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National economic planning and its economic political environment

The quality of the operation of the state, as well as the desirable extent and limitations of its involvement have been debated for many years both by experts¹ and heads of economic interest representation bodies. (Naturally, the latter condemn the large number of state employees and the excessive rate of public expenditures.) It is beyond any doubt that our national interest is to make the operation of the state more expedient and efficient – which is urged by the European Union, too, with its own tools, i.e. through the debate on good governance, and the encouragement of the appropriate attitude.

Macroeconomic planning is one of the fundamental conditions for the expedient, effective, efficient and predictable operation of the state – even in a market economy. *Gusztáv Báger's* study supports it with several examples that such planning is undertaken by several developed countries (including a few wealthier member states of the EU), and the practice is rather widespread in former developing countries, or emerging countries as they are more frequently called today. In the past decade some sort of macroeconomic planning has been performed in Hungary, too. The time has come to briefly evaluate and utilise the lessons learnt!

A FEW EXPERIENCES OF THE PREPARATION OF HUNGARY'S NATIONAL DEVELOPMENT PLANS (SUBJECTIVE² REVIEW)

The authors of Hungary's 1st National Development Plan (2004–2006) (NDP) were profusely and often criticised for the fact that instead of starting out from the actual situation, the needs and bottlenecks of the Hungarian economy and society, they started out from the regulations and development philosophy of the European Union – which are, by the way, mandatory for all member states. Furthermore, critics claimed that the document was compiled for the EU rather than for Hungary. The accusations contained a lot of truth: had we not joined the European Union, had we not applied for resources from the Structural Funds (and the Cohesion Fund) of the European Union, such a plan would have probably never been prepared, or it would have looked completely different.

Yet, the authors of the plan need to be excused: they would have been glad to compile a plan that did not aim at obtaining EU subsidies. However, they did not have sufficient time for this. They set to work in the middle of 2002, and by the end of 2003 the National Development Plan and the operational pro-

grammes had to be approved by the European Commission. What is more, these documents had to be prepared using the “technology” described in the EU regulations, which implied, among other things, versatile and multi-level cooperation. It must not be concealed either that this work was undertaken by young professionals without major experience in national level planning; colleagues who had serious professional experience in the development of macroeconomic strategies and the elaboration of plans were either in retirement at the time, or were engaged in other activities in other institutions. Naturally, the planning technology required by the European Union was not completely unknown: Hungary could draw down subsidies for economic restructuring (Phare) and pre-accession subsidies only upon full compliance with the EU requirements, which was thoroughly checked by the Budapest delegation of the European Commission. (Although the system of rules pertaining to planning and programming before Hungary’s accession to the EU, and the one used “within” the EU were rather different, the former was a good school for the implementation of the latter.)

In 2002–2003 the planners themselves felt the greatest need for a plan that strived to complete tasks arising from Hungary’s situation rather than to comply with the EU regulations, rules of law and expectations. This situation was described by a phrase – much quoted by planners at the time – as follows: It would have been good to just take Hungary’s comprehensive development plan off the shelf (the preparation of which is mentioned in Article 19 of the Constitution, which is still in force), and take from it those parts and development projects the financing of which was made possible by the rules of the European Union, too. After the 1st NDP – which was prepared double quick in the strictest sense of the word – was approved in Brussels, the National Develop-

ment Agency did want to prepare a truly “national” plan: the budget for 2004 appropriated HUF 300 million for the preparatory works of the so called Comprehensive Development Plan. However, this plan did not come through; most of the resources were spent on the development of the complex IT system supporting the planning process. Finally, in lieu of the Comprehensive Development Plan the National Development Policy Concept (NDPC) was elaborated, which could have become an excellent foundation for a transparent, efficient planning system, even according to the State Audit Office. However, in December 2005 the National Assembly adopted its resolution on the NDPC to no avail: the compilation of the 2nd National Development Plan was influenced by daily political interests.

At the congress of the Hungarian Socialist Party held in February 2006 the Prime Minister announced that he had obtained the money from the European Union on 13 December 2005 (the European Council approved the financial framework for the period of 2007–2013 on this date), and that he had started to prepare the 2nd National Development Plan on 2 January 2006 (!). Such work was indeed carried out in the Cabinet of the Prime Minister, too: the leaders of the larger cities and counties under socialist governance were invited to put forward their wishes, i.e. the development projects they would like to implement in the period between 2007 and 2013. This wish list was named “development policy inventory”, and included classroom construction, school renovation, road construction, city centre refurbishment, etc. The status of this document is well indicated by the fact that the National Development Agency, which was responsible for the preparation of the development plans, downloaded the supplement of the daily *Népszabadság* (!) from the internet and uploaded it on its own website. In other words,

the planners learnt from the newspaper what concrete elements they would have to include in the plan.

This unique procedure (which can be called a “bottom-up method” only in inverted commas) was preceded by an interesting, presaging event: in January 2005 the head of Government paid a visit to all ministries, including the minister without portfolio responsible for European Affairs. [At that time this minister was responsible for the National Development Office (NDO) and the Office for European Affairs.] At the meeting the Prime Minister had an interesting request for the planners. He wanted to know what he could tell the residents during his visit to Dombóvár, i.e. what the residents of Dombóvár would get from the 2nd National Development Plan? At the meeting the respondents did not answer this question, but then the author of this article frantically contacted the head and deputy head of the Prime Minister's Cabinet and asked them to convince the Prime Minister – as economists – that such a question cannot be answered in an allocation system that is mostly based on proposals. This type of planning recalls one of the anomalies of the economic planning system of the 1970s and 1980s: the staff members of the National Plan Office which was then in existence feared the mandatory rural visits of the members of the Political Committee of the Hungarian Socialist Workers' Party during which the local leaders often convinced them about the importance of certain concrete development projects. According to the information that Gusztáv Báger kindly provided, the planners were then required to incorporate these projects into the current national economic plans.

However, the “What will Dombóvár get?” type of approach eventually took root in the planning process: the focuses of development and the priority projects circumvented the uncertainties of the proposal system in a unique way... It must be added that these solu-

tions by themselves are not damnable at all, since – in theory – they opened up space for the enforcement of “state will” (or macroeconomic expediency with some good intent).

The introduction or reinstatement of real, competent national economic planning is last but not least justified by the fact that it can hinder voluntarism, which was illustrated by the above examples.

In November 2003 the preparation of the 2nd National Development Plan was started with the statement that using the modern tools of planning and assessment we would try to prioritise the competing (and probably unlimited) development needs. By this we practically reached the basic formula of economics, since according to a popular definition economics is the science of the optimal distribution of limited resources among competing goals... At the end of 2003 we hoped that we would manage to introduce this type of rationality. Naturally, we were not so naive to believe that only this aspect would be enforced. But we thought that our fight would be worthwhile if we could turn away at least some of the demands put forward by the different lobbies. In line with this, a very strong assessing, analysing and modelling department was established within the National Development Office. We kept in mind the rigour of the researchers of the National Bank of Hungary, however it was evident that we had neither the resources, nor the time to get anywhere near that standard.

PLANNING WITH THE EU METHODOLOGY IN ACCORDANCE WITH THE HUNGARIAN NEEDS

The question has been raised several times whether planning can “serve” the needs included in the community regulations of the EU's Directorate General for Regional Affairs, or Hungary should develop its own methodology

and priorities. It can be surely stated that the needs formulated by the European Union, and the methods it applies and requires to be applied by the member states too are right, their application is expedient. In addition, the EU negotiates with Hungary “from the position of power”: if our planning documents fail to meet the community requirements, we will have no access to convergence funds. This criterion is well understood by all EU member states, and sooner or later all countries strive to comply with it.

The development policy planning implemented within the framework of the EU's regional and cohesion policy has and is doing good to the countries of Central and Eastern Europe: it lends orderliness and competence to their systems. On top of that, the common objectives of the EU do not contradict the situation of these less developed countries, and the subsequent requirements. Not even the objectives of the much-damned Lisbon strategy can be said to be out of line with the social and economic conditions of the region. Therefore, it is no wonder that the two main objectives of the 2nd NDP – which was later renamed to New Hungary Development Plan – became the enhancement of competitiveness and the increase of employment. But it is an equally topical task to enhance the social and economic cohesion, create the knowledge-based society, as well as to ensure environmental, economic and social sustainability. The latter was encompassed by the Hungarian strategy for sustainable development, approved by the National Assembly. The Europe 2020 Strategy also provides a favourable opportunity to arrange our *own* goals and tasks for the coming decade while thinking together with the other EU member states.

This means that in relation to the objectives, forms and methods of planning we seemingly do not need to follow a specific Hungarian path. However, as far as the concrete contents

are concerned, the Hungarian situation, conditions and the resulting tasks must be taken into consideration to the largest possible extent. For example, it is evident that in Hungary it is worth spending relatively much more money on the utilisation of our thermal waters than in countries where such waters can be brought to the surface from much greater depths.

However, this example is worth further consideration and generalisation. One of the most important, hardly answerable questions is to decide on the activities the products and services of which can be successfully marketed by Hungary on the global market; which are those sectors and companies that generate the exports required for the balance of payments? Earlier this question was always swept under the carpet! According to one of the well-known answers, Hungary's foreign trade (and current payments) deficit is eliminated by the influx of direct capital, and the external economic balance can be created by using so called non-debt generating resources. The recent and current global economic crisis has made it tangible what was in fact apparent even before: nothing guarantees the influx of direct capital, at least not at the former rate. Earlier a lot of people argued that joining the eurozone would eliminate the problems related to the balance of payments, since the deficient performance of the Hungarian economy would “dissolve” in the total performance of the eurozone. This chain of thoughts seemed correct – up until the emergence of the Greek crisis. However, since then it has become clear that during international storms even the protective umbrella of the single currency may tear, and even the richer EU member states find it difficult (and first and foremost do not want) to protect from bankruptcy those member states that live far beyond their means. (The current payments deficit is especially a symptom of this overspending.)

The almost autocratic economic philosophy of the past decade has not only not promoted,

but straightforwardly criticised the development and implementation of macroeconomic “management” and a national economic strategy. According to the well-known main argument, the really suitable and competent economic decision-makers are not the politicians or state officials, but the market players. The philosophy that constrained the state to two areas of economic management, i.e. institution building and regulation (and which gave preference to deregulation over regulation in the latter case) even earlier seemed to be an effective choice for developed, mature countries that were well integrated into the international division of labour. However, the international financial and global economic crisis that began to evolve in 2007 has fundamentally redrawn the frontlines and has made the weaknesses of this approach apparent. Today even the most loyal advocates of the former theories are compelled to admit (albeit usually not with self-criticism, but with the “offensiveness” that has always been characteristic of them...) that strong and efficient regulation is needed, and that the cause of the crisis is nothing more than the failure of state regulation.

However, less mature economies have always needed well-considered and properly implemented economic strategies; and there is no doubt that Hungary belonged and still belongs to this latter group of converging national economies. Therefore, the Hungarian economy requires not only the “fine-tuning” of regulators, but also very serious, profound reforms that affect the structure of the economy, too. According to the mainstream economic views, this way of thinking belonged to the category of “moral insanity” for a long time, and the economic policy debates were confined to monetary and fiscal affairs; strategy development was considered as a shameful legacy of the era of the planned economy. Of course, the insufficiency of “fine-tuning” has become obvious in the more developed countries too: the Lisbon

Strategy of the European Union – which is known to be rather unsuccessful – reflects especially this realisation. The renewal of this strategy in 2005 not only required the member states to implement the reforms (national reform programmes), but also mandated them to submit annual reports on such reforms.

Therefore, for countries that wish to achieve convergence and are required (or even forced by international organisations) to eliminate the long-standing balance deficits of their economies, the creation of economic strategies, and then the development and preparation of macroeconomic planning on these foundations are inevitable tasks.

The preparation of Hungary's 2nd National Development Plan justifies the statements in Gusztáv Báger's study at several points. Here we just note one of these: the lack of harmony among the different – “sectoral” – strategies. Strong, central will is indeed indispensable for making economic management harmonised, coherent and plan based. (More or less this is what modern terminology calls a “top-down” planning method.) We feel that the concept of good governance, which has been mentioned so often lately, includes clear governmental (national economic) intentions. However, it is obvious that such a governmental will requires broad social foundations. And for this we must largely rely on the versatile, thorough and honest utilisation of partnership – defined also in the EU regulations. The reason behind this is that economic managers and planning professionals alike are always very strongly inclined to regard partnership, and eliciting opinions from those affected as a sort of mandatory task, and want to meet this requirement only formally.

At the level of objective setting this attitude is well characterised by the elaboration of the National Development Policy Concept. The planning staff of the National Development Office took the partnership process very seri-

ously, and organised dozens of such forums both at national and regional level. Yet, the objectives contained in the NDPC were derived not from this concept, but from the Prime Minister's speech given at the national partnership forum of the National Development Office (NDO) on 15 January 2005. (To prevent any misunderstanding we must lay it down: in his speech the Prime Minister did not rely on the preparatory materials given by the NDO...) These objectives were then included – practically literally – among the top priority objectives in the resolution of the National Assembly approved about the National Development Policy Concept within less than a year. The “versatility” of the objectives is well evidenced by the list of priorities included in the text of the National Development Concept (i.e. not in the resolution of the National Assembly), which the planners put into three groups: investments into human resources, investments into the economy and investments into the environment. The number of priorities rose to twenty due to the fact that the Government kept rejecting them as long as all ministries – then in operation – felt that their areas too had their “own priorities” included...

SHOULD THERE BE SECTOR SPECIFIC PLANS?

Naturally, the answer to this question reflects well the respondent's attitude to economic philosophy. The development of sector specific concepts, strategies and plans is also characteristic of the genesis of the 2nd NDP.

First of all it must be put down: according to the expectations of the European Union, the plans should focus on the facilitation of convergence – which is why regional policy is more and more frequently called cohesion policy. The Directorate General for Regional Policy of the

European Commission, which “orders” the national development plans and strategies of the member states thinks not in terms of sectors, but in terms of concepts such as competitiveness, employment and innovation. Energy and climate protection affairs have also been added to the agenda in recent years. (Although the latter cannot really be regarded as a sector specific issue.) This approach is also characteristic of the Europe 2020 initiative, designed to replace the much-criticised Lisbon Strategy, which formally lost effect in 2010. However, certain priority sectors do pop up here too: information technology, energy policy and industrial policy. It is true that in the EU industrial policy is more about corporate policy (support to small and medium-sized companies, development of a business environment adequate for such companies, i.e. the reinforcement of their participation in public procurements).

Coming back to planning in Hungary it can be said that the sectoral aspect gained ground in a unique way. Neither the National Development Policy Concept, nor the 2nd National Development Plan wants to deal with traditional sectors separately (with the exception of transport). The development of information technology, telecommunication, biotechnology and the health industry, as well as that of business and logistics centres, the vehicle, tourist, the environmental and the entertaining industries were all included upon the Prime Minister's “order”. (The sectors were selected not by the National Development Office, but by the Ministry of Economic Affairs, which was more of a competitor than a partner of the former.) The personal changes that occurred in the summer of 2006, and the role of Gordon *Bajnai* in the development policy pushed the sectoral approach into the background – at one of the partnership meetings the government commissioner called the preferential treatment of certain sectors a clearly obsolete practice. However, times changed quickly, and by October 2008

“the preferential treatment” of certain sectors was again on the agenda.

As far as the future is concerned: it is evident that the sectoral approach of the planned economies cannot (and should not) return! Hungary will not have a leather and shoe industry strategy or plan. However, there are certain national economic branches, or even industries and sectors the development of which must be supported and facilitated by the macroeconomic management – as it is stipulated in the study referred to above. It may even be necessary to determine the desirable capacity or output at the level of concrete target figures. Examples for the former can be certain research and development intensive activities that contain much added value (biotechnology, nanotechnology), while examples for the latter may be material (energy production, distribution network) and non-material services (hospitals, surgeries, schools, university courses).

In an open market economy with free competition,³ which serves as a foundation for the economic system of the European Union, too, it is naturally not the task of the government to determine the desirable volume of output by the companies, sectors and activities. However, there is one area of the national economy – education and training – where the state must play a much more conscious and explicit role than today. It cannot be stated that market laws do not at all apply to these areas, however their scope is rather limited. The low level of employment and the high unemployment rate typical of the Hungarian economy are largely rooted in the deficiencies of “training” and in the structural inadequacy of the workforce. If we want to remove these obstacles from the path of Hungary's economic development, it is advisable to influence and orient the development of the structure of occupations with all possible tools appropriate for the market economy. It is evident that the state can exert only limited influence on certified accountants and

tax advisors, since those interested obtain these qualifications primarily in private educational institutions. However, the state and the ministry of education can efficiently influence the output of low current electrical engineers, communication experts or psychologists – for example by limiting admissions to the latter courses. The availability of well-qualified higher education workforce is an increasingly important factor in attracting foreign capital. And through this the government can indirectly orient the shaping of the economic structure.⁴

MULTI-LEVEL PLANNING

The relevant regulation of the European Union⁵ mandates not only member-state, but also regional level planning and programming, wherefore it goes without saying that the strategy development and planning process must also be multi-level. This is how the 2nd National Development Plan was prepared in Hungary during 2005–2006, which was a considerable step forward compared to the compilation of the 1st National Development Plan for the years 2004–2006. The latter was strongly criticised by the representatives of regional sciences, because the – only – regional development operational programme was elaborated centrally, and it often disregarded the different characteristics of the individual regions.

The regions took the compilation of the 2nd NDP very seriously: the strategies of the different regions were developed after long debates, with reliance on assistance from scientific workshops, and with the involvement of partners in several rounds.

During the compilation of the 1st NDP the European Commission did not consent to the elaboration and implementation of separate operational programmes for the different regions. This was explained by the shortage of administrative capacity, in a dual sense: on the

one hand, the Commission believed that the regions of the eight new Eastern and Central European member states were not strong enough, and on the other hand the personnel of the EC's Directorate General for Regional Policy would have been insufficient to manage and instruct so many inexperienced partners who did not really know the European procedural rules. Probably both statements were true, but by 2005–2006 the Hungarian regions became professionally equal to the task.

IS THERE A NEED FOR AN ACT ON MACROECONOMIC PLANNING?

The Constitution mentions the social and economic plan of the country in several places (among the tasks of the National Assembly and of the Government), but for the time being there is no high level legal regulation in force that would stipulate the contents of this plan. Therefore, even for formal reasons, an act on planning would need to be adopted. It is true that currently we are in the middle of a long-term cycle (2010 is exactly the middle year of the 2007-2013 period), but the Europe 2020 Strategy will also give enough tasks for the public administration systems of the member states, including Hungary.

However, during the elaboration of the act on planning we must not lose sight of the surrounding world: the simplification of regulation has been put on the agenda both in the European Union and in Hungary. This means that the act must be simple, “succinct” and it must get to the point. With a full six years of experience on EU membership we can now clearly see: Hungarian legislation should not deal with issues that the EU regulates (e.g. convergence programmes, seven-year country strategies, or sustainable development strategies). More precisely: the Hungarian “procedural rules” must be developed *while keeping in*

mind those issues. Upon the request of the Prime Minister's Office KPMG⁶ developed an excellent, well-founded guideline; probably something similar should be included in the planning act, too.

Of course, the act in question should deal with at least one more important issue: it should develop the system of cooperation among the different public administration bodies and offices, and the “rights” of the planning activity should be reinstated. After a decade-long break following the change of the political regime some macroeconomic planning has resumed, (which has obviously differed from the planning of the former system both in content and format). However, after the discussion and approval of the 2nd NDP (or rather the country strategy – called National Strategic Reference Framework by the EU – and operational programmes) in Brussels the ministries closed their planning divisions one after the other. Although the National Development Agency did continue the operation of the Development Policy Academy designed to organise professional further training courses (primarily for laying the foundations and establishing a standard methodology for the assessment activity, which is closely linked to planning), in the absence of an adequate act this can only be regarded as the gratification of the participants' (otherwise praiseworthy) professional ambitions.

A PLAN IS WORTH MORE THAN IS IMPLEMENTED OF IT!

According to the common belief, a plan is an action programme, but at least a compass. In fact, it is much more than that: according to the requirements of the European Union, a plan elaborated in partnership mobilises the people concerned already during the preparatory process. This type of mobilisation is important

for professional planners, too, since planning is a sort of competition: who can have more of the topics, ideas and developments important for him/her accepted? However, planning can have an even greater influence on the different groups of local governments, voluntary organisations and people: at the hundreds of forums held during the preparation of the 1st and 2nd National Development Plans thousands of contributions and opinions were shared with the planners.

Professional voluntary organisations provided serious methodological assistance to the planners in the development of the appropriate partnership process, and they did hold them accountable for the jointly developed time schedule and the implementation of the approved principles.⁷

Yet, planning mobilises not only full-time employees and “competent” voluntary organisations with an international professional background: the mobilisation of single issue voluntary organisations and their membership is equally important. The latter could put forward their requests – or occasionally demands – to the heads of the local governments, as well as to the staff members of the regional development agencies at local forums. The development strategies and plans of many cities, settlements, small regions, counties and regions have been elaborated in this manner. This activity is an unsubstitutable tool for community development, which will be extremely necessary for the development of a national development strategy.

NOTES

¹ See for instance: The tasks of the modern state. Lectures held at the conference of the Hungarian Economic Association and the Economic and Social Council, 2009

² From 1 July 2003 until 30 June 2006 the author worked as the planning and then partnership vice-president of the National Development Office (and its legal predecessor, the Office for National Development Plan and EU Support within the Prime Minister's Office).

³ Article 119 of Treaty on the functioning of the European Union.

⁴ Several multinational companies have established research divisions in Hungary. For example, Siemens moved one of its research units to Szeged, because the standard of maths education is outstanding there.

⁵ Article 35 of Council Regulation 1083/2006/EC

⁶ Governmental Strategy Development Requirements (KSaK)

⁷ First of all I would like to mention the significant contribution made by NGOs for the Publicity of the National Development Plan (CNNy). (See: www.nonprofit.hu/cnny)