Lessons from the 2009 roaming convention of economists

The Presidency of the Hungarian Economic Association releases a summary of the annual roaming convention of economists year by year. The 2008 conference focused on the Lisbon reforms and their implementation in Hungary. We believe that the main message was that although the Lisbon strategy of the European Union is definitely not perfect in terms of either quality of concept or implementation, it could spur many important reforms in Hungary. These reforms are and have been necessitated by the position and operational deficiencies of the country's economy and society, along with economic policy mistakes and failures. Thus the global financial and economic crisis was not the cause of Hungary's economic weaknesses, only made them more visible. The key message at the 2009 roaming convention was that despite the crisis management measures that are undoubtedly effective in the short run, hardly any progress had been made regarding reforms.

WHY DID A CRISIS EVOLVE IN THE GLOBAL ECONOMY?

1 Accompanied by the decline of the institution systems, concepts, ethics, values and techniques of social-economic governance, the crisis in international finances and many other subsystems of the global economy is a decisive element of today's international economic environment. The neoliberal economic policy (leaning towards deregulation as opposed to strengthening regulations) of recent decades at least tumbled, sending out a warning that no economic policy or macroeconomic regime should be left without regular control, supervision and built-in correction mechanisms.

2 While in strict technical terms it is only a recession, the severity of the current crisis is only comparable to the Great Depression of 1929–1933. Recovery is expected to take considerable time as upturns after banking crises usually come slowly (the current crisis started out in the financial institutions sector in 2007 and caused extremely high losses). Lending is

* The 47th roaming convention of the Hungarian Economic Association was held in Zalakaros, Hungary, between 24 and 26 September 2009. More than 80 presentations were given at the three plenary and ten section sessions. Reviewed and discussed by the Presidency of the Hungarian Economic Association at its 19 November 2009 meeting, this compilation highlights the main conclusions drawn at the convention.

predicted to return sluggishly to former levels while country risk premiums will remain high and competition for borrowing opportunities resources will intensify.

3 Due to the diverse roots of the crisis, recovery will be a complex process that will call for comprehensive renewal. A new way of thinking and a rebirth in terms of values are needed in developed countries and thus in the European Union as well.

4 The upturn is expected to begin in production, but the chance(s) of a repeated setback (even in the near future) cannot be ruled out. Unemployment decreases at a rate much below output growth and employment will increase even slower. Therefore, most countries (including Hungary) must prepare for a lasting social crisis.

5 A strange asymmetry evolved in the global economy: in the decades preceding the crisis, the power centres held by large corporations clearly gained dominance over national governments. Opinions claiming that government interference in the economy is unnecessary became louder and louder. Regulation increasingly lagged behind market requirements. The privatisation of profits generated in the economy increased in a manner that hurt people's sense of justice but only to be followed by the socialisation of losses once the crisis burst out.

6 An asymmetry evolved between large regions in the world. An increasing portion of industrial production was moved to Asia, in particular to China, causing significant disequilibria in international payments. (Certain countries in Southeast Asia accumulated unprecedented foreign currency reserves.) This process triggered an in-depth geographical shift of employment: while industrial jobs disappear quickly in developed countries, emerging countries (again China in particular) create millions of new industrial positions.

7 Contrary to the paradigm that ruled until recently, market approaches, market tools and processes do not necessarily lead to positive results either in economic policymaking or in the development, care and preservation of increasingly precious human resources. Education, training and healthcare are primarily not business activities but factors that serve a good public cause. At the same time, the underlying institutions must operate along viable business models of course.

8 The values of the consumer society dangerously crowded out other human values that are deeper and more important. The pursuit of immediate gratification, i.e. the prompt satisfaction of physical needs challenged values like the reasonable management of finances, frugality, performance and cooperation.

9 Periodic crises are not unusual phenomena of market economies (and the global economy). Yet they shake economies differently depending on the specific circumstances and actual position of individual countries and the quality and quickness of their response. It is a responsibility of economic policymakers to look beyond "putting out the fire" and prepare the grounds for medium and long-term measures regarding the institution system and regulations which enable a meaningful and lasting improvement of economic performance.

THE ROOTS OF THE HUNGARY'S ECONOMIC CRISIS LIE DEEPER AND THEREFORE A FIRMER RESPONSE IS NEEDED

10 The severe crisis of the Hungarian economy stems from a number of causes: on top of our decades-old issues came the consequences of recent economic policy mistakes, all aggravated by the international financial, payment, employment and economic crisis that unfolded in 2008. Hungary has been struck by simultaneous economic, political, social, value and

leadership crises and therefore the remedy must be diverse as well.

11 The vast majority of developed countries chose Keynesian ways of stimulating demand to prevent the disastrous deepening of the crisis. This economic policy approach was undoubtedly successful in many countries in the short run, enabling them to avoid the collapse of their national currencies and economies. The sustainability of these accomplishments, however, is unknown. Unfortunately, Hungary's economy cannot follow the successful international examples:

- Stimulating measures usually bring good results in large, closed economies;
- As indirect and direct causes respectively, the position of Hungary's public finances, the indebtedness of the country and its dependence on external financing (including official loans) make the increase of fiscal expenditures for economic stimulus purposes impossible.

12 In a time of recession, reforms that decrease the fiscal centralisation of national income are usually inadequate. While such reforms undoubtedly improve the relative position of the private sector, companies and households are likely to spend only a part of additional revenues that are left with them. The consequent streamlining of the general government deepens economic setback through the decrease of aggregate demand which is not good for the private sector either. In Hungary, however, government bankruptcy was an immediate reality in late 2008 and early 2009, thus economic policymakers had to take prompt action to restore the equilibrium of public finances. Nevertheless, the unavoidable draining of incomes from the economy and households should be carried out along a well-devised, thoroughly elaborated and properly communicated reform concept.

13 The disequilibrium of Hungary's balance of payments was not only caused by the deficit borrowing of the government. It was also fuelled by the unprecedented growth of household indebtedness in foreign currencies. Companies (especially exchange rate-sensitive small and medium businesses) expect monetary policy to weaken the forint while households with foreign currency debts expect just the opposite. We must accept that both the forint exchange rate and the interest rate are shaped by international money and capital markets ultimately and that Hungary's elbow space is limited also in respect of monetary policy measures. Economic recovery and upturn are impossible with the current level of the forint real interest rate. Its decrease, however, will only be a realistic option after international confidence (and financing willingness) in Hungary is restored and will depend on the extent of that confidence.

14 The reduction of burdens on companies is a welcomed fiscal policy step which is expected to be beneficial for small and medium businesses resting in Hungarian ownership. For foreign-owned companies, however, the expansion or sustaining of the physical and human resources of production/services is more dependent upon market demand than on the tax wedge.

15 In the short run, the crisis management steps of the government have undoubtedly produced results: Hungary managed to avoid bankruptcy and insolvency. With this, however, only one set of threats have been neutralised. Real and effective measures to combat economic setback are still to be seen. The fact that the decrease of economic performance already stopped in the United States and in many European Union countries does not mean that Hungary is over the crisis already and that any kind of fiscal policy loosening is possible.

16 At the same time, increased attention must be paid to ensure that crisis management measures take into consideration the tolerance and burden-bearing capability of the popula-

tion. How the burdens of the crisis are distributed is a matter of economic policy decisions – though within certain limits. It is advised that these decisions should be made with a higher involvement of society and interest-representation organisations.

17 Hungary needs a particularly profound change and renewal. Not only to resolve the tensions in its economic structure, but also to establish the invisible institutions and basic infrastructure of a market economy. Today the majority of entrepreneurs want to play a fair game and make a living on the market. Yet due to the current tax wedge and the underlying regulations, they view the state as foreign invaders. Entrepreneurs feel they are not treated as partners in exchange for the taxes they pay. They have the impression that their contributions are not spent on fairly and transparently operating public services.

18 The improvement of the country's competitiveness is (also) a fundamental responsibility of economic policymakers, for Hungary dropped in many relevant rankings during the most part of the past decade. However, competitiveness must not be strengthened exclusively by short-term expenditure cuts, for besides competing successfully for existing resources, we must also lay the foundation for successful future development.

19 The transformation and upgrading of the taxation system is underway in many developed countries as governments need more funding resources due to the crisis. The ratio of tax types within the overall tax wedge that produces these revenues is not indifferent regarding either growth or social justice. The decrease of the (effective) rate of income taxes and the planned narrowing of tax evasion opportunities in 2010 are steps in the right direction. Tax decrease as an overall endeavour is correct but it has to rest on the reduction of public spending or else government debt and the related burdens will grow.

20 Most of the economic debates in Hungary are about the functioning of the state and the deficiencies thereof. However, it is important to note that local companies (especially small and medium businesses in Hungarian ownership) also struggle with hurdles and difficulties that should not be expected to be resolved by the government: Issues in this category include low performance, weak capital adequacy, insufficient innovation, lack of familiarity with or improper application of modern business management methods, excessive focus on the domestic market.

21 The crisis is expected to trigger a considerable change in the operating model of market economies but the exact direction of this change is not clear yet. What we know for sure is that education, research and development, innovation, investments into human capital and the ability to respond will play an even greater role in the future.

22 Recovery from the crisis and the period after it can only be a success for Hungary if finally a comprehensive national strategy evolves and gains dominance. A strategy that is based on joint thinking and serves as a starting point for various partial strategies, one that has motivating power. The elaboration and implementation of this strategy would be helped greatly by the establishment of a (planning) institute dedicated to this objective.

Presidency of the Hungarian Economic Association