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Planning in Hungary and the EU requirements

We can agree with the statements of *Gusztáv Báger's* discussion paper, according to which there would be a need to develop a coherent strategy combining different policies and sectors, economic and social goals and creating harmony between the different areas and defining a long-term framework and instruments of Hungarian economic development. Countless sectoral and policy strategies have been drawn up in recent years (and so often been changed). In summary, less would have been more: the efficiency of the separate and uncoordinated strategies, which lacked a coherent, holistic approach and long-term vision, was extremely low, they practically aimed at ticking off the task.

All plans are worth as much as they accomplish. Therefore, one of the most important components of long-term planning is the existence of *political will.* It is not worth developing long-term macroeconomic plans which lack the political will to follow and implement them, even if in the given moment they contradict current political (popularity) considerations, or do not adjust to political cycles.

Long-term planning amalgamating economic, social and ecological aspects in a sustainable manner would be essential, also because it could bring predictability to enterprises and households when taking decisions. Of course, this is only true, if there is trust towards economic policy, an endeavour which may however take a long time. Economic policy zigzags, improvisations and frequent changes in economic courses are harmful as even those enterprises and households that otherwise wish to make long-term plans are incapable of adjusting to them. In this sense, long-term plans (which are followed) could also set a positive example to enterprises that often have no business plan, live from one day to the other and to households that became indebted beyond their means in the past few years. However, economic actors can only develop a vision, if they know what direction the economic and social policy is likely to take in the various areas which determine their life and operation, such as the state wage policy, tax policy, infrastructure development, handling the problems of social groups and regions lagging behind, changing the most important elements of the business environment and taking account of environmental perspectives.

PLANNING AND CATCHING UP

Although it often comes up in professional discussions, I do not find the contrast justifiable between EU programmes and *planning that* *focuses on the requirements of the Hungarian economy and society,* as the two are of completely different character. EU programmes merely provide a framework for national actions, because

- these programmes are rather general: a number of noble thoughts are presented, but few concrete proposals are put forward as to how these noble objectives will be implemented;
- the European Union has limited instruments to get the Member States to carry out the tasks, which are loosely worded anyway.

The above facts mean that although European programmes have rather low efficiency, yet they do not put an obstacle to but assist Member States to formulate "tailor-made" national economic plans.

In order to support the above statement, it is worthwhile to provide a brief overview of the relevant *European Union* programmes issued in the recent past.

The European Commission published the first Lisbon programme in March 2000, which sets the goal for the EU *"for the next decade: to become the most dynamic and competitive knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion"* (EU, 2000). In 2001, the Göteborg programme added an environmental dimension to the economic and social elements. The programme, however, failed to specify how and through what kind of instruments the European Union will become the most competitive region in the world.

The fate of the first Lisbon Strategy is well-known. The bluntest assessment was made by the Commission, headed by *Wim Kok,* in 2004 stating: *"This disappointing delivery is due to an overloaded agenda, poor coordination and conflicting priorities in addition to what it views as the key issue of a lack of determined political action"* (Kok, 2004). Since that time, the Lisbon Strategy has seen numerous "renewals". The latest new strategy, Europe 2020 (EU Comission, 2010), was formulated in March 2010, and it basically sets the same goals, worded and grouped somewhat differently (intelligent growth, sustainable growth, inclusive growth). There is nothing wrong with that, who would not like to live in a knowledge-based, dynamic and competitive economy, where equal opportunities and social cohesion prevail. The only trouble is that the European Union does not possess sufficient tools to achieve that the Member States act towards these noble goals. Being aware of this shortcoming, the 2010 Strategy already declares that "country-specific recommendations will be addressed to Member States. Policy warnings could be issued in case of inadequate response". This policy warning, however, is not likely have a deterrent effect, if the delivery of a target is not in line with the given country's own (presumed or real) interest.

The Europe 2020 Programme has received several critical comments lately, chiefly because of its failure to address the severe structural problems, which impede the competitiveness of European countries (an excessive and risk-averse red tape, an oversized public sector of low efficiency, the absence of targeted social aids, etc.) (Wyplosz, 2010). In recent years and decades, these problems have been the subject of numerous studies in professional literature, but relatively little attention was devoted to them in EU documents. The reason for the latter is that the European Union has no power to intervene in the Member States' economic institution system. If it intervened, it would surely be confronted with strong resistance, and that is why programmes are drawn up at such a general level.

A symptomatic example for the failure of actions, accompanied with concrete, palpable steps and changes, was the reception of the

Service Directive in 2004 (EU Commission, 2004). This directive has been one of the very few concrete and ambitious actions of the European Union, which aimed to facilitate the flow of services between Member States and to reinforce the internal market. The result was a complete loosening, practically the rejection of the directive by the Member States: finally, all important components, which were designed to strengthen the internal market, were removed from the adopted directive. Paradoxically, even beneficiaries of the directive (for example, Hungarian trade unions representing workers who are interested in providing services in other EU countries) joined forces with the movements rejecting the directive (the "Stop Bolkestein" campaign).

The Hungarian Government has always duly met its reporting obligations, and these reports always contained the required terminology. The National Action Programmes (NAP) had no relationship at all with the local economic policy. In fact, they had often even no relationship with reality. For instance, the NAP submitted at the end of 2005 was built on an unrealistic fiscal path, already in 2006 deficit rose to more than double the planned figure, which made the whole plan collapse, and as a result, the first adjustment package in 2006 (which was later followed by a second adjustment in 2009) changed the whole macro path. The Hungarian NAP, drawn up in 2008, tackled all the 24 European priorities, both in its target and wording it is in conformity with the then expectations of the Lisbon Strategy; that is more or less all we can say about it.

Nonetheless, European initiatives are, in spirit, in concert with the interests of the Member States (and thus Hungary). Since hardly any concrete proposals are put forward, it is also missing from them what specific content should be added by the Member States. Consequently, the question is not either or, but rather, what kind of economic and social priorities Hungary should develop based on the given extremely wide European framework.

THE PRINCIPLES OF PLANNING

As opposed to the four basic planning principles recommended in the above-mentioned study, I would propose a somewhat different framework for planning. The reason is that, in my view, creating better synchronicity with EU planning and decision-making cycles (principle 2) is not an essential problem for – as I mentioned above – almost anything good can be fitted into the the EU strategy can accommodate everything good and proper, and, even so far, it was not the lack of harmonisation with the EU that hindered the formulation of a coherent economic strategy. Moreover, cycles adjust to EU planning also because this is the basis for receiving development aids from the European Union, so harmony between the cycles is given (let us not mention now the *quality* of Hungarian development plans).

Since in a market economy planning may only cover state duties, and may define at most the operational framework of the competitive sector, I regard it absolutely necessary to clearly identify the areas of state intervention. This includes the following areas:

- Direct public functions: the diligent management of state finances, ensuring the operation of public institutions, implementing infrastructure developments and creating their framework.
- Quasi public functions: providing public services either through public companies/institutions or by outsourcing them to private enterprises.
- State regulation: defining framework conditions that determine the behaviour of economic and social players, defining the statutory conditions of the business and social environment (taxation rules, licensing rules includ-

ing environmental licensing rules, operation of the legal system, etc.).

It is important to define these frameworks, because from time to time there are aspirations that aim to specify certain *sectoral* preferences in the economy. Two main trends were noticeable in the recent past: one urged the development of the so-called high-tech industries, the other prompted the better utilisation of domestic economic potentialities. Before discussing them, it must be pointed out that any efforts to prioritise certain sectors with government tools represent a market distorting element and give rise to overcapacities, and thereby to the squandering of resources. If public funds are granted to market economic actors for the development of certain sectors, then the efforts of enterprises are inevitably channelled into that direction even if their potentialities supported the choice of another course.

As regards high-tech industries, a distinction should be made between high-tech *industries* and high-tech *activities*. High-tech industries also have low-tech elements (standardised work requiring no skilled labour) and the reverse is also true: there are high-tech segments in nearly all industries, including those that are expressly regarded as low-tech industries at sectoral level. The textile and clothing industries can be mentioned as an example, which are qualified as sectors with low technological capabilities, although they have innovation potentials. Contrary to Hungary, some Western European countries could retain their competitiveness in certain segments of the textile and clothing industries, precisely because – as a result of significant research activities – they introduced new types of materials and production technologies.

It is important to recognise the above factors, because if, in the future, the Government wants to re-channel the resource allocation of the New Hungary Development Plan to promote economic competitiveness (a positive effort in itself) to a larger extent than before, then its must inevitably withstand the endeavours aimed at setting sectoral preferences.

The risk of market distorting elements holds for the economic course, which is based on sectoral preferences built on local natural and traditional features. One can and must obviously agree with the efforts that aim, for example, to raise the processing level (value-added) of Hungarian agricultural products and to support food industry investments. The indirect role of state regulation becomes relevant in this case when state regulation is targeted at supporting agricultural producers' associations and co-operations. But autarchic efforts lead to economic and social losses just like the designation of sectoral preferences. In addition, even the definition of traditional sectors is not clear-cut, as the Hungarian economy was characterised by wide-ranging sectoral orientation in the last century. It is questionable that, for instance, the high proportion of the machinery sectors today is determined by the presence of foreign enterprises and by a relatively low domestic raw material base. These sectors are, however, by *no means alien to the traditions of Hungarian production,* because the Hungarian economy had very strong machinery traditions with a large number of highly skilled employees before World War II .

Gusztáv Báger's study refers to the involvement of civil organisations, which, indeed, is very important for compliance with the plans. A plan that is not built on a large social basis, which accepts the fundamental principles of the plan, is sentenced to death. Of course, this also requires the "art of proportions" for it is impossible to take into account all civil demands, because it would result in hybrid solutions.

There is, however, another prerequisite: to bring about harmony and co-operation between state institutions. Several state initiatives with a positive outlook have been abandoned or distorted in the past years due to a struggle for positions among ministries. An example to illustrate this failure is the introduction of single window administration, which has dragged on for years (although it would have been a basic component of improving the business environment), because ministries could not reach an agreement on where the centre of the single window administration should be set up. Shaping the priorities and actions of the New Hungary Development Plan is now characterised by a similar struggle for positions between the ministries and participating organisations.

The premise of long-term planning is therefore that the state must first clear up its own house through achieving transparent – and reduced – red-tape, sustainable fiscal path, which do not carry the risk of repeated corrections, and through clarifying the objectives, principles and decision-making mechanisms of public development projects using EU resources.

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