 2011).

With the exception of Mediterranean countries unable to climb out of the crisis (Greece, Italy, Portugal and Spain) as well as Romania and primarily Hungary, where there was a broad series of measures operating with direct interventions and aimed at public finances, between 2010–2011 for the most part moderate crisis management exhibiting government activity could be observed. There are three states (Malta, Sweden and Slovenia) where in essence no intervention took place. By upholding certain earlier measures, these economies – primarily Malta and Sweden – were able to get on a stable track towards growth.

Other European Union Member States were also able to consolidate their situation, which is supported by the fact that as opposed to the previous practices we have seen two to three crisis management steps taken, but the tax burdens, most of which related to the energy sector and consumption, fiscal austerity and the protection of the labour market remained in effect *(see Table 2).* Exemplary austerity measures were taken in Estonia, as a result of which significant development was able to take hold after 2010.

In the field of curbing state budget expenditures, the most significant measures were observed in the United Kingdom, Spain, Romania, Italy, Greece and Austria. The freezing or decreasing of public employee wages was a frequent occurrence as well as the limitation of service financing. In large countries (Germany, France), the very significant reduction of military expenditures is striking (European Commission, 2010c).

CRISIS MANAGEMENT MECHANISMS OF THE EUROPEAN UNION IN THE FISCAL MANAGEMENT OF MEMBER STATES

The measures taken by the decision-making forums of the EU, through the adaptation of Member States, shall sooner or later take the form of concrete national steps and, as such, these steps regarding institutional, common risk management merit separate examination. These steps can be divided into two groups: steps aimed at a given country – international '*bailout programmes*' – and steps aimed at the EU as a whole (and naturally EMU countries).

Country specific 'bailout programmes' have been the answer and will continue to be the answer in the future as well in order to ensure that European integration remains globally competitive and sustainable. Moreover, such bailout programmes will continue to be necessary as a manifestation of the solidarity of the shared risk community of the euro zone and of the European Union itself. In recent years, several such measures were taken at the EU level, firstly in connection with the Greek crisis, followed by the Irish and most recently the Portuguese crisis. The success of the bailout mechanisms cannot be judged as yet. It is clear, however, that no significant result has been achieved for the moment regarding the sustainability of general government financing.

It became clear that the economic crisis necessitates economic governance and economic policy coordination – normative measures – that are more vigorous than before, and which at the same time relate to the EU's vision and direction of development.

As part of this joint crisis management process, the Member States reached the decision on the *new architecture of the EU's economic governance,* with significant delay, on 7 September 2010 and called it the *European*

Table 2

TYPICAL MEASURES APPLIED IN CRISIS MANAGEMENT, 2010–2011

Country	Measures/steps taken												
	Significant curbing of state budget expenditures	Increase of taxes, customs and contributions	Decrease of taxes, customs and contributions	Significant money market borrowing used for current financing	Borrowing from international organisations triggered by the constraints of the crisis	Introduction of special bank taxes	Special taxes directed at the service provision sector	Individual bank bailouts	New managing and/or control agencies in state budget management	Labour market interventions	Economic (consumption) stimulus programmes	Other individual measures (e.g. privatisation, utilisation of private pension fund assets)	Transformation of the rules of the operation of public finances
EU-15													
Austria	X	X				X				X			
Belgium	X	X				X	X			X			
Denmark	X									X			
United Kingdom	X	X				X				X			
Greece	X	X			X		X			X		X	X
Finland		X								X			
France	X					X				X			
Netherlands	X									X			
Ireland	X	X								X		X	
Luxembourg	X									X			
Germany	X					X				X			
Italy	X	X	X	X						X			X
Portugal	X	X								X		X	
Spain	X	X						X		X	X		
Sweden	No meaningful measures taken in connection with crisis management							X					
EU-12													
Bulgaria	X	X								X			
Cyprus		X	X							X			
Czech Republic	X	X	X							X			
Estonia	X									X			
Hungary	X	X	X	X	X	X	X		X	X	X	x	X
Malta	No meaningful measures taken in connection with crisis management												
Poland	X	X								X			
Latvia	X				X					X			
Lithuania	X	X								X			
Romania	X	X		X	X				X	X			
Slovakia	X	X								X			
Slovenia	No meaningful measures taken in connection with crisis management							X	X				

Source: own calculation

Semester.[15] The essence of this is that within a six-month schedule, the economic and budgetary policy of the EU and the euro area must be coordinated in advance with the Stability and Growth Pact as well as with the Europe 2020 programme. The process is significant because both governments and national parliaments acquire important information. The process is supplemented by so-called enforcement mechanisms; the EU may apply financial sanctions against Member States (suspension of transfers from the structural and cohesion funds) if they deviate from recommendations and consistently fail to fulfil the obligations they have undertaken.

The *Euro Plus Pact,* adopted at the European Council meeting of 24–25 March 2011, is a step forward. The so-called Competitiveness Pact is considered its predecessor. The pact reinforces and more clearly articulates the objectives of the European Semester and Europe 2020 and takes a stand in favour of improving European governance. The pact was adopted by members of the euro area, as well as six other Member States (Bulgaria, Denmark, Latvia, Lithuania, Poland and Romania), and only four countries (Czech Republic, United Kingdom, Hungary and Sweden) stayed out. The signatories have undertaken to prepare measures for the next 12 months, primarily in the interest of improving their competitiveness.[16]

In terms of joint action against the debt crisis, the establishment of the *European Stability Mechanism (ESM)* was an important decision, as it serves as a permanent bailout fund for governments in financial trouble. The mechanism is designed to replace the *European Financial Stability Facility (EFSF)* treaty, increasing its lending capacity to 500 billion Euros. Non-euro area members would also be able to join the ESM. Under strict conditions, the ESM provides short and mid-term support to members of the euro area experiencing financial difficulties.[17]

Decisions related to the concept of the fiscal union are not just important from the aspect of the substantive (prior) control of national budgetary policies, but also because these impact issues that influence the future of the EU. Important decisions regarding crisis management were made at the EU Council meeting of 8–9 December 2011. These go beyond the procedures to date that can practically be considered monitoring procedures, and provide the EU (the Commission) with veto rights against the draft budgets of Member States. Target figures will become more specific, based on which structural deficit cannot exceed 0.5 per cent of the GDP and the Member States will have to make decisions to prohibit the increase of public debt. In the interest of the efficient enforcement of joint regulations, the Court of Justice of the European Union shall be entitled to check adherence to these regulations. It is very important that previously available sanctions (that in the end were not applied) will become automatic and can be waived only with a majority decision.

The strict outlining of financial criteria reflects the will of EU decision makers to narrow the budgetary-political manoeuvring space of Member States in such a way that improved performance can be achieved in the real sector.[18] In order to enforce budgetary discipline, they felt it was important that governments should not expect any sort of community bailout, that community competition policy prevent governments from rushing to help their companies with subsidies and that the European Central Bank should not help the financing of budgetary deficits.

Even though the European Stability Mechanism (ESM) could enter into force as of 1 July 2012, as yet no decisions have been made on expanding its foundations.[19] The plans are substantive; the question is how much they are able to take shape within the actual measures.[20]

CONCLUSIONS

Regarding whether similarities or differences were more typical in crisis management, we can clearly state that *there were more similarities than differences.* The differences were and are more in the extent of the interventions, the number of intervention areas and the 'activist' approach operating with individual solutions or more normative and cautious sort of interventions. The incompleteness of integration had an adverse effect on crisis management, which in essence was lacking its system of institutions (Carmoy – Combes, 2011). Even though, as we have seen, the countries of the EU-27 and the EU itself are unable to provide preventive, proactive and theoretically well-founded crisis management, for the most part, even if one step behind events, they were able to stabilise their positions in the 2008–2011 period. Additionally, for the time being solidarity exists towards countries in trouble unable to renew their socio-economic models and unable to get out of the debt trap.[21]

There is general agreement that one of the main reasons for the deepening of the crisis was its inadequate management. It seems that global and regional institutional thinking that deals with socio-economic development using scripts is not typical practically anywhere. The 'Mediterranean' and 'Continental' groups of the EU are lacking the conceptual and strategic management of problems.[22] Steps were frequently taken that were mutually exclusive or half-solutions to problems, which in the long-run deepen rather than resolve the crisis. Sustainable growth and monetary stability is not possible without the consistent implementation of reforms impacting the structure of public finances (Kovács, 2011c) .One of the basic conceptual issues concerning public tasks is the rethinking of state duties. This is necessary on both a national and EU-level. Budgetary savings must be sustainable and long-term in terms of effect.

As a result of the primarily Southern and Eastern expansion of the EU the diversity of integration has greatly increased. This is well reflected by the differences in levels of development, economic and social structures or traditions and systems of values. The current European crisis has several ties to these differences, and for this reason its resolution does not really depend only on new institutions and policies (Kiss, 2011).

Real economic convergence and regionalisation did not mean that the Member States followed similar economic or social policies. Convergence was absent in financial systems or social models. Prior to the crisis, differences became more dominant (Darvas, 2011). However, all this does not mean that all financial systems and models are equally desirable or equally sustainable. At the same time we must emphasise: the circumstances of the crisis have made it clear that some of the models – focusing on the budgetary funds side – are sustainable, while others are not. Today, the sustainability of the development of the future does not in the least depend solely on the economic/rationalisation steps that can be characterised by the taxation and other (withdrawal and subsidy) numbers of restrictive and loosening measures, but also includes external and internal social adaptive skills that are less quantifiable. Great self-discipline, restraint, patience and capacity for consensus are required to prevent the attempt to adapt to changes and the reflex of immediate interventions from taking the selected solutions in the direction of improvisation. Good objectives cannot be achieved if available instruments are bad, contradict each other, are unacceptable in the given socio-economic milieu or perhaps go openly up against economic realities. At the same time, deciding what is unfeasible, unsuccessful, destabilising and deciding what provides appropriate, security enhancing and sustainable added value changes all the time, and it is not at all easy in a Europe that is burdened with

extreme equilibrium issues and is looking for a way out of the economic/financial crisis by 'closing ranks' as it were.

EU membership provided a certain (limited) protection against the direct, short-term effects of the crisis. The measures taken served the sustainability of socio-economic operation and the possibility remained that the improvement of efficiency and the commencement of development will become a reality not just for certain country groups, but for the European Union as a whole.

Notes

[1] As it is well-known, Lehman Brothers Holdings Inc. announced the greatest bankruptcy in economic history on September 15, 2008. This date is widely regarded as the beginning of the crisis of financial intermediary systems.

[2] Literature providing a summary on the situation was first available in the second half of 2011, not including, of course, comparative tables of the measures taken (Austerity measures, 2011).

[3] In the second decade of the 21st century four related and intertwined challenges are waiting to be addressed (Muraközy, 2012). Namely

- that the lack of optimally sized, financeable public services may cause significant growth losses, which
- makes it difficult to remain competitive in the competition of social models and the global economy. In the coming decades, this will be accompanied by
- a demographic change, and the loans that have been taken out to finance consumption in several European countries, including Hungary, that could not be financed from the internal funds of the country, disproportionate in terms of economic performance occurring as a result of delayed adaptation, as well as the resulting differentiated
- debt crisis, which has created serious burdens that make recovery from the crisis very difficult inside as well as outside the risk community of the European Union (Cipriani, 2010).

The resolution of the debt crisis and the tasks generated by demographic trends will be the most prominent issues in the coming decades. Therefore, it is obvious in this situation that applying the scenarios focusing on maintaining social cohesion, and the traditional approach of purporting incentives for economic growth featured in the relevant literature on economics is not a real option.

[4] The reason why most analysts viewed the favourable Hungarian deficit indicators with scepticism was that these figures were achieved with the help of utilising an over HUF 500 billion portion of the nationalised private pension fund assets and other one-off measures. There are currently no regulations at all on structural balance; the Maastricht criteria simply stipulate that deficit in proportion to the GDP cannot exceed 3 per cent. The difference between the Maastricht deficit and the structural deficit is significant. That is because the latter needs to be adjusted for the so-called cyclic and one-off items. As a result, in our case the deficit would be around 6–7 per cent.

[5] Naturally, the possibilities of expenditure cuts are not final either and any changes introduced to the structure of public finances first create an increase in expenditure. This article, partly due to the obvious content restrictions, does not wish to delve into these social relationships (checks on the measures that can be undertaken by the government), nor does it wish to analyse how much elbow room is available to economic policy.

[6] At the beginning of January 2012, Hungarian CDS spreads were around 670 basis points, whereas in the beginning of the summer of 2011 the same figures were around 255 basis points. The previous CDS spread record was reported in March of 2009 – in the wake of the collapse of the American banking giant, Lehman Brothers in the autumn of 2008, when the country was teetering on the edge of default – at 630 basis points.

[7] Reflexivity, as propagated by György Soros, was clearly at work here. That is because in Mr Soros' view market equilibrium is achieved as a result of the subjective decisions of market players and the continuous interaction of market fundamentals, thereby rejecting the generally – and implicitly – accepted thesis in the field of international financial system management that money markets always tend toward a state of equilibrium. The crisis exposed investors and market analysts as commentators, who wish to influence events in order to serve their own interests. The world economy is drifting, and it cannot or will not yet address the problems of society today, while in the meantime the entire system of European economic governance is quietly edging towards centralisation and protectionism under the motto of "Let's salvage what we can!".

[8] A survey conducted by the European Commission in 2009 on 21 Member States highlighted the following (European Commission, 2010b).

- Of the respondent countries, in 19 budgetary procedure – general curbing of expenditures, accumulating greater reserves and differentiated restructuring – was the most frequently used fiscal instrument.
- Thirteen countries introduced new numerical fiscal regulations, and 13 countries submitted reports on new fiscal frameworks.
- In this period, the increase of transparency and the application of programme and performance budgets was typical within the transformation of the budgetary procedure.
- The reinforcement of fiscal discipline (such as the centralisation of the budget, top-down budget preparation) was hardly present at all.
- Of the 21 respondent countries, 19 created wholly new regulations, while two transformed existing fiscal regulations.
- There are eight new regulations dealing with limiting the increase of expenditures, six regulations dealing with budgetary equilibrium and five which address debt levels.
- In the field of medium-term financial planning, existing regulations were amended and new regulations were introduced in a total of ten countries.
- In the interest of recovering from the crisis, three countries introduced medium-term financial planning systems for the first time, which means today such systems are present in 25 EU Member States.
- Despite the fact that a number of countries introduced new fiscal regulations, the majority of Council recommendations from previous year have still not been adopted; progress was only made in seven cases.

The view of the European Commission on the topic is that supplementary fiscal incentives and initiatives are necessary. Fiscal regulations appeared sufficiently strong in only five countries, which leads us to the conclusion that the structural transformation of public finances will be postponed as long as the old structure can be financed.

[9] Naturally there is no usable information on how many measures or public law, legislative, administrative steps were taken in relation to the implementation of intervention mixes. Even according to cautious estimates, the figure is somewhere between a thousand and ten thousand per country.

[10] In order to be able to answer these questions, namely, why identical public finance management solutions and crisis therapies lead to different results in the various countries of the EU, and to find the related limitations of modelling several, other multidisciplinary research projects would

need to be carried out in the related fields of science such as legal history, an analysis of customs and political traditions, research into management traditions, and the types of national character, etc. This reaches far beyond the boundaries of our study.

[11] In recent times, contradictory information has surfaced in connection with Slovenia saying that too many unsolved problems had accumulated, the economy had become overheated before the crisis, and now we have a delayed adjustment that could result in a reevaluation of its role as 'outstanding student'.

[12] This in turn, making the conditions of collection more difficult, has an unfavourable effect on the development of budgetary revenues. The additional income that the targeted middle classes were able to retain did not translate into a savings surplus, partly because of the pressing need to cut down on debt, and partly due to a lack of confidence.

[13] Between 2008–2011, Hungary – with the exception of bank bailout measures – essentially tried all steps of fiscal policy, some of which entailed a 180 degree turn, measuring out intervention is large, shocking doses. It is also obvious that in the case of the continuous selection of unorthodox, untested and creative solutions that are less concerned with the harmonisation of interests, the risk of the achievement of the desired result – particularly in an unstable environment-is also greater. On the one hand, because the system of institutions that bears the international burden and responsibility of crisis management is distrustful and applies sanctions as it is scared of the proliferation of such innovations that threaten cooperation. On the other hand, the rapidly changing conditions in themselves carry the risk of applicability. Creative ideas, if they do not withstand the test of applicability, sooner or later become counterproductive, and are accompanied by deviation from the selected script and the phenomenon of the objectives becoming unattainable, with all the social and economic consequences these entail.

[14] In the EU-15 measures aimed at propping up the financial sector were launched with the use of budgetary resources, which exceeded all previous expectations, because 97 per cent of the bailout equalling roughly 40 per cent of the GDP was used to reinforce the banking system. In the interest of resolving the Greek crisis, other countries – as well as the EU itself – did the exact opposite by shifting the majority of the burdens to the financial sector.

[15] Before this, the European Financial Stability Facility (EFSF) was established by 16 countries of the euro area on 9 May 2010, with its headquarters in Luxembourg. The main objective of the EFSF is to ensure the financial stability of the monetary union by providing temporary financial support to euro area members in trouble. It has opportunities to intervene on primary and secondary markets, but the latter is possible only based on an ECB analysis that acknowledges the extraordinary market situation and assesses risk factors. The EFSF has the EUR 780 billion guarantee of the Member States behind it, with its lending capacity determined at EUR 440 billion. The utilisation of the fund's assets is overcomplicated, and requires a prolonged, unanimous decision-making process. The EFSF is a temporary bailout fund that would be in effect until 2013 (Palánkai, 2011).

[16] Hungary, while not in agreement with the harmonisation of corporate tax, supports the objectives. As general tax harmonisation has no special relevance, this would only concern the harmonisation of corporate tax funds (not the rates which competitiveness would actually depend on), therefore our abstinence in this regard has no particular significance.

[17] The ESM is similar to the IMF's programme, as well as the Troubled Asset Relief Program (TARP) of the US government, adopted in 2008 with funds of USD 700 billion, the goal of which was to prevent the collapse of the financial system. The European Union is planning to set up the ESM by mid-2013, replacing the European Financial Stability Facility. One of the tasks of the ESM will be to prepare the debt sustainability analysis in order to separate liquidity and insolvency crises. In the future, liquidity crises will be handled by the ESM itself, which shall also require given Member States to implement an adjustment programme. If the analysis determines that the risk of insolvency is real, the given Member State will have to prepare a more comprehensive plan in line with IMF guidelines and in cooperation with its creditors. As of June 2013, the Collective Activity Clause introduced within the framework of the ESM must be applied during the issuance of all euro area government bonds. The clause is meant to regulate negotiations between the debtor and the creditors, in the case of qualified majority enabling the binding amendment of payment conditions concerning all creditors.

[18] Among other things, the planned amendment of the treaty also means that fiscal regulation would become stricter. The goal is for the decrease of public debts EU-wide to commence. One of the most significant changes could be that all states must strive to achieve budgetary equilibrium in such a way that structural deficit occurs only in the case of economic recession. So if the economy grows, instead of the 3 per cent deficit allowed until now, national budgets will have to be balanced and kept in equilibrium as this is the only way the debt will decrease. The most recent fiscal regulation of Brussels would state that normally the structural balance of European budgets should be approved if they break even or are in surplus. Normally meaning that economies are on a growth path, as during recessions it is not easy (or advisable) to make very tight budgets.

[19] The decision mechanisms have not been improved, and even though decisions can now be made with an 85 per cent 'super majority', this only excludes the possibility of vetoes by smaller countries (such as Slovakia). The mechanism cannot operate as a bank, furthermore, it even lacks the independence of the 'monetary fund'. The Member States of the euro area have made a commitment to expand IMF funds by EUR 200 billion (EUR 150 billion from the debts of euro area members); however, many feel that the plan of the European Monetary Fund should be considered instead. It is true that they are assuming that other external countries (such as China) could join the IMF; at the same time, however, there are no guarantees that the fund could be used exclusively for bailing out euro area countries in trouble (Palánkai, 2011).

[20] As a result of the British veto, the amendment of EU treaties for the most part became impossible; however, the door remained open for the crisis management decisions of euro area Member States, which non-euro area members can also join. According to László Andor: "The process itself is not ideal, therefore, it is understandable if it seems chaotic. I don't know if the fiscal pact can be introduced without amending the treaty. Probably not. The question, however, is what can be done to stop the overpowering financial crisis. In the short term – as this is an acute problem – the amendment of the treaty cannot provide a solution. In the long-term, however, the fiscal pact in itself cannot prove to be a sufficient – and may I add legitimate – solution. This must be supplemented with measures institutionalising solidarity that enable and reinforce solidarity in each Member State (www.stop.hu, 27 December 2011).

[21] The countries bailed out have usually been members of the EU. Furthermore, there is hardly any literature available on how big a role and say political and economic interests had in enforcing the risk community and how much was perspective

thinking taking the long-term development of the EU into account. We must note that under such circumstances it is an outstanding achievement that none of the new Member States found themselves in this position, though it is possible that this was due to the relative low quality of social services.

[22] General government overspending is a relative concept; it can be more easily grasped through the notion of the government's ability to maintain a harmony of available funds and financed services satisfying or not satisfying increasing social demands, all the while ensuring that social cohesion remains intact.

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