The present is the future's past

Untravelled highways – travelled byways

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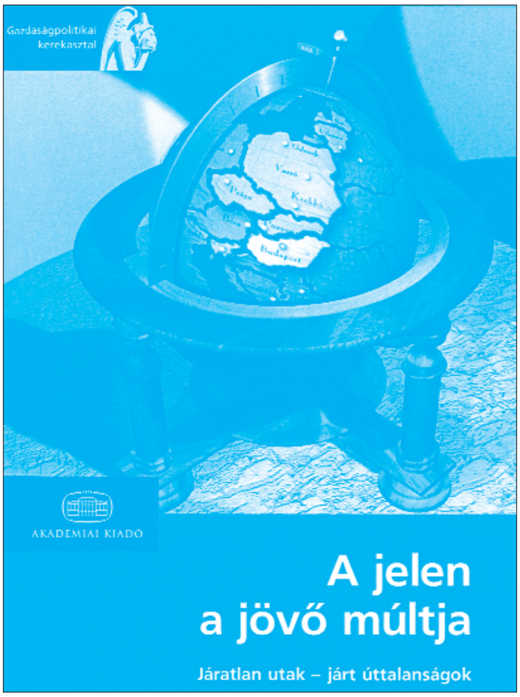

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This book, published as the second volume of the Economic Political Round Table, is dedicated by the co-authors and the publisher to the *memory of László Antal,* who passed away in December 2008. Antal was an emblematic character among reform thinkers in Hungarian economics as well as a decisive figure of the round table as a professional community. In the volume, it is in their writing entitled "The head of the table is empty" that the co-authors bid farewell to László Antal. This title is justified also in the figurative sense, while it was Antal, too, who delivered the keynote lecture of the Round Table of the year 2008, the title of which, "The long march", is characteristic of the whole career of László Antal as well. The painful and early death of László Antal left a void hard to fill in Hungarian economic science.

In the foundation of the now traditional Economic Political Round Table and the organisation of its annual events, it is *László Muraközy* who obtained imperishable merit and he has performed a huge and excellent job also as the editor of this volume. In his *Introductory study* (pp. 17–68) he highlights on the main goals of the book, while also reviewing the individual studies published therein. "It is sustainable growth and reforms that are in the foreground of the studies of this volume so it is our hope to contribute through this to finding a way for Hungary from the current not very encouraging economic, social and political situation to the future" – page 21 of the book reads. The most important common question shared by the seven authors is: "how far Hungary has got, what characterises the country and what future will or may await it; to what direction should we or could we move", considering international experience and world economic processes. (p. 24)

The key to the future is *sustainable growth;* the level and dynamics of potential output sustainable in the long run. As regards the factors influencing the former, changes in savings and investments, the condition of labour force, the institutional factors of the economy, the behaviour of economic players, the role of the state and the development of economic policy, along with a number of other factors, all play a significant role. These fields will continue to provide inexhaustible tasks for economists for considerable time ahead. So will the duty to determine the focal points of the necessary changes and profound reforms. The question of unavoidable reforms is a recurring issue also in the studies of this book.

■ *A basic work in the volume is the keynote, the last study of László Antal* bearing the most expressive title, as mentioned above, *The long march.* (With the subtitle: The turns and effects of fiscal policy after the turn of the millennia) The line of thought of the study begins with the presentation and critique of the Hungarian proposals (of the year 2008) advocating a substantial reduction in the tax burden, at a rate beyond taxpayers' "stimulus threshold level" and, at the same time, promising an immediate and spectacular stimulation of growth, a revival of positive expectations and, concurrently, a sharp rise in tax and contribution revenues and a general improvement in taxation discipline. As the author points out: "All proposals promise an immediate and almost painless escape from the current trap or at least an illusion thereof: »the big hit«. The side of offsets, on the other hand, is treated superficially. All of them flirt with the idea that, if the proposal is implemented, much of the hoped for excess in income (and tax revenues) can be reallocated underway already (hence the painlessness). They also imply the hope that taxpayers will be more willing to (honestly) pay the reduced taxes. (…) The expenditure side of the tax reduction is weakly founded, being restricted to strongly optimistic estimations based on requirement-like formulations basically. At the same time, experience from the past years has proven the erosion of the expenditure cuts already decided by the state and the softening of decisions in almost every field." (p. 72) "(…) the essence of these proposals is, I believe, the making or sustaining of *illusions*; the implication that all this could be done in a much better way (by following the respective proposals). Even by suggesting that there is not a single significant social group that may become a serious loser even in the short run. This is clearly not true but is something many certainly want to hear. So, at hard times, *it may create a cohesive force in the case of players with a tendency for self deception.* The intention, of course, is easy to understand. A growth sacrifice that seems to be greater and longer lasting than expected may make such an expectation general not only with politicians but also with the wider public." (p. 73)

The author contends we should not start thinking only when trying to find the right way out of the current situation but one step before that already. The system (to be) constructed is characterised by a *uniform logic* even without conscious planning. It is necessary to explore the special characteristic features of the system ranging from the direct, well-describable causes to the tendency of reproducing imbalances. A suitable conceptual framework for this is offered by the *"new political economics"*, in which the approach and analysis inventory based on the mainstream paradigm couples with the analysis of institutional and communal decisions. This approach explores, among others, potential tendency towards instability, the transgression of balance restrictions and the spreading of crisis phenomena. It tries to capture trends, cyclical effects and ad hoc factors, separating the essential from the non-significant; the changeable from the unchangeable.

The study summarises the main experiences of successful and failed fiscal consolidations. The key to successful consolidation is, the author says, "the availability of regulations transforming *"outside pressure or short-lived response reactions based on the collective recognition of temporary shock effects into a permanent effect, to a legitimate,* primary coercive force, since success depends on the development of permanent effects. This is usually a bitter learning process not only in Hungary but in catching up countries in general. What is more, it is no triumph march even in some of the developed EU countries, as has been proven by the long stalemates in the withdrawal of retirement and taxation privileges in certain professions or the bargaining power for retaining the status quo, for example. (The differences are apparent in the lengthening of the learning process, in instability and the frequency of retreats and stalemates primarily.)" (pp. 80–81)

The author devotes special attention to *systemising the mechanisms of the processes leading to the internalisation of the forces and pressures necessary for respecting critical borders.* One by one, he examines the "illness symptoms" marking the strengthening of crisis symptoms, the special characteristic features of structures with pro-cyclical (destructive) rather than stabilising effects, alternatives to restrict these mechanisms and the dominance of expenditure as the determinative factors of permanent balance improvement. Correction often involves *growth sacrifice. However, there increasingly frequently occur corrections involving only short backslides and a recovery starting soon afterwards.* In the case of a successful consolidation, the role of rational expectations grows, the trust in the ability of the state to act is restored and the driving force of the private sphere overtakes the role of that of the state.

Antal throws special light upon the significance of the application *of the budgetary responsibility framework systems* (numerical rules, procedural requirements, institutions). He persuasively underlines at the same time that even a rule-based budgetary system may be effective only if its introduction couples with a political commitment to keeping its rules. (p. 85)

The author profoundly analyses the Hungarian experiences of the years 2006–2008 in the light of the successful international consolidations. He emphasises that the state budget tensions that have developed in the past years, unlike in the beginning of the 1990's, are to be led back to the applied economic policy primarily. Thus, the situation in Hungary is *absolutely unique* among newly joined member states of the EU. The main processes characterising the economy have been formed by discretionary resource allocation decisions causing an artificial fluctuation. He convincingly proves that despite the considerable burden of the debt service, the development of the state budget imbalance can be traced back to *a change in the primary balance, i.e. to factors immediately influencing aggregated demand.* The improvement after 2006 was also related to the primary balance, i.e. also to the factors directly forming ultimate demand. This, "since autumn 2006, has in fact meant a radical decrease in the primary balance and a turn-like change in the fiscal demand effect deserving attention even by an international standard, but also forecasts at the same time what the majority of experts did not really see in advance, at least not to the true extent of it, i.e. that a radical correction involves *a serious growth sacrifice."* (p. 90)

The author establishes that the characteristics of the Hungarian stabilisation policy strongly differ from those of the countries successful according to international experience. The extent of redistribution has grown even in the latest years. The structure of budget expenditure in Hungary differs from those of EU countries. Its efficiency is extremely low. But even the reasons of the growth of deficit cannot be localised to a restricted area of expenditure or revenues and cannot by any means be blamed on just one or two important economic political decisions.

The first lesson to be learned form the analysis is that *the sustainable position of the state budget cannot be granted without regulations binding decision-makers' hands or without institutions guaranteeing the operation of regulators.* The growing number of signs indicating a permanent fall in growth potential may be alarming. According to international experience, the reversion of the process would require putting the economy back on track, governed by the private sphere, and a slow and patient advance.

In his study written in August 2008, László Antal expected a "long march"; a slow and agonising balance improvement process. All this, however, could lead, depending on the incalculable outcome of various political alternatives, to the development of a fast action skill, to the acceptance of the idea of some major change, in a short time, the author expected.

According to the closing conclusion of the author, "the economy can hardly be put on the growth track of the private sphere *without breaking the rising trend of the societal costs of the so-called major distribution systems but, at the same time, the example of success models based on the spectacular reduction of welfare costs cannot be followed, either.* Breaking the dynamics of social expenditure is a most serious task, too (and would require a reduction corresponding GDP 2 per cent approximately, on a ceteris paribus basis); beyond this, there is no opportunity, or need, in my opinion, to abandon the principle of the distribution system covering all society. There will be no economic miracle and no great shock, either, but *time does not work for sustainability* unless it facilitates the realisation of the unavoidability of changes. This is where we are today, I believe." (p. 98) It should be underlined once more that the study was written in August 2008. Despite the changing conditions internationally and in Hungary, the relevance of the ideas has not diminished in the least.

■ The study of László Muraközy entitled "The state and economic freedom" analyses the development and institutional conditions of *economic freedom.* Economic freedom is one of the key features of the market system. At the same time, modern market institutions require adequate regulation and a legal system in which the state has a determinative role.

The first part of the study revises the results of three wide-scale international comparisons, especially considering how economic freedom is institutionalised in developed countries and, compared to these, in Central East European countries, including Hungary. International experience also confirms that, in modern economies, freedom does not mean the lack of rules or the lack of state, but exactly the high standard of these both as well as their harmony established with the market. The right synergy may result in efficient operation in the case of various institutional constructions. (For the case of developed European and overseas countries, cf. p. 124.)

The second part of the study examines the correlations of economic freedom, the market and the state from a theoretical point of view, devoting special attention to the explanation of the situation in Hungary. It requires special emphasis that the long decades of the *overweight state* and the *ruling paternalism* had a decisive effect on the way of thinking of people in Hungary.

As the author graphically summarises: "*In Hungary, the bad "combination", mutation, of the state and the market developed within formal institutions couple with the contradiction between formal democratic, free institutions and the behaviour and habits of the population, i.e. informal institutions.* The two bad circles mutually strengthen and sustain each other. The big state continues to feed the paternalist dependence of the population, while their dependence gives reason for the survival of the big state. " (p. 158)

■ The study by *Dóra Győrffy* (Economic policy without trust) analyses the divergent roads of two post-socialist countries, Hungary and Slovakia, in the period before the outbreak of the financial crisis. These roads, the author points out, may serve as a lesson for the economic politicians of the future.

In the author's line of thought, the "anti-reform sentiments" often experienced in the two countries in the period discussed are considered as the lack of trust, i.e. "the lack of faith in that the currently suffered sacrifices will indeed bring the better life promised for the future. In an environment of no trust, deep-cutting changes are unlikely and their implementation requires exceptional circumstances; when these are no longer available, populism focusing on the present and using up the future is expected to return to economic policy." (p. 163) Serious pressures may lead to reforms. But *the introduction of the reforms does not produce sustainable growth in itself.* For the attainment of the latter, it is an unavoidable task in both countries to create social trust and an economic political consensus within the elite.

Within the framework of this line of thought, the author first discusses *the relationship between trust and structural reforms* in a theoretical approach. As the roots of the resistance against the reforms, it is the organisation of losers, however limited in number, into groups, the great weight of short-term psychological preferences and the uncertainties about the outcomes of the reforms that are the most significant. The implementation of the reforms and the lifting of the restrictions mentioned require some kind of a compensation for the losers, measures facilitating adjustment to the new environment and the provision of a wide range of information. With respect to all these, the role of authenticity is decisive: regarding both the uncertainty of the promised compensation or the long-term advantages and the reliability of the information. To the explanation of the development of authenticity, it is research on political trust that may bring closer. According to some research, "the trustworthiness of the government has two kinds of composites: one is the belief that the government strives to take measures to the benefit of the public good *(trust)*, and the other is the belief that, beyond good intention, it has the ability to facilitate public good *(confidence)*" (pp. 167–168). In an environment of low trust, when citizens have had bad experience with decision-makers, it is very difficult to make authentic promises on the future and thus to defeat the resistance against the reforms. Yet, even in an environment of low trust, structural reforms are possible if (1) society considers the policy followed until then as no longer possible to follow or (2) if some politician is able to markedly differentiate himself from the other members of the political class that has lost people's trust, (3) if the political class is able to reach a consensus on the necessary reforms or (4) if an autocratic system forces the changes through. This latter is certainly no alternative at all under democratic conditions. At the same time, under the conditions indicated, one of the three factors (or several of them simultaneously) are prerequisites of the structural reforms. For the government therefore, their costs are likely to be much higher than their potential advantages, which latter can probably be enjoyed by the next government only.

In 2001–2006, the two main features characterising Hungary were the typicality of an "election-focused economic policy" and the absolute lack of structural reforms. The main factors of the *fiscal cycles* ruling economic policy were constant over-expenditure (which, from being an exception, became a norm), the fiscal illusion of the public and the lack of an institutional framework or external disciplinary forces for the budget. The latter condition changed fundamentally by 2006, and the correction of the state budget became inevitable. But, as the author convincingly underlines, *strategies primarily based on boosting revenues do not produce permanent results or facilitate growth.*

The study *analyses the reform processes in Slovakia in detail.* It underlines that, while there is a strong mistrust in the basic institutions of this system also in Slovakia, no vicious circle similar to that in Hungary has developed there. Although essential reforms were postponed in the 1990's right until 1998, from 1998 onwards and, especially in 2002–2006, basic structural reforms were implemented. These were fostered by EU accession and the fear of being left out on the one hand and later by the preparation for the introduction of the Euro on the other hand. The authenticity of the reformers proved to be decisive in 1998–2006. At the same time, the consensus of the elite made it possible to sustain the main elements of the reforms also after 2006. (The consensus meant commitment to the introduction of the Euro.)

An overview of the economic policy *of the past decade throws light upon the importance of the determinative role of authentic and committed decision-makers in the changes.* "The sacrifices necessary for the reforms are tolerated by society only if they can trust the promise that these will serve the interests of the country as a whole (rather than just some groups) in the long run; this can thus be considered the prerequisite of trust as regards the success of economic political changes.

Since trust can neither be forced out nor be baselessly expected, (…) so as to construct trust, the government must send very strong signals proving that there has been a change in its behaviour. This means that the government will proceed correctly, following norms, applying these norms to everybody, including its own officials and the governing party." (p. 192)

■ In the beginning of his study entitled "The critical mass of reforms", *Lajos Bokros* points out the following. While Hungary was still a pioneer reformer country for a long time in the nineties, in the long decade which has passed since 1998, subsequent governments in Hungary have never dared to initiate any important reform. *The country's twentieth century reform age ended in 1998.* Between 2001 and 2006, Hungary conducted an extremely profligate economic policy, based on an artificial attempt to boost domestic consumption, financed by external and internal borrowings, and destroying the livelihood of future generations.

This economic policy had serious consequences, on the one hand, on the balance of the economy. Concurrently with the foreign trade deficit, there developed a continuous and serious twin deficit (i.e. a simultaneous budget and a current balance of payments deficit) as well as steadily growing twin debts (state debt and external debt). Twin debts, using the expression of Lajos Bokros, produce "twin mistrust": twin debts are generally far less sustainable than state debts or external debts. Finally, and this is the most substantive point in today's tragedy in Hungary, "(…) *a pro-cyclical economic policy cannot be replaced by an anti-cyclical economic policy in bad times* despite the fact that the extent of the recession is made worse by a deteriorating external environment." (p. 199)

The "vicious trio" of twin deficit, twin debts and twin mistrust pushed the country to the verge of collapse. The collapse could be avoided with the financial assistance of the EU and the IMF. The basic question is, however, how to restart permanent growth.

The restart of growth not only requires the right economic policy with its elements being in accordance with one another but profound structural reforms and comprehensive institutional reforms as well. The most important piece of evidence among those proving the necessity of structural reforms highlights *"the bad and poor, what is more, in certain areas even deteriorating quality of public goods and services* produced and/or financed by the state" *and it is considering this that the author regards the amount of resources spent by the state on the production of these public goods and services as too high, sometimes enormous.*

In fiscal terms, the problem with the state budget in Hungary is not only that it tends to *have excessive deficits and, accordingly, large debts.* These two factors only reflect the unsustainability of the state budget caused primarily by *its size much larger than desirable* (i.e. the excessive extent of national economic redistribution), and by its *unmodern structure.*" (pp. 201–202)

The excessive extent of budget redistribution and its unfavourable structure *are a hindrance to growth:* they are a strong drawback on performances, alongside the limited circle of actual taxpayers there is a high number of "legal" free riders, the system hinders the growth of employment, etc. All in all, the reason why it is impossible to "achieve permanent economic growth in Hungary without profound and comprehensive structural reforms is that *the dominant behaviour, value system and everyday culture of state companies and budgetary institutions* (offices, hospitals, schools, etc.) as well as, primarily but not exclusively, of their chief administrators and employees, *are against quality and competition and in most cases are also wasteful, parasitical and corrupt.* In this respect, the state of Hungary is increasingly similar to the culture of certain declining, dangerously tired societies (Italy, Greece) which, from a world economic point of view, also belong to the newly lagging periphery of Europe." (p. 205)

Lajos Bokros rejects the covertly widespread assumption of the nation's anti-reformist attitude. According to that logic, he explains, since reforms are always unpopular, the introduction of any reform would only be possible in a democracy by misleading, deceiving or bribing people. This approach, never mentioned in public, has in fact become part of the anti-competition and anti-quality cynical culture that underrates people and one of the most important characteristics of which is *that everybody says something different from what they think.* Bokros is not selling a cat in the sack, however. The main characteristics of his study are straightforward speech, the overt exploration of the main problems and the honest presentation of the potential solutions.

The reforms, just like the underlying economic, societal and cultural processes, are closely intertwined. Through the interconnection of the reforms, their impact can be strengthened and multiplied; *it is a critical mass of reforms that may change the dominant culture of society.* The author underlines that the true guarantee of success is *the almost simultaneous introduction* of the main elements of the reforms.

The author claims that there is a need for a critical mass of reforms in at least five areas (health care, education, the pension system, public administration and tax burden sharing). The elements that should be highlighted from the elaboration of the conceptual aspects of the reforms in these areas (pp. 208–235) are the following.

- In the field of *health care,* the construction of an open, clear and well regulated but basically market-led competition through the establishment of the *two-tier competitive model;* in addition to the first pillar of social security, the establishment of a mandatory private insurance as a second pillar.
- The *completion of the pension reform* by transforming the pay-as-you-go (PAYGO) social insurance pension system; by the introduction of the Swedish *notional defined contribution, NDC* system, the balance of the

system can be established and it can be made clear for society that the financial stability and sustainability of the state pension system is a more important public political goal than the preservation of the real value of individual pensions.

◗ In the field of *public education,* the establishment of real equal chances is of decisive importance, which requires, among others, a basic structural change in the public education institutional system.

◗ Special attention is devoted to *higher education as "the Achilles heel of development";* based on a serious critique of the current system, the author formulates the cornerstones of a higher education model comprising much fewer institutions than the current system, including, first of all, the direction of the desirable transformation of the management structure, as well as ideas on the performance-based salary calculation for higher education employees, the future of financing and the ranking of higher education institutions.

◗ *In the transformation of the tax burden sharing system,* widening the circle of taxpayers and broadening the taxable income (tax base) (by introducing a tax, however low, on minimum salaries), facilitating investment through significant benefits and, at the same time, raising taxes on dividends, are of decisive importance.

Finally, Lajos Bokros summarises his main conclusions the following way. The main function of the reforms is *"to radically change the dominant behaviour patterns, value system and everyday culture of society. This requires, however, a critical mass of reforms.*

The anti-competition and anti-quality, parasitical and corrupt culture wasting social resources must be replaced by an attitude putting *quality work and, based on that, human dignity* centre stage, and managing public goods, at all levels of society, with responsibility and greater care than our own, private goods. This requires *transparency in the state budget and clean hands in the case of its representatives.* The economic policy using up the future and the culture destroying it must be replaced by a future-building behaviour and attitude. This is the key not only to economic growth and economic catch-up to proceed in its wake but is also one of the most important guarantees of the *balanced, patient, solidary* and cooperative society of the future.

For Hungary, the first decade of the twenty-first century has been lost. It depends on us to make sure that the second decade should not be a wasted one." (p. 240)

▫ The study of *Ádám Török*, with an impressively broad basis, examines the issue of *performance measurement* in a specific field, which is of key importance for the reforms: *higher education.* (The title of the study is: "Competition in higher education – That's the way you measure".) In sectors of the economy producing *intangible* goods and services (like higher education), the application of any success and performance measurement method, however simple it may seem, requires special care and carefulness.

The study convincingly proves that behind the continuing global integration of higher education, "there is, for the time being, no uniform measurement system, and there will not be one in the near future, either. Until today, no professionally acceptable conditions have developed either for relatively simple forms of measurement, like higher education rankings, or for a global accreditation system acceptable in a broad circle internationally, and their development should not be expected for considerable time in future, either. The revision of international and Hungarian rankings reveals that there can be various performance requirements set up for higher education. The arrangement principles of these will be missing until it becomes clear what society and the economy expect of higher education (p. 245).

Since the end of the eighties, *university rankings* have been published increasingly frequently. Although no uniform methodology has been developed yet, some important common methodological elements can be discovered in them. The study presents the main characteristics of the two major international rankings and of the Hungarian ranking attempts made so far, in detail. It is pointed out that the rankings have not applied the methods of competitiveness measurement so far.

According to international comparisons, universities in the European Union are not at all or hardly present in the current global higher education elite. Thus, in the renewal of the Lisbon Policy, the fundamental reform of European higher education, far beyond the uniformisation efforts of the Bologna Process, should be put on the agenda. (p. 275)

The author is especially critical about Hungarian higher education rankings, *behind which you can feel a conceptual uncertainty similar to the one in Hungarian R&D and higher education policy.*

Finally, the author examines *two potential* scenarios affecting higher education in Hungary. In the first case, the conditions do not change and strict quality requirements continue not to be implemented. The second scenario includes a Hungarian higher education in transformation, with a new quality assurance and evaluation system. *It is this second scenario, assuming an underlying fundamental reform that may hold a more serious professional future for the higher education "ranking industry" in Hungary.*

■ The study of *Júlia Király* (with the title "The tornado and the hurricane – the crisis effects of the year 2007") characterises the issue examined with a witty allusion to one of the most famous catastrophe films (Category 6: Day of Destruction). "(…) In summer 2007, it was by this film that the Hungarian economy could be most precisely characterised: the subprime crisis was advancing from the left (tornado), the incredibly accelerated raw material price rise (hurricane) from the right, while there were the effects of a drawback-consolidation package (power-cut) being felt right at the time. Sometimes it was the one storm, other times the other that felt stronger, but when they finally hit the country simultaneously, their strength surpassed all previous predictions." (p. 296)

In an excellent summary of the *mechanism of the 2007 financial crisis* (the "tornado") (pp. 297–232), the author convincingly underlines, among others, the permanent rise of the risk premium and the effects thereof on the real economy. At the same time, her conclusions are most thought-inspiring. "Money markets cannot "make trouble" anywhere where there is no trouble, no imbalance, no mispricing in the first place. It is injured economies struggling with non-equilibrium that are intensely affected by the infection. The crisis spreading through money markets is not the cause, only the accelerator of existing tensions: it calls attention to imbalanced, for some reason easy to injure areas operating with much friction. From time to time, this causes a serious shock, a backslide, which would, however, take place in all of the economies affected even without the "sparkle" spreading through financial markets" (p. 312).

The explosion of raw material prices (the "hurricane") had further significant effects. Permanently worsening terms of trade "reduce potential output levels and moderate the disinflationary effect of the output gap. Moreover, it also has indirect and second circle effects on the level of inflation: in the past year, the inflation level of almost all regions has risen significantly. " (p. 316)

In the wake of the "tornado" and the "hurricane", banks of issue were caught in a trap. The first and tough attack hit the liquidity of interbank markets. Besides, banks of issue did not have to react only at the disturbance of financial markets, however. On the one hand, the "tornado" strongly held back economic expansion and, on the other hand, the "hurricane" that developed concurrently exercised a massive inflationary pressure on the economy.

At the beginning of the "post-Lehman period" of after September 15, 2008, an avalanche of a thus far unexperienced intensity swept through the world. Everybody closed positions, sold and fled. "Panic and irrationality: movements became chaotic; correlations nonlinear. Liquidity did not diminish; it disappeared. The world of investors was crashed by the flight of outvestors. Stock exchange indexes plunged, both at developed and at emerging markets. (…) the risk premiums and risk indexes of countries considered vulnerable skyrocketed, on the other hand." (p. 326)

The collapse of the financial system has begun. The destructuring of the financial mediation system would paralyse the economy. Under such circumstances, *financial stability is beyond all other goals.* Leading banks of issue have implemented a harmonised interest reduction on several occasions. "The system of the inflationary target that seemed to be working before, needs rethinking now: at times when price signals do not work, when the system is moved by quantitative, liquidity restrictions, the role of interests and banks of issue is revaluated. By the time the crisis is over, a new monetary political paradigm may be born." (p. 330), the author points out.

The measures taken in Hungary in autumn 2008 and especially the assistance of the EU and the IMF proved efficient in the direct management of the crisis. In the witty formulation of Júlia Király: "We have won the Battle of Nándorfehérvár. And, for the first time in history, we must try not to lose the Battle of Mohács, either (the Battle of Nándorfehérvár was a major victorious battle of the Hungarian Army, while the Battle of Mohács was a significant battle lost, with harsh consequences in Hungarian history – the translator). Because we do know that the financial crisis, as we were aware at the time of the March 2008 lecture, is far from being over, and the real economic crisis is only just beginning." (p. 331)

■ In his study entitled "Growth, the Euro and nonequilibrium", *László Csaba* examines the puzzle *why EU membership, contrary to expectations, has failed to lead to the speedy introduction of the single currency and, simultaneously, to the permanent sustainability of the catch-up process.* The development of new Baltic and Balkan EU states, which were characterised by fast growth for a long time in the years following accession, *has proven unsustainable*. In small, open economies, growth cannot become independent from the foreign balance of payments even in the medium run. In the countries examined, there developed a double digit current payments deficit in most of the years following accession. Thus, *growth was based on foreign sources to a significant extent*.

Despite the fact that in the group of the countries concerned, contrary to the policy based on constant fiscal overspending followed in Hungary in most of the first decade of the 2000's, *a much simplified version of the supply side approach advocated by the American Republican governments in the 1980's and, at the same time, the ambition to follow the political public mood, became characteristic.* As a consequence, the governments practically lack the means to put a halt to these processes. In these countries, the boom that has unfolded was led by the private sector; primarily by private consumption. The banks of issue have, to a significant extent, lost control over the monetary base. An active fiscal policy reducing demand during an overheated period has proven inapplicable. All these, together with the unfinished institution building, have contributed to the inflation pressure.

Therefore, it *was not the speedy accession to the Euro zone to be the real focal point of the economic policy* considering either Baltic or Balkan EU states: "the complex developmental-economic, institution building and Europeanisation challenges are given simple, almost simpleton responses. These are *speeding up growth and, in order to do so, keeping the tax burden low.* (…) Long-term development (…) should not be targeted at the all-times highest growth but at what is best in the long run and what is *principally sustainable and thus of high quality,* while keeping the balance in the environment, the society and in finances (…) in the two country groups examined, these requirements have not been implemented." – László Csaba points out on page 345 of the study quoted.

Among other factors beyond those mentioned above *playing a significant role in the economic derailment of the two groups of countries examined,* the author mentions the spirit of governmental non-intervention, a passive budget policy and the almost missing role of the state. At the same time, regulations, essential also under market economic conditions, especially the establishment of modern regulations for financial life, were also missing. It is an important point furthermore how serious a loss of authenticity the derailment that developed in the years 2007–2008, prior to the financial storms in the world, due to inner causes originally, involves. Is this incorporated in the expectations or do market players consider it a temporary phenomenon? But even in the latter case, the vulnerability that makes non-participation in the single currency union risky is left behind as a consequence. Finally, the governments of the examined countries failed to use the period of fast growth and of EU accession *for launching long-term structural reforms.*

In the political economic explanation for the failure to act, László Csaba highlighted, among others, the following factors: the tendency of being drifted by events, partly due to the lack of public consensus, the strengthening of the ideology of redistribution, the pressure of consumption postponed in previous years, and finally the fact that, because of the budget balance or excess, it seemed possible to postpone reforms.

The validity of the author's conclusions reaches far beyond the groups of countries examined. On the one hand, the tendency to treat institution building as non-urgent leads to a permanent slowdown of growth. On the other hand, besides exaggerated economic activism, non-action may also become a source of problems. (Especially if the latter couples with a regular excess in the state budget. Unlike in the countries examined, such a case certainly cannot be considered typical in Central Europe.) Finally, a permanent exchange risk and higher interest levels in the countries left out of the Euro zone lead to a permanently lower growth potential. The protection and the lower interest level following from the uniform currency system as well as the lifting of the balance of payments restriction are important conditions of sustainable catching up in small, open economies. Therefore, the question of "Euro or highways?", familiar also in Hungary, is not a real dilemma. Reducing economic policy to a few simple rules and neglecting more complex tasks, as is apparent also from the example of the countries examined, may bring only short-term results.

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The studies in this high-standard volume were written in 2008. Still, their timeliness has not changed. It is a book that not only economic politicians of the future but economists of the present and even a wider public interested in economic issues can learn from.

Despite the approaches of the authors inevitably different in several aspects, the book seems to offer *a consensus in the forming on several fundamental issues. A demand for deep and profound reforms and a critical economics aspect* are strongly characteristic of all studies.

While acknowledging the rich thematics of the book, it should be noted at the same time that the volume could not discuss several fundamental and interrelated problems of growth and reform. Moreover, the consequences of the global crisis that has unfolded since the studies were written also require comprehensive consideration. There is thus ample task left for the economists researching these issues and let us hope that the Economic Political Round Table will also continue operation.

The joint thinking would probably be even more efficient if the subjects to be examined were identified *more tightly.* Besides, a debate between the authors is an important element of the genre of round table discussions. It would be interesting to learn the opinions of the individual authors about each others' studies and the approaches therein. This discussion part of the meeting is less apparent from the book. The synergy hoped of the *settlement debates* may greatly contribute to more precisely identifying the fundamental problems and to determining the focal points of the unavoidable reforms.

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