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Our deficits

Academic inaugural address by an ordinary member of the Hungarian Academy of Sciences

The Hungarian society has been recently forced to face the consequences of the different tensions that have accumulated in the country. Despite the extremely disadvantageous starting position that Hungary occupied at the time of the political turnaround – both by international and regional comparison – Hungary managed to achieve more favourable transitional and development performances by the millennium than the other members of the former Eastern bloc. Hungary was especially successful at establishing the legal and institutional frameworks of the market economy, at integrating into the world economy, and at building external economic relations. This resulted in a successful catch-up process and a relative edge in Europe and in the region.

The value of these performances has been reduced and has been made uncertain for a long time by the prominently high state financial deficit experienced since the beginning of the century. The reduced interest demonstrated by the world of international business and politics in Hungary is mainly attributed to this deficit and the management thereof. At the same time, management conditions have become the major drive for the transformation of everyday life in Hungary. The shaping of the country's fate makes it necessary to look at the deeper roots of the unfavourable turn.

The science of economy was brought about by the scarcity of available goods. It is a universal truth that – in the absence of counter forces – the needs of the individuals and the societies grow at a faster pace than the available goods and services. This difference in dynamics is not characteristic for stationary, pre-modernisation societies, however it permanently accompanies higher-pace modernisation and catch-up processes. In addition to the given *development stage or development level, cultural and socio-psychological* features also contribute to the development of a consumption and saving willingness that significantly differs from the average rate. The *geographic location* is not negligible either. At the meeting point of more developed and less developed regions the growth rate in the demand level of the less developed country receives strong impulses from the more developed neighbour.

Due to Hungary's delayed historical modernisation, relative level of development and geostrategic situation, Hungarian economics encountered the balance problems arising from demand levels exceeding the growth abilities at a relatively early stage. *Lajos Láng,* member of the Hungarian Academy of Sciences, who occupied ministerial posts several times, and who was the founder and first president of the Hungarian Economic Society, was of the opinion as early as 125 years ago that the permanent financial imbalance, characteristic of the Hungarian economy, was attributed to social causes, namely the automatic copying of the consumption habits of more developed countries, the widespread presence of the gentry lifestyle, and spending just for showing off. The saying "The canopy is up, although there is no wickerbody" *(meaning: pretending to have more wealth than one really has – translator's note)* refers to the century-old Hungarian attitude and lifestyle. It is now a historical heritage that the scarcity of resources arising from – among other things – the low operational efficiency and irrationality of the nationalised economy in the former, socialist era, as well as from the relative growth in consumption, the so call "goulash communism" established with a view to making the people oblivious of 1956, and to making the power legitimate, led to serious external indebtedness. It was characteristic for Hungary that per capita external indebtedness was the highest, exceeding twice the regional average.

After the political turnaround, the historical traditions were sustained not only because of the resource requirements of transition and development, but also by the natural history of politics, and the increased freedom of the population for self-determination. The imbalance of state finances that has been typical for the last 16–18 years, and that has been especially severe in the election years, has merged the historically inherited gentry traditions with the political practices focusing on winning the elections. In the periods of 1990–2001 and 2002–2006, the public finance deficit relative to the GDP totalled 5% and 7.5% on average, respectively. In addition, the extremely low rate of household savings (2% on average) experienced in the past five years has led to a growth in external financing and external financial dependence. The elimination of the concomitant risks of financial collapse, the restoration of the impaired international credibility, and the radical reduction of public finance tensions can never be implemented without consequences. Restrictive economic policies are accompanied by growth sacrifices. According to the international experience, the rate of the growth sacrifice depends on the professional and political preparation and well-foundedness of the restrictions, as well as the schedule, strength and consistence of implementation. At the time of restrictions there is no free lunch.

Stringent budget policies are also rooted deeply in Hungary. Already Lajos Láng felt it necessary to emphasise that restrictions provide only a momentary protective measure that "hinders decline, albeit does not spur progress. It means a halt during a downhill ride, but also stagnation and strandedness in continuing economic development"[1]

The level of risks arising from the public finance imbalance has already been realised, and has been put into the focus of the current governmental activities. In the age of the global economy the financial sector's integration has been the fastest and most comprehensive. The current world economy provides evaluation primarily on the basis of financial indicators, wherefore the reduction of the financial deficit is a mandatory international requirement and national interest.

The "national characteristic feature" according to which "lamentation by our copatriots is in the first place, and the cause of lamentation comes only second" was formulated as early as in the 19^{th} century, and is valid even today. We have all the right to ask: do we pay sufficient attention and energy to revealing the deeper and more permanent causes behind the gap between the low income-generating ability of the economy and the use of said income, the gap between the financial imbalance and the slow pace of growth, and the inefficient exploitation of convergence opportunities that have opened up after the political turnaround?

The question of “spending much or earning little” was raised already by Count *István Széchenyi* in his contemplations on growth. Today Hungarian public thinkers find it critical that the current growth *dynamics* falls far behind that of the countries with which we shared the same history. Naturally, falling behind is not caused by the growth rate of a couple of years. In the period of 1989–2006, the GDP of Hungary grew by one third, which is considered as an average performance in the Central European region. In the 27-member European Union the dynamics of the Hungarian economy exceeded the average rate, per capita GDP grew from the EU average of 50% to 61%. The permanent financial imbalance, which is outstanding in Europe, does not show a direct correlation with the previous growth rate. We must dig deeper to find out more about the past and coming changes in the income-generating ability and dynamics.

THE DETERIORATION OF OUR HUMAN RESOURCES

Growth theory and education economic approaches in the 1960s emphasised that the main driving force of the current development was implied in the available *human resources* rather than in the abundance of natural resources or fixed assets investments. Historical experience shows that material wealth used to be the basic precondition for each culture. At the end of the last century the world came to a turning point: in the developed countries knowledge and culture became the preconditions for sustainable growth and the ability to generate income. The quality of human capital is shaped by long-term education and training expenditures, social impetuses, correlations of scales of values, i.e. the quality of training, as well as internal and external management. Naturally, these correlations existed at the dawn of human development, too, on the path leading from the tool-making man to *homo sapiens,* but by now they have become a determining factor.

In the last quarter of the past century the relative significance of *growth driving forces* has changed at an accelerated pace. In the period of the millennium, the ratio of products and services produced by a workforce having secondary and higher education qualifications exceeded 50% of the GDP of the developed countries for the first time ever. The economy of the world is proceeding on a knowledge intensive growth path. The latest Joint Progress Report of the Council and the Commission[2] also emphasises that the knowledge triangle of education, research and innovation plays a key role in growth and employment.

The knowledge based economy requires higher qualifications from the shrinking European workforce. Workers with lower qualifications are increasingly exposed to the risks of economic and social exclusion. Educational spending relative to the GDP grew from 4.7% to 5.7% on average within the European Union between 2000 and 2005. In our age, competitiveness can no longer be restricted to the fields of corporate economy and finance. Rather, it is social performance, including the cultural, training, education, moral and healthcare characteristics of the workforce. In this sense of the word it is justified to speak about *social competitiveness,* or social capital.

The major cause of the deficit in future potential development is represented by the trends perceived in the development of the Hungarian human capital stock. One of the most apparent negative records of Hungary's shortfall has occurred in the rate of *economic activity.* The average employment rate of the 15–64 age group was 64% in the EU-15, within which Denmark, the Netherlands and Sweden achieved 74%. With a rate of 55% achieved in 2005, Hungary is among the tailenders, and surpasses only Croatia, Bulgaria and Greece. In the period of 2000–2007, the number of employees grew by barely 2% following the loss of jobs in the wake of the political turnaround. The driving force of economic growth, especially industrial development, was the outstandingly strong growth of productivity, even by international standards.

■ The unfavourable economic activity rates of the Hungarian economy may provide a direct explanation for the adverse changes in public finances, since as a consequence, the tax and contribution revenues of the budget are also shrinking. The actual economic activity is presumably greater than the estimated European average due to the Hungarian grey and black economy, but the weakness of system operation can at best raise hope only for whitening the economy. At any rate, it is a solemn question why foreign investors who for a long time considered Hungary an attractive partner expanded their activities with capital intensive investments yielding savings in the workforce and increasing productivity, while the economic activity was low.

Capital intensive development can be connected to the level of labour costs, the scarcity of jobs and the quality of the workforce. In the period of 2000–2006, labour costs per working hour grew at the second highest rate in Hungary after Romania, and stand at the highest level after Slovenia.[3]

■ *Training* performances are favourable in Hungary in the quantitative sense. The rate of participation in secondary and higher education is good by European and regional comparison. What is more, the number of higher education students, which has quadrupled as a result of the former quantitative ideology, has become a source of tension in the absence of the creation of the necessary conditions.

However, in the so called knowledge based global society it is not the quantity, but rather the quality of human resources that serves as a main driving force. The economic performances of countries that managed to successfully develop in the past 25 years (South Korea, Ireland and Finland) are strongly correlated with the development of the quality of the educational and training system. Comparative educational and economic surveys conducted in the middle of the past century pointed out as a specific Hungarian feature that the quality and effectiveness of intellectual capital accumulation was significantly higher than that of production. However, the PISA surveys conducted in the past decade yielded embarrassing results, according to which *Hungarian students performed under the EU average.*

■ A shortage in the generation of human capital is also due to the weakness of *adult education.* Full social and economic integration is made possible by life-long learning, which also fosters creativity and innovation. In 2006, people involved in life-long training in the EU and in Hungary made up 9.6% and 3.8% of the population, respectively. In this respect only the Balkan states showed poorer performance.

■ Quality deterioration is also aggravated by the *structure of education*. In 2006, professionals with degrees in natural sciences or engineering made up 5.1% of the 20–29 age group, compared to the EU average of 13%. A further fallback is projected by the annual average growth rate of 1.8% in the number of people studying technical sciences, natural sciences or mathematics in the period of 2000–2005, compared to the average EU growth rate of 4.7%.[4] PhD training per one million inhabitants is the second lowest in Hungary (after Italy) among the OECD countries.

■ The shortfall is even more striking in the higher range of qualifications, i.e. in *research and development.* The number of researchers per 10,000 employees totalled 66 in the United States, 37 in the European Union and 9 in Hungary. On the cost side, the amount spent on research and development relative to the GDP was 2.7% in the United States, 4.3% in Sweden, 3.4% in Finland, 1.6% in Slovenia, 1.2% in the Czech Republic and less than 1% in Hungary.[5]

The comparative figures depict a specific *dual development paradox.* In 2006, the per capita GDP in Hungary equalled 61% of the EU average. However, the education and training indicators reach only 20 to 50% of the EU average. This means that the shortfall of Hungary is the greatest in the area in which the 21st century catch-up process sets the greatest requirements. On the other hand, the situation has turned around in the historical retrospect: *the shortfall in the level of human potential is much greater than in material production,* or in the income level.

In the period of growing performance requirements, this shortfall, which cannot be remedied in the short or medium run, will adversely affect the prospects of the long-term development of Hungary. It is indicative for the economic policy that the main problem of human resource management is not caused by the low rate of employment, but by the *employment ability* of the Hungarian workforce. Foreign direct investments, the development of more modern industries, the improvement of the structure of Hungarian production and exports are increasingly hindered by the lack of workforce with appropriate qualifications.

The quantifiable shortfall in the quality of human resources reflects contradictory distortions in the education policy. As a result of the quantitative developments of the past decade, a distorted, poor quality system of education came into being, which is also unable to meet the market demands. The quality revolution has not taken place, the downward process is gaining ground. As a result of wrong concepts, reforms launched for “relieving students from stress”, for fostering cheerful youth, as well as due to the adoption of programmes and methods that have proven to work in the United States, the thinking skills, motivation, preparedness and knowledge of today's secondary and higher education graduates are significantly lower than earlier. What is more, this happens in the period of stronger competition in the world economy and in the period of growing performance requirements. There is no “royal way” in education. Unfortunately, one must suffer for knowledge. The deterioration of the quality of training *a priori* hinders the development of the country in the increasing competition of the world economy, and at the same time it increases the chances for unemployment, being “unnecessary”, or at best provides those “qualified” to work as “semi-skilled white-collar workers”.

A competitive environment requires talent management. Education is a multifunctional activity. In the given environment of globalisation, in the period of knowledge-intensive world economic growth, the primary function of education is the generation of intellectual capital, the extension of knowledge and skill development as opposed to the performance of social policy tasks, alleviation of labour market tensions and the creation of equal opportunities. However, market fundamentalism ignores the fact that the rise of Europe, which began in the Early Renaissance, and the international positions it was able to hold for half a millennium were inseparable from the ideal European erudition, which carried a historical heritage in the broader sense of the word. Saying goodbye to this erudition ideal and the degeneration of knowledge in the Hungarian system of education and training pose risks, as well as social, political and life management conflicts today, and will pose even more risks and conflicts in the future. An EU member state cannot ignore that in the spirit of the Lisbon strategy, culture induces creativity required for catching up with the other member states, and a tool for the development of the EU's internal and international relations. Economists that know the realities of Hungary and the world have been claiming for a long time that education and culture must be organically integrated into the development strategies. It was stated already half a decade ago that the most important element of transformation into an information society is not technology, politics, or the financial background, but culture.[6]

DISTORTED SCALE OF VALUES

The plenty of examples of historical development have illustrated the correlations between economic performances and the social scale of values. Within the framework of the historical compromise of "goulash communism" the Hungarian population adopted the changes in the consumers' scale of values that were started in the US and became general in Western Europe, faster than the other countries of the region, in the precocious state of development, and today it regards consumption a basic value.

The impact of distortions in the scale of values can be less quantified statistically in terms of the deterioration of the quality of the human potential. In his latest book titled The Age of Fallability *George Soros* condemns the American lifestyle reminiscent of the Weimarian Germany, which is characterised by the uncontrolled pursuit of pleasures at the expense of morals and the traditional values. In Hungary the lost traditional values and norms of the nobility, the peasantry and the bourgeoisie have not been replaced by other values or norms. By European comparison, material welfare and the accumulation of wealth rank extremely high among the values pursued by the Hungarian population. In parallel with this, the importance of traditional moral values, such as freedom, honesty, reliability, law abidance, keeping to one's words, family and civilised human relationships is minimal. The decay of the formal moral values and the distortions in the scale of values represent a heavy burden on Hungarian development and economic policy, since they lead to decay in law and order, the high rate of people violating the law, evading taxes, looking for loopholes, as well as to the wide-spread application of deception techniques, and the resulting lack of trust, consumption rage, the strikingly low level of household savings, and the concomitant indebtedness and external financial dependence. This also contributes to the dividedness of the country, the alienation of the different generations, the conflict of individual, community and national objectives, too.

The scale of values is part of the social capital. Its shortfall means competitive disadvantage. The theoreticians of liberal capitalism started out from the theory that the market encourages hard work, moral uplift, responsibility, austerity, rational conduct and sobermindedness in general. The ancient Greek pedagogy was already aware of the fact that good conduct must be taught. The efficient operation of the market economy also depends on the society's level of education and scale of values. In their absence, the inclination towards excessive wealth, the pursuit of pleasures, state dependence and wangling break free and human relations erode.

The deficits of the scale of values are closely related to the decline of the society's system of education. Somewhat concomitant to the educational reforms, the educational (value-teaching) role of the school system has disappeared or weakened, the institution of the family, and as a result, its value-teaching strength is eroding, just like the former educational function of the military and the church. Television has become the major tool of social education.

Half a century ago, when *television* appeared in Hungary, great hopes were pinned on the educational, value teaching and culture disseminating role of television. Most of the television programmes produced in the past 15 years ruin values, taste and consciousness, they induce low standards, aggression, moral deficit and deviant behaviour. In Europe, the level of economic development decreases from West to East, but the number of hours spent in front of the TV set increases. From among the EU member states, Hungary ranked the highest on the list with citizens spending on average 4.5 hours a day watching TV, which significantly contributes to the increasing deficit of human capital accumulation, to the generation of effects that weaken the communities, as well as to indifference towards community interests. If TV-civilisation is the opium of the mass society, Hungary has already reached a critical level of addiction. At the same time, the plenty of hours spent in solitude in front of the TV or computer screen fosters the excessive atomisation of the society, the isolation of the individuals, and deteriorates the quality of human relationships, and that of life in the broader sense.

The decline of our human resources can be linked to direct utilitarian business interests. However, the long-term and efficient operation of political democracy and the market economy requires the revolution of human and social qualities. The educational, social, value-teaching deficits caused by a change in the scale of values also undermine the operational foundations of the institutions of political democracy and the market economy everywhere. It is a fundamental theoretical assumption of both the market economy and the political democracy that the individual freed from state intervention and guardianship can make rational decisions and establish rational life-management strategies, i.e. he is capable of *self-support.* As a consequence, the social reality that emerges due to eroding social education and training leads to *system incoherence.*

Umberto Eco cannot comfort us with his opinion according to which the world has embarked on the road to global ignorance within the framework of the global consumer society. High-income, established countries can live with the consequences of the weakening human potential for a relatively long period of time. However, accelerated convergence and performance improvement cannot be implemented without comprehensive intellectual renewal.

FALLING BEHIND IN TERMS OF HEALTHCARE

The increased role of human resources in competitiveness raises the value of the health condition of the population in economic terms, too. A large number of surveys have indicated the favourable effect of higher qualifications in the spreading of healthy lifestyle, and in the improving state of health. It was already one and a half decades ago that the economist sociologist *Rudolf Andorka* drew attention to the fact that the deflation of social values, aimlessness, the distortion and uncertainty of the meaning of life would lead to a rise in the physical and mental problems of the population. No wonder that the drop in human resources and social capital can also be witnessed in the population's state of health.

Half a century ago public health indicators and life expectancy were more favourable than in several Western European countries. In 2004, the life expectancy of men at birth was lower only in the Baltic states and Romania, while the life expectancy of women was lower only in Romania and Bulgaria.[7] Hungary's negative record in the cancer related mortality rate, or in the growth of citizens suffering from the symptoms of depression from 13% to 18% between 2000 and 2005 reflect social discomfort and chronic stress conditions. Similarly to education, healthcare also manifests the *paradox,* according to which the population's state of health is worse than it would be justified by the economic indicators.

CONCEPTIONAL DEFICITS

The spiritual heritage of the Treaty of Trianon was the wavering of the national self-confidence of the 19th century and the strengthening of the "satellite mentality" in the intellectual, political and scientific life. The frequently uncritical adoption, or *copying* of the ideologies, as well as the dominant scientific and political trends and institutional solutions of the great power in charge of influencing the fate of Hungary appeared already between the two world wars – not independent from the aspects of individual progress – and became dominant after World War II. In parallel with the softening of the forced mechanisms of socialism that once existed, the monopoly position of Marxism changed into a weakening hegemony position. Due to the increased economic and intellectual openness of the country, the power elite and the professional intellectuals showed primary willingness in accepting the western ideas, first of all the neoliberal "mainstream" ideas. Although the content of imported ideologies that have influenced country governance in the past, almost 100 year long period has significantly changed, the majority attitude and spirituality towards the mainstreams of the great powers have remained the same. This mentality can be seen in the relations of some members of the current intellectual elite to the political parties.

The increasing autocracy of the so called *economic mainstream* is a special Hungarian feature. In the former COMECOM countries the theoretical, economic policy and practical room for manoeuvring of neoliberalism is narrowed in part by the traditional social democracy, nationalism, and in part by the system of ideas. The larger scale continuity of the Hungarian economic elite, the power of business entities to obtain governmental positions, the devaluation of the role of the state and public administration, the manifestation of corporate management methods and interest relations in public administration, and the scale of values based on direct utilitarianism are much stronger and visible in Hungary than in the other former socialist countries of the European Union. This factor must have contributed to the fact that development policy has become an insufficient dimension in the target system and tools of the Hungarian economic policy.

The efforts made to adopt the intellectual trends of the great powers that have developed in different social and economic conditions, or the solutions of institutional systems and management techniques overshadowed or blanked off the development and operation of a system of rational social and economic ideas, objectives and institutions that could be based on the development history heritage and characteristic features of the country, as well as the manifestation of national characteristic features and interests in the processes of transition, integration and convergence. The suppression of the historical approach can also be perceived in a great number of fields of applied economics and economic policy. It is especially deficits related to the state's role, the strategic way of thinking and the social factors of competitiveness that deserve the most attention.

After the decades of economic management by the state, the "horse nation" of Hungary made a great "equestrian" jump by revaluing the approaches aimed at curbing the role of the *state*. By by-passing the historical approach it is being forgotten that the role of the state is always age specific, it relates to the main contentual challenges of the given era, and the given level of social and economic development. During the development of capitalism, based on the development and historical heritage, different models of the market economy appeared in the Anglo-Saxon countries, Scandinavia, South and Central Europe and in the developing countries. Although there are strong trends for the universal acceptance of the system specific features of the Anglo-Saxon capitalism, the differences in the models are striking even in today's globalisation.

Globalisation has not been able to wipe out the different forms of the practice of public power in Asia, Latin America, in the different regions of Europe, or in the United States. At a high level of economic development, the availability of developed market mechanisms and the presence of strong and efficient voluntary organisations may narrow down the tasks of the state and public administration. However, at a lower level of economic development, especially in the period of historically dilatory modernisation and convergence, the role of the state cannot be dispensed with. This role is also shaped by the given period of the economic cycle. At the time of crisis or recession there is strong social pressure on the broadening of the state's functions, while in undisturbed prosperity the opposite can be perceived.

Experience shows that unrestricted markets can be efficient in the distribution of resources according to private needs, but they perform weakly in serving and protecting the public good, common needs, legal order, stability, the natural environment, raising families and the national interests. It is a specific Hungarian feature, a national policy requirement to integrate and protect the interests of ethnic Hungarians living in the Carpathian Basin by cross-border developments and the creation of regional cooperation structures.

As a result of the increased intertwining of the national economies the fate of the different countries, regions and areas of activities is influenced by their *competitiveness*. According to the current mainstream of economic science, competitiveness is a corporate economic or financial category. Competitiveness is measured on the basis of prices, costs, exchange rates, taxes and the quality of the business environment. There is no doubt that products and services compete on the markets, however the outcome of this competition is increasingly influenced by the background environment of product manufacturing and distribution, as well as the performance of the underlying public administration, education, environmental and social supply subsystems. The requirement of competitiveness, which is getting more and more complex, goes by far beyond the corporate economic frameworks or the direct financial indicators. A high speed catch-up process usually goes together with the growth of social inequalities, the processes of falling behind and the concomitant destabilisation risks. Successful integration into the world economy requires the containment and prevention of internal disintegration. The successful development of the economy requires the consideration of comprehensive social correlations, as well as the promotion of *social competitiveness* and social capital accumulation.

The various components of competitiveness that are often impossible to be quantified or summarised in models, can be successfully harmonised only in a comprehensive *development strategy* system that is adjusted to the realities of the world economy and the local endowments. According to historical experiences, the values helped in the interpretation of the world, as well as the social and economic realities, in social integration, and in the development of the individual and the common visions. Is this not connected to the fact that the political elites are apparently uncertain about what Hungary or Europe we want? The country becomes vulnerable if it has no acceptable vision or action plan in the period of the apparently accelerating transformation of the world economy.

As a specific response to socialism, the strategic approach, the system of long-term economic and social objectives, the system of objectives, tools and organisation used for determining Hungary's international and European position, as well as reasonable specialisation have disappeared. The process of decline was halted, the resources that can be obtained from the EU were distributed, and the reforms needed for the reduction of the public finance imbalance were launched without a longer term development strategy. Original solutions, the practice of "project Hungary" do not substitute strategic planning. The resource allocation and the organisational system lack a ranking of objectives, and concentration. The history of economic development has demonstrated many times that the situation, problems and room for manoeuvres are specific for each country. The known consequences of the universalistic economic policy proposed for decades by the international financial institutions well indicated that it is not recommended to copy economic policy recipes that were assumed to work everywhere and at every time. A development strategy is especially required for long-term processes that are gaining importance, for human capital accumulation, infrastructure development and the success of restructuring.

THE DECLINE IN MANAGEMENT QUALITY

A directly unquantifiable, yet important factor of the quality of the human sector is the *management*, organisational and decision-making sector. Good governance, which is being urged internationally, too, plays an important role in international competitiveness. The unfavourable performances of the competitive economy reflect not only structural organisational solutions. In long-distance car races falling behind can be caused by design problems, resource, i.e. fuel problems, problems with the level of the driver's skills, direction, travelling speed, fuel consumption or the braking technique. No wonder that not learner drivers are put behind the wheel of race cars.

Contrary to the expectations, professional management aspects did not gain ground after the political turnaround. Counter-selection processes can be perceived at corporate management, party management and governmental level. Furthermore, loyalty and personal aspects prevail at the expense of professional and human merits. The demand of large companies and politics alike is shaped by understanding and loyalty instead of competence. The current counter-selection is typical not only for the demand level of the management, but is also reflected in the weaker foundations of the decisions, as well as the concomitant operational malfunctions of the society and the economy. The level of governance is reflected in the sluggishness and deteriorating efficiency of the various administrative processes, the weak enforcement of the control functions, the weakness of the preparedness, conceptional frameworks, in the schedule and implementation processes of various programmes, in rising alienation, in the increasing social apathy, as well as in the weakening of international trust in Hungary.

It is an international phenomenon that capital that has strengthened its bargaining position in the past 25 years is making efforts to win political parties and exercise indirect political influence. In the past years specific structural and functional changes have developed in the Hungarian political arena, too. The representatives of the Hungarian Big Business, which came into being after the collapse of communism, were often functionaries or appointees of the former political system, who formerly indirectly represented and enforced their interests in the political power. However, it is a new, milestone phenomenon specific for today's Hungary that the players of the business world are enforcing their interests not only indirectly, but increasingly *directly*, by obtaining direct political power.

Country governance relies on proven business management methods only in the Anglo-Saxon countries, especially in the United States. In Europe, or rather in countries with deeper European or own historical traditions, the country is governed with public administration methods.

In the past years Hungary has broken away from the majority public administration practice established in Europe. The strengthening integration of the political and business sectors indicate specific management problems. The management technique of centralised corporate management and that of a governmental system based on the fundamental principles of democracy are far from being identical. The risks of the latest public administration novelty, i.e. the appointment of businessmen to state positions, are also increased by the fact that the social acceptance of "successful businessmen" or owners is much less favourable than the European average. A significant portion of the Hungarian society is not convinced about the fact that there are real performances behind personal enrichment, acquisitions and income relations reached in the past two decades. It is disputed whether the enrichment techniques of the past two decades are sufficient for management competitiveness indispensable in the global competition, and especially for the good governance of the country. Management quality is not enhanced by the attitude either, according to which the tasks and roles of the management are identified as communication, and which focuses its energies on communication instead of good decisions, in order to disguise decision-making deficits. The two-millennium-old Roman wisdom "non verbis sed factis opus est", i.e. *deeds not words are needed* has been turned upside down.

Our management deficits also have a *generational* implication in the broader social spectrum. Getting acquainted with management skills, experiences and techniques, as well as the broader internal and international correlations required for successful management is usually a time-consuming task. This is not typical for the younger generations that have experienced "extended adolescence" and have grown up in a weaker educational system than former generations. It is often experienced that young company managers show rather limited social responsibility for their companies. It is an old philosophical statement that the frequency of mistakes is unavoidable without perfect knowledge. This means that there is a strong correlation between the knowledge deficit and the frequency of mistakes. It is not a groundless question whether the lack of preparedness, the ad hoc nature and simultaneous introduction of the reforms on multiple lines, as well as the weak implementation of the reforms could be related to the pool of young political and public administration leaders that have a weak knowledge about international experiences, techniques or country specific characteristics.

In revolutionary times the age structure of managers and decision-makers shifts to younger generations. In years of peace such a shift leads to overmovements and frequent wanton changes due to the lack of experience and the characteristic feature of the age groups affected. For the current and future stability the strengthening opinion according to which it is high time to put an end to the "revolution of the young Turks" is not too fortunate. The expression "horrible party membership" was coined in Hungary in the mid 1990s. The recent concept of "horrible Hungarian political elite" has been conceived by international decision-makers and analysts, and it also reflects in the country risks.

This means that specific *changes* can be perceived in Hungary's development within the European region. Contrary to the situation that characterised most of the 20th century, today Hungary lags behind Europe more in the human sector than in material production. In the four decades following World War II, development was mostly hindered by the unfavourable external conditions, the little room for manoeuvres due to the coercive politics of the Soviet empire, and the resulting loss of position in the world economy, the distortion of the economic structure, and the deterioration of the external economic performance. Recently, the external conditions of development have improved, the traditional market problem typical for small countries has disappeared due to Hungary's accession to the EU, the opportunities to acquire external resources have widened, the country's geostrategic situation has improved, and thus Hungary's best performances are linked to the external economic sector. The country demonstrates a specific dual correlation with the Balkans. Our economic relations with the Balkan states are expanding at a high speed, however our human resources are beginning to show Balkan features: they are lagging behind Central Europe. In other words, it is not ill fate, unfavourable astrological conditions or the scarcity of monetary capital to blame for the deterioration of Hungary's position. The dilapidation and setback of our human potentials cannot be explained by external causes. The deficits are in ourselves.

In a moderately developed country longing for convergence the decline of culture, social values and vision is a *paradox of development history.* The hedonistic, occasionally self-destructive lifestyle, the increasing spread of aggression and irresponsibility, growing corruption, the abuse of political, economic and communication power, as well as the abuse of social capital is a symptom of social degeneration reminiscent of the late Roman Empire, or the Weimarian Germany. In the antiquity, the consequences of this process appeared in a time period of several centuries. In the past century, which developed at an accelerated pace, the historical tragedy that appeared as a reaction to Weimarisation occurred within a decade's time. "Woodworms" have already activated themselves in Hungary, too. The country's room for manoeuvring has narrowed down. We can choose between measures that are unpleasant in the short run, or measures that are unbearable in the long run. The operational model of our society and economy is far from being perfect. It cannot be reformed by minor retouching here or there, or with "pars pro toto" approaches. The proliferation or efflorescence of Baudelaire's flowers of evil would require immediate and comprehensive social "pruning". The science of economy and the economic policy are no longer able to successfully shape the conditions of sustainable, fast-pace development and convergence by themselves. The problems of the economies cannot be remedied detached from the society.

It cannot be neglected that contrary to the situation in effect two decades ago, Hungary has no assets that could be privatised without political destabilisation, i.e. the privatisation buffer has disappeared. The strengthening of regional competition, the increasing profit repatriation, the decline in the ability to attract capital investors, and the need for improving the financial balance provide economically less favourable frameworks for renewal. The way out or cure can only be provided by the revaluation and ennoblement of human resources. The obstacles to and deficits of the development of the nation can be removed by the society's and our own comprehensive moral, political and conceptional renewal, by consensus based culture, a vision developed on multidisciplinary scientific foundations, and the consistent implementation of a longer-term national strategy. That we can change our fate is not a dim hope yet.

Notes

[1] Lajos Láng: Társadalmi deficit Bp.1881. 57. (Social deficit)

[2] Joint Progress Report of the Council and the Commission, Sec. (07/1484, 07/12/11 Brussels)

[3] Versenyképességi Évkönyv (Competitiveness Yearbook), 2007, GKI Economic Research Co.

[4] Joint Progress Report of the Council and the Commission, Brussels

[5] Mérlegen Kelet-Közép-Európa 15 éve, (Fifteen years of Eastern Central Europe on the scale), HCSO, 2006

[6] Castells, M. – Himanen, P.: The Information Society and the Welfare State, 2002, Oxford University Press

[7] Mérlegen Kelet-Közép-Európa 15 éve (Fifteen years of Eastern Central Europe on the scale), HCSO, 2006