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## *Six questions and six answers regarding the relationship between the public sector and competitiveness<sup>1</sup>*

The thematic diversity and thorough methodology of the study – or rather, the collection of studies – oblige the reviewer to bring to bear a multi-layered approach. This is a rewarding, albeit a much more complicated task than usual. As opposed to the oft-used modern practice of blurring the most important areas of criticism, here we divide the opinions formed about the study into two parts.

The first part gives a – brief – overview of the theme selection and the approach, while the second presents an evaluating opinion on the economic policy and regulatory proposals based on the answers given to the questions.

*The theme selection of the collection of studies is highly topical, as it discusses the very area on which the truly important economic policy debates focused in 2010.* Taking account of the research results published in the study volume will and may be of special importance if the Hungarian government treats crisis management not only as a narrowly interpreted public finance issue, but also as a structural adjustment problem.

The research leaders and editors of the study volume placed the focus on analysing the relationship between the public sector and enterprises (more precisely, economic players). The method they chose was to identify the major research fields of the subject matter and to begin separate analysis in each field. The

research programme results also appear in separate studies in the collection, and that is why it is better to speak about a collection of studies rather than a unified examination. In my view, both the significance of the subject matter and the value of the research results would make it justifiable to organise the individual chapters into a unified text and to publish this material in a book.

The majority of the studies are closely linked to the research objective indicated in the title. *The keynote papers of Gusztáv Báger and Árpád Kovács* take account of the competitiveness effects of the Hungarian general government performance, and – in a broader sense – public sector performance, based on widely known international competitiveness analyses and by using the State Audit Office's experience. This high-quality overview of the literature and the package of proposals formulated on the basis of them succinctly systemise the tasks associated with the modernisation of the Hungarian government structure from the perspective of competitiveness, and thus serves as an “initial material” – as referred to it in the former Hungarian government jargon – for further analyses.

*Attila Chikán and Dávid Losonci* examine an issue of special importance from economic policy aspect, i.e. what impact the operation of the

public sector has on corporate competitiveness. This very clearly structured study, relying on high-level methodology, offers professional reinforcement for other research results as well as highlights that there is plenty of room for the improvement of not only Hungarian regulation but also its institutional conditions.

*Erzsébet Czakó's* analysis was centred on the performance of Hungarian enterprises, which is the second component of the relationship between the public sector and enterprises as well as its key performance indicator. In addition to systematically arranging and analysing the enterprises' operational and performance indicators according to size categories, this research was also focused upon examining a more important aspect. I would describe this aspect as the sensitivity of the Hungarian corporate sector to institutional and regulatory anomalies based on size categories. This reformulation of the research objective could perhaps make it clear why this paper does not necessarily fit into the other pieces of the collection selected with strict thematic consistency.

The possibilities of building a competence-based public administration structure is presented in Gusztáv Báger's study on the basis of an empirical survey. The chances of its introduction were tested both in the operation of central state agencies and medium-sized municipal governments, and the conclusion was drawn that a major improvement can be expected in operation efficiency and "buyer"<sup>2</sup> satisfaction as a result of this new approach and methodology.

A special merit and significant result of the paper written by *György Jenei – Éva Kuti* is the survey of civil organisations already performing public functions today. The study reveals that these organisations, which are otherwise not specifically involved in entities of economic character, are indeed important players of the economy, and only in the legal sense can they not be regarded as business enterprises.<sup>3</sup> I hope

it is not only because of my limited knowledge of the literature of this domain that it seems to me that this the chapter contains the most surprising research results in the collection.

The concluding – sixth – chapter, the work of Gusztáv Báger and *Gyula Pulay*, sums up and systemises the reform proposals set out in the study volume. On top of summarising the results of this study, other important research results of RI (the Research Institute of SAO) are also presented.

Before expressing an evaluating opinion, it is worthwhile highlighting that one of the greatest merits of the study volume is its communicational genre – in the good sense of the word. *There is hardly any (if at all) professional publication in Hungary in 2010 that would describe the main courses of institutional and regulatory reforms urged by the majority of economists in such a comprehensive manner and in such a uniform structure.* It could therefore definitely be desirable that this group of authors should present their reform proposals to a wider professional audience.

**1** The political elite, interest groups and group of experts share the view that the public sector fails to give sufficient support to improve corporate competitiveness, however, there is a difference in the judgement of this relationship. What further details could you add for a fuller picture based on the study?

In my opinion, there are no significant differences in the assessment of the relationship, differences appear only in the assessment of details. It is correctly pointed out in the studies that the state's role in developing the economy does not appropriately compensate (more precisely, hardly compensates) the expenditures of and administrative burdens on the corporate sector, and this role is especially weak in the case of SMEs.

While SMEs are very likely to have an increasing role to play in economic develop-

ment in the future (this is also backed up empirically by materials published in the study volume), it would be important to define this statement in the most subtle terms. Hungarian SMEs represent not only a corporate category capable of above average dynamics and innovativity, but also a subgroup of enterprises in which monitoring the fate of state funds is more difficult than in general. That is why Hungarian government institutions are especially cautious with SMEs, an attitude which is interpreted as distrust by honest SMEs. It would be expedient to make fundamental changes in the legal system and to carry out IT developments to reduce abuses that are usually committed by SMEs. As regards changes in legal provisions, it would be indispensable to extend the scope of corporate responsibility and to considerably increase the personal liability of corporate managers and owners. It is necessary to regulate the change of ownership in enterprises much more carefully and to make it subject to stronger conditions within the given legal framework.

**2** To what extent did the multi-faceted approach and the wide scale of methods help better understand the relationship, what methodological improvements are yet to be made?

The scale of methodology demonstrated in the collection of studies is modern and wide-ranging. Macro-level modelling is perhaps the only one missing from the set of tools, but due to the absence of the necessary data with appropriate details, its application is rather questionable in this field today.

The inquiries and examinations conducted at the companies were given a significant status in the apparatus of methodology regarding the studies. There is obviously no point in tiring the readers with the technical details of the inquiry, but it can perhaps be mentioned what “feed-

back” elements were used to improve the quality and credibility of answers, and how answers intended as targeted “messages” were tried to be eliminated. It is also advisable to raise the question to what extent the answers given by companies are influenced by the extremely negative mood and pessimistic expectations of Hungarian enterprises, but the Hungarian inquiries and examinations can hardly offer an appropriate methodological solution of acceptable costs to address this problem.

**3** A pivotal question of enhancing the country's competitiveness is the strengthening of the growth potential of small and micro-sized enterprises. What are the priority tasks to achieve this purpose?

The first part of the task is evident and well-known. There is a need for much wider and much more extensive SME support systems together with a considerable reduction of the financial and administrative burdens on SMEs. However, the other part of the task – clearly a less popular one – should also be kept in mind, in particular, that the transparency of the SME sector should be increased, and legal and regulatory changes should be initiated to significantly reduce the frequency of tax evasion and transformation of enterprises into shell companies.

**4** When building the relationship between the public sector and the competitive sector on a new foundation, new competences are required from public employees. How could these competencies be obtained, taking also account of the competencies mentioned in the study dealing with the subject?

I am not an expert on this topic, so I can outline only general proposals. New competencies are indispensable, but they cannot be formulated within the output structure of the formal

education and training system, for instance, extending communication training is not the proper solution for the improvement of communication skills. Probably, separate training programmes should be developed in order to improve client service skills (such as empathy). Attention should be paid, however, to the serious devaluation of further training programmes ordered by the government, which would necessitate the introduction and application of thorough and not only formal quality control techniques.

**5** Do you agree with the need to develop the proposed strategy that is designed to strengthen the role of civil society? What could be the main goals and instruments of this strategy? What can be the civil sector's role in enhancing competitiveness?

Of course, I agree with this set of goals, but I cannot say much about the main goals and instruments of the strategy, because I do not know the given area in details. The civil sector may have an important role to play in strengthening competitiveness by receiving tasks, practically with no cost to the state, from the government system based on social responsibility. This process began in the early 1990s (for instance, by setting up a professional accreditation system based on civil society), but it hugely decelerated or halted. Further research is needed to explore the possibilities.

**6** Do you agree that the most serious problems are to be found in the areas indicated in the collection of studies? What areas should the research focus on to find solutions, taking account of the proposals formulated?

I agree with the proposals put forward in the study, the most essential changes are to be made in the areas referred to. In the next para-

graphs, I express my views in details about the proposals.

The last chapter – Chapter 6 – formulates six public policy proposals, each of which relies on the earlier analyses of the study, but they are also dealt with in the summary. The designation of some general courses provides a framework for the proposals. These are conceptions aimed at

- setting up again a system for planning the economic policy,
- developing a long-term development policy that is really feasible (and which is finally – very correctly – not only treated as a public administration duty to be ticked off),
- reconsidering the content of state functions, and
- better understanding the internal interrelationships of the content of the budget, assessing the actual, summary effects of ostensible deficit reduction measures.

The proposals are likely to be met with broad professional consent, which is only partly due to the fact that a certain proportion of these proposals are already deeply rooted in professional knowledge, whereas other proposals are formulated in quite general terms. Substantial professional support can be expected primarily due to the careful consideration and justifiability of the proposals.

As far as its essence is concerned, the first proposal is not new, but as opposed to most earlier analyses, this study advocates the cause with well-founded arguments, because the arguments advanced came from the corporate sector, the public administration and the scientific circles. Here, the question is not only the reduction of public dues, but also restructuring them to improve competitiveness, and creating notably better transparency of regulation, which latter shows most pre-eminently that the opinions of companies have been given serious consideration.

The emphasis on the latter aspect is of utmost significance, because this can be the

ground for refusing the defensive argument of administrative bodies referring to the high budget deficit against fiscal system reform. Even with a moderate decrease in nominal tax burdens, the business environment in Hungary could greatly be improved by drastically reducing tax and other administrations. This would also have a considerable additional positive impact regarding the implementation of another proposal, i.e. the mitigation of corruption. When publishing the results, the authors of the study volume under review should explicitly stress the synergies expected from the implementation of interrelated proposals.

The second proposal persistently repeats an economic policy requirement, which is perhaps the most urgent one in Hungary, i.e. permanently cutting back budget deficit and state debts. In this question, there is an especially strong professional consensus between the business community and scientific circles. Although competent officials of public administration keep voicing their agreement in principle, but they also point out that the implementation of these tasks is much more complicated in practice. Despite unquestionable technical difficulties, there is inevitably a need to rise above these tactical counter-arguments. This can be facilitated by revising the content of the budgetary tasks.

The interdisciplinary nature of the researches summarised in the study volume is first manifested in the proposal aimed at enhancing the transparency and consistency of the political and governmental structure. This part of the study deals not only with the economy, but also with social policy focusing on the requirements of efficiency and transparency. It is an issue of paramount importance, which should be even more strongly accentuated by the authors together with the supporting empirical results. They could further refine this part of their conclusions by stating that the application of a Singaporean type of recipe for success

cannot be set as an objective in Hungary, because in a European democratic country the formulation of social objective function cannot be based on purely economic criteria.

The need for the proposed comprehensive reform of the education system is also often and strongly stated by economic actors. The wording in the concluding study is also accurate, and emphasises the importance of setting up a framework for life-long learning. This subject is linked with the opportunity for disadvantaged members of the society to acquire basic competencies, this being the number one prerequisite of acquiring qualifications.

The basic component of the proposal is to improve the effectiveness of the education system. It is worth, at this point, reflecting upon a more detailed explanation of the concept. If broadly interpreted, there is room both for further expanding the theoretical content of education and for increasing its practical relevance, but finding a good strategic proportion depends on a proper planning of the future development of the labour market. The long-awaited building of an appropriate system of planning is also among the essential recommendations of the study volume.

The requirement of curbing corruption has almost become a mantra in Hungary, albeit – in reality – mainly bureaucratic measures were taken against it, especially through intensifying control activities. The concluding study, quite rightly, highlights the primary importance of changing the culture if we want to fight efficiently against corruption. Researching this subject matter is, however, a truly interdisciplinary area, where a comprehensive, new research programme should be launched by RI with the involvement of sociologists, psychologists and perhaps political scientists, but least importantly lawyers.

Proposal number six also designates the right direction by prompting that R&D expenditures should be raised, but the content of

this proposal should be defined somewhat more precisely. Increasing R&D expenditures cannot be the objective alone, because it could lead to a similar situation, but on a larger scale, than what we see today in connection with the utilisation of innovation contribution by enterprises, where unreasonable expenses are charged by the legal title of R&D. Research organisations of appropriate standard and – by taking account of researchers' independence,

in the majority of the projects – carefully considered strategic directions represent the necessary framework conditions for increasing R&D expenditures. Of course, it is also true that investments are required to create the above-mentioned conditions, but one must not be mistaken that the R&D policy approach, which is based on the GERD/GDP indicator, can be applied in Hungary without further ado.

### NOTES

<sup>1</sup> Answers to the questions posed by the organisers of the conference at the panel discussion.

<sup>2</sup> This is a term of my choice, because buyer naturally refers to customers.

<sup>3</sup> The competition policy literature, which is far closer to my view, recently often deals with the issue as to what extent NGOs that engage employees and generate revenues but do not operate in the form of a business enterprise can be considered as subjects of the competition rules.