

Árpád Kovács

Multilateral analyses and derived lessons as reflected in the studies of the volume

When preparing the studies of this volume, the starting point for all of us, whether overtly or covertly, was the conviction that, if we really intended to help, we should avoid and surpass simplified problem identification, one-dimensional data processing or analyses ignoring interactions, or the far-reaching value judgments made on the basis of the former. Having examined the same phenomena, the grounds of assumptions sometimes treated as facts, from several angles, we have, I believe, attained new knowledge. We have, however, not come to the end of the task by far yet; having identified the major correlations, cause and effect relationships, we need to conduct multilateral performance analyses on certain guiding and implementation elements of public finances in the context of *their role played in competitiveness, their performance in this aspect* and provide a map of the points where intervention is required or where the mutual effect of various measures could be counterproductive or even mutually extinguishing.

In our study examining the competitiveness of the public sphere “in three mirrors” (Gusztáv Báger – Árpád Kovács, 2010), we attempted to examine the correlations of public administration and competitiveness from several angles and thereby present all the fields where urgent changes were required. One of the mirrors of

our investigations was summarising some of the important experience of international comparative studies and the second one comprised the findings of a survey conducted at the State Audit Office Research Institute on the performance of the major state functions by the application of what is referred to as the Delphi-method (based on experts answering questionnaires in several rounds and at several levels). The third mirror was the short summary of the major recommendations outlined on the basis of and related to the reports and advisory activity of the State Audit Office.

There is no doubt unfortunately that the information attained by our methods could not indicate anything other, new or more encouraging than the general deteriorating trend: in the past years, competitiveness in Hungary has declined at a fast pace. Even on the “European semi-periphery” we have drifted further outside. What we have presented has, however, given a more detailed picture of the reasons and connections than what the general public or a considerable proportion of economists have of the situation. Thus we can trust that the consideration of the new information may help more harmonised action and the transition onto a new track. From the experience gained, four correlations not focused on before should be highlighted:

- the quality of political and economic policy direction plays a much greater role in competitiveness than was earlier assumed by the general public or even by entrepreneurs and even the almost extreme deterioration of the (public) administrative direction systems experienced in the past years can be assigned to the conceptual defects and economic political inconsistencies led back to the political direction reasons witnessed here;
- for the underperformance of the economy, it is not simply the rate of the tax burden, the inflexibility of the bureaucracy or the limited abilities of the state in economy organisation or the creation of an economic environment that are to blame but also the structural composition of the entrepreneurial sector, their deficient knowledge of the world and the market, the subsidy- and rent seeking attitude of some entrepreneurial groups as well as the shortage of tradable ideas and products;
- it has been proven that ultimate performance is always influenced by the combination of bottleneck factors so, for an essential change to take place, it is not sufficient to lift one or the other bottleneck factors, often criticised by group interests or public opinion, unilaterally;
- it has been made clear that, in the development of competitiveness, the civil sector, the readiness of society to accept novelties, various expectations, emotions and traditional value factors (or those believed to be such) have a much greater role than we believed before and the development of competitiveness should not be simplified to the creation of rational, assertible interests.

Considering the above it was absolutely certain that the generalisable experience of external surveys, our own questionnaire research and Audit Office reports could all reveal, regarding the past years, nothing else but the fact that the standard of the *political-governmental activity*

has most adversely affected the relative competitiveness position of the country: in 2008, there was a significant fall, of some 20 positions, in the ranking of the indicators of both the transparency of governmental decision making and of public trust in politicians. The approach or slogan that “*it is no problem if politics is busy with itself; at least it does not interfere with the economy*” has proven to be a mistaken approach. We could make the conclusion that at places where economic players as well as society were ready to believe the above and tolerate it, delaying action, in the icy climate of the world economic crisis, sooner or later, serious consequences pointing beyond country borders were to be faced and, in this case, we should think not only of Hungary but also of Italy, for instance, and especially of Greece.

We like to relieve ourselves of responsibility with reference to the world economic crisis. In Hungary, the crisis did not begin in autumn 2008, however. Even if we ignored it, despite facing competitiveness figures. And all we had capacity for was, although unfortunately with a delay only, to self-mutilatingly curb social services, repeat the slogan of modernising the outdated supply systems over and over again and start destroying the “deadwood” of public administration, with reference to modernisation goals.

STRENGTHENING THE GROWTH POTENTIAL OF SMALL AND MICRO ENTERPRISES

One of the major lessons of the roving conferences of the Hungarian Economic Association in the years 2008 and 2009 already was that there were serious problems not only with budget overspending, public finances' eating up money, but also with the underperformance of the economy, the adjusting ability and market ability of small and medium entrepreneurial circles. The “egoism” of money institutions can indeed be criticised and, by a more adequate

regulation, they can be encouraged to “show greater loyalty and a more enterprise friendly behaviour” (the latter is an important actual step taken, as part of an action series, to increase competitiveness), but, considering the reality of the market economy, the fact that banks, following their own entrepreneurial interests, provide loans only for purposes the return of which seems to be guaranteed on the basis of the substantiation of the applicants' market expectations, can hardly be changed. Similarly, public money, too, should be used to support those who, “in return” for the support, produce greater performance in the long run, i.e. are indeed competitive.

If public finances, taxpayers' money, are spent, under the slogans of “decreasing the tax and contribution burden on entrepreneurs” and supporting entrepreneurs, on enterprises with no marketability, the situation will obviously not improve but rather deteriorate. At the same time, economic policy has the chance to mitigate the distorting effects of the dual economy. Beyond the reasonable correction of the position of multinational companies, the former can be fostered also by creating a new basis for cooperation between the public and private sectors because public finances, creating a market – and this is not about a fancied attempt to boost the economy – can mitigate the crisis also by ordering goods and services from the private sector for its well considered and prepared developments.

The efficient operation of the public services meant to supply society can free resources for the economy. Today, however, service organisations financed from public funds live in symbiosis with the private sector already; the technical provision of tasks is sector neutral today, at least in theory. Naturally, reducing state expenditure thus markedly affects not only the users of services but also the players of the markets of these services. (These include, in health care, for instance, functional privatisation, or

the world of small and micro enterprises living from social care.) In the financing of social services, the implementation of financial obligations, the obliged diet, may cause no anorexia either in the supply itself or among the circle of entrepreneurs living from it. Therefore it is a reason for criticism also considering competitiveness that, in the past years, the fragile balance has been maintained by postponing unpostponable expenditure often in the fields of services (health care, transport, education), the performance of which has directly influenced the daily and especially the medium and long time performance of the real economy.

Although public finances today spend almost two thousand billion Forints less than before, this has not improved the situation of small and medium enterprises and micro enterprises have not been able to prosper more, either; on the contrary, the reduction of public finances has struck the greatest blow on these latter. It is for this reason worth analysing also in the context of competitiveness what can be considered a real micro enterprise and how wide the circle is in the case of which the actual situation is that people, lacking other opportunities more organised and efficient from individual as well as societal-economic aspects, are forced to sell their work capacity and abilities in this way. It is risky to ignore economic realities and make the illusion that small enterprises were a new engine of the economy. These certainly also do have their functions and it should be emphasised here also what strong interdependences there are in force.

In the wider sense, however, the unilateral suggestion that it is the underperformance of the public sector that is responsible for the weak competitiveness, ignoring the actual reasons of the latter, is undeserving and unjustified. What is more, public opinion also suggests that the nature of the situation is distorted and governed by interests and entrenched reflexes. The opinion that has stiffened into

slogans and far-reaching judgements in the past years was partly formed through the fact that the ruling political elite, rather than admit the low standard of management and direction, blamed their failures on the weakness of the implementation claiming it was the strongholds of “bureaucracy” that “overshadowed” what was a most competition friendly attitude according to (political) intention. The management laden with disturbances reached entrepreneurs, inevitably, through the struggling of the public sector in trying to follow the zigzags of policy and the underperforming bureaucracy of the demolished public administration, which concealed the fact that the economy and public finances were not two separate worlds.

The underperformance of enterprises was not *exclusively* caused by the fact that the hunger of social expenditure “took away their strength”. The market could not be perfect, either; the stumblings of the private sector or the faults of the money world could also be most destructive, as we have seen. And the “ultimate shelter” was the state bearing the responsibility of maintaining economic stability and the operation of society, while there was little mention made of the fact that distributable revenues could be produced by economic performance only and, lacking the latter, austerity could only be a temporary solution. If the goal is something more than this, we cannot avoid taking measures to develop the performance of management, administration, law enforcement, information or economy organising organisations operating within the framework of public finances. The latter does not require hiring more and more staff but the establishment of an adequate public administration structure with the necessary competences, a valuable starting point for which is the study of *Gusztáv Báger* (2010).

It is thus not enough to establish some new ranges of responsibility and authority; what is required is something more: to change the con-

tents and forms of appearance of political governing and to reorganise (or reconstruct, which word is probably no exaggeration to use) public administration. Putting public services on a new basis and easing the cramps of the real economy and of enterprises caused by public services, stiffened into reflexes, as well as the prejudice of the civil sector, are processes that will take considerable time. Without these, however, a permanent improvement in strengthening competitiveness is not attainable.

THE ROLE OF CIVIL SOCIETY IN INCREASING COMPETITIVENESS

As we gradually gained more knowledge of the factors, reasons, cause and effect relations shaping competitiveness, our conviction that the earlier simplifying and fragmented “therapy” of trying to find a general solution by starting out from one or another single factor only, should be replaced by a new one, got increasingly stronger. The approach according to which the issue of competitiveness should be managed (and solved) by “developing” one or the other of its constituents held for “decisive”, basically within the framework of regulation and economy organisation as well as within the responsibility of the state, cannot be maintained. Without strategic thinking, the examination of the orders of importance and time as well as of interactions, or harmonised governing thinking in long-term perspectives based on the former, we can hardly make any progress. As we have seen, reducing one or the other kind of tax or “eliminating” some of the bureaucratic elements of enterprise foundation, licensing, supervision or public procurement procedures, giving preferential treatment or state support to one or the other group of entrepreneurs, etc., are insufficient for progress. (Especially if the measures are taken so as to yield to pressure by interest groups or

political marketing, since it certainly does not make an enterprise competitive if it is registered within an hour or if the per capita nature of public procurement is ignored.)

The defects of competitiveness and even those of the operation of the public finance system and of corporate performance may be viewed as consequences of the operation of the societal system. The practical limits – like implementation in time, societal reception, marked clashes of interest – of establishing short and longer term harmony between various real economic, public finance and financial notions and the necessary modernisation policies and reform steps must certainly be implemented in reality, through society, rather than in a modelled environment. Competitiveness cannot be interpreted without society and, in our own ways, all of us are “civil”. The reality and certainly the developability of the “adaptation potential” of Hungarian society are thus key factors.

According to international experience, in “generating changes” and forming public policy in the modern world, spontaneous social formations, “civils”, have a growing role, including professional and interest representation organs like the Hungarian Economic Association, various entrepreneurial alliances or even financial auditors with a worldwide network. It would be a mistake to leave this strength and intellectual capacity unutilised or, what would be even worse, to underestimate its strength. The readiness of society to accept novelties (the civil sec-

tor), their moral support and identification with the policies constitute a much greater boost power if these are consciously organised, in the forms of consultations, feedbacks or “social contracts” since, without public trust and cooperation or lacking broadly supported societal perspectives, the goal of competitiveness itself cannot be interpreted, either.

Based on the above it can be established that without creating the obvious, clearer public finance and real economic conditions, we can hardly make any progress. All this, the breakaway from the established forced economic/social track requires that interacting social expenditures, social transfers, corporate group positions and development allocations be changed, which is impossible to solve without *reconsidering the fundamental constitutional rights* (pensions, health care, education and other state commitments), making new social-economic compromises (regional administration, the local governmental system, state involvement, the reformulation of planning mechanisms, the “reconstruction” of the state) and putting economic organisation (taxation system, income and subsidisation policy, corporate market orientation) on a new basis. And a fundamental requirement for all the former is that the new rules, institutions, organisation-direction solutions be governed, instead of external pressure or “presentational interests”, including the intention to rapidly improve some international competitiveness indicators, by a determination based on inner harmony.

LITERATURE

BÁGER, G. (2010) A kompetenciaalapú struktúra kiépítésének lehetőségei a közigazgatásban (Alternatives to establish a competence based structure in public administration), In: Báger, G. – Czakó, E. (eds.) A közszféra és a gazdaság versenyképessége – empirikus eredmények és tanulságok, (The competitiveness of the public sphere and the economy – empirical findings and lessons), study, *State Audit Office Research Institute, Budapest, April, pp. 84–89*

BÁGER, G. – KOVÁCS, Á. (2010): A közigazgatás és a gazdaság versenyképessége három tükörben. (Public administration and the competitiveness of the economy, in three mirrors), In: Báger, G.-Czakó, E. (eds.) A közszféra és a gazdaság versenyképessége – empirikus eredmények és tanulságok, (The competitiveness of the public sphere and the economy – empirical findings and lessons), study, *State Audit Office Research Institute, Budapest, April, pp. 10–41*