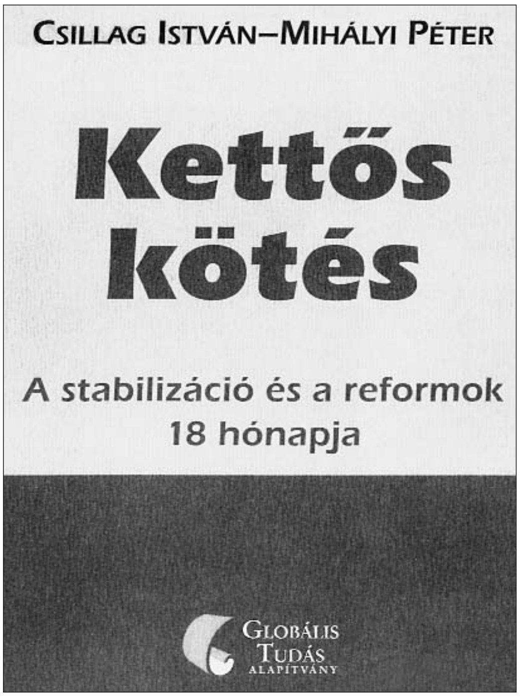
István Csillag – Péter Mihályi

Double bind

the eighteen months of stabilisation and reforms



GLOBAL KNOWLEDGE FOUNDATION
(GLOBÁLIS TUDÁS ALAPÍTVÁNY), 2006

Hardly can a book be more topical than this small-format, 144-page booklet written by *István Csillag* and *Péter Mihályi.* The proposals which are outlined in the book are very similar to the ones tabled by the government and caused a great political stir throughout the country. This cannot be a coincidence. The ideas described in the book and the authors themselves must have had a considerable effect on the government's proposals, or in fact on its measures, and thus on the political events that followed. This book must necessarily be reviewed by bearing in mind the above.

There is a reference to this obvious relationship even in the Preface. We can read there that the book is a "triple mixture". The authors make the following statement in the Preface: "On the one hand…we have tried to meet the requirements of thoroughness and objectivity that can be expected from a scientific essay. On the other hand, we have aspired to explain our proposals in the simplest possible way in order that…they are convincing even for those whose only source of information is newspapers. Our book is also meant for politicians. After all, we would like the political elite and the government to take our proposals to heart." (Page 10) There cannot be a more specific reference to the fact that the book serves direct economic policy purposes, or even political purposes.

The underlying, theoretical principles of the book are set out in the sentence before the title page written as an epigraph instead of recommendations and they are also presented in the Preface. This epigraph-like sentence reads "This book has been written in the interest of our children and our grandchildren." In technical terms, it means that the book basically addresses the issues of income distribution between generations. At the same time, we can read right at the beginning of the

Preface, in the second paragraph and directly after it that the considerably inflated and substantially increased general government deficit leads to the risk of currency crises. "Due to the inflated condition of public finances (weighing more and more heavily on the economy) even the business sector whose performance is good even today is under threat now." (Page 8) Twin deficit "has arisen due to the excessive size of general government and to the implementation of good political intentions using the taxpayers' money. ...The processes giving rise to the formation of twin deficit are nurtured by the survival of the Kádár-era redistribution." (ibidem) There is no need to explain this in technical terms. This view implies that the principal problem lies in the general government deficit, which generates the current balance of payments deficit and all the other problems. Furthermore, it means that the solution is to decrease public expenditures and redistribution, thus substantially cutting back the welfare state or at least partially eliminating it.

Based on the aforesaid, the present writer finds it necessary to make it clear at the very outset of this review that it is impossible to write a review on this book without formulating a standpoint and challenging the views expressed in it. Therefore, I must state here and then that I fully agree with the first of the two fundamental principles quoted. This country manages its economy to the detriment of the generations to come and consumes the future, which is intolerable in my view as well as according to the teachings of economic science and based on common sense. I must also state that I consider it unfounded, or in fact a hasty judgement that "the considerably inflated and substantially increased general government deficit" (page 7) is the cause of every problem and that is why "the risk of currency crises" has also emerged (ibidem). I hold the same about the statement that "due to the inflated condition of public finances…" (page 8) "even the business sector whose performance is good even today" is under threat (ibidem). I consider the view, which is closely related to the above subject, particularly unfounded, according to which "the twin deficit as it is called in specialised literature, i.e. the parallel deficit of external and internal balances -" (ibidem) "has arisen due to the excessive size of public finances and the implementation of good political intentions using the taxpayers' money" (ibidem). So I think that the statement, according to which all problems are attributable to only one reason or to only one main reason, i.e. "the inflated condition of public finances" (ibidem), leads not only to unfounded but wrong economic recommendations. Therefore, I regard it as unfounded and in fact a hasty judgement that the solution lies in reducing redistribution and substantially curtailing the welfare state. There is empirical evidence that the external imbalance is mostly an independent problem and its solution may not come from the reduction of redistribution. At the same time, the answer to the question of maintaining or reducing the welfare state depends mainly on value judgements, thus it is a political issue, which needs to be addressed by taking account of considerations that go beyond the area of economic science.

Despite what has been written above, the present writer fully agrees with the authors' other ideas outlined in the Preface. It is true that the reduction of contributions and/or taxes cannot be a good point of departure (page 9). Instead – although it is not stated by the authors here – it is necessary to raise taxes and it has actually been carried through. I also completely agree with the remark that "the national and local political elites, as well as other public opinion shaper groups – media, circles around the political parties – further fuel tensions" (page 12), and that this has to end. We cannot agree more with what has been written about the question of the individual, voluntary savings falling short. (Page 14)

At the same time, I am strongly against the conclusion drawn in the Preface: "We look upon agreement, consensus as a result of action rather than a prerequisite." (Page 13) This is the declaration of the anti-democratic or even unrealisable principle that reforms should be carried out without consensus and without or in fact against the support of the general public, namely people are to be made happy against their will. This invokes the spirit of a failed experiment. This principle is impracticable, because even the best reforms may fail or, to put in more harshly, cannot be pushed through without consensus or at least a minimum consensus. Finally, this principle is also unacceptable in scientific terms. The reform concerns the interests and conflicting interests, the value judgements and differences in value judgements among various groups of the society. In such questions there is not only one single undisputed scientific truth that is to be asserted without achieving consensus or even by force. Instead, the solution can be worked out in the course of democratic political processes. According to modern social science, the solution is path dependent: it depends on the historical background and the ensuing public opinion, or actually on mentality. Some countries function fairly well with a smaller scope of redistribution, others with a larger scope of redistribution, and they cannot be made adopt the institutional conditions of the other. I think therefore that the basic concept, which prevails throughout the whole book, is unacceptable, i.e. there is only one optimum solution that applies to all countries and that is to be applied under any circumstances. It is therefore indispensable to attempt to achieve the largest possible consensus, and where there is no chance for wide consensus, the solution may be reached through democratic decision-making processes and with the support of public opinion.

As I have made such pronounced critical remarks as early as in the introduction, I should here and then mention the merits of the book, too. The authors undertake to do something that – as far as I know – no-one has so far ventured to do in Hungary: they put forward specific and consistent proposals for the range of problems as a whole. Moreover, although the basic concept, which I have already described and criticised above, prevails throughout all those proposals, the actual details are often concrete and less ideological than the Preface. So I highly recommend, already at this point, that this book should be read.

Let us now turn our attention to reviewing the book; I shall make my additional remarks after the review.

■ *Chapter I is entitled 'Detailed Diagnosis',* however, some proposals are presented as early as here. It starts from the principle that there are ten-year cycles in Hungary and there is a need for overhauling the system and for reforms in every ten years. The chapter sets forth the cause of the problems, i.e. the political elite's struggle for obtaining the votes, and it identifies the most important elements of the problems: budget deficit and current balance of payments deficit and the insufficient level of household savings. It is emphasised in the sub-title that "There is no alternative to equilibrium". (Page 19) It is also stressed that "the stabilisation and the change must be firm and concentrated on a relatively small period of time, but it must also be effective even in this phase..." (page 24). Then, based on the figures of the Central and Eastern European countries, the authors maintain that "the lower the levels of distribution and deficit, the higher the rate of growth." (Page 25)

The remaining section of Chapter I is clearly challenging the present system of public burden-sharing and the social security system. It lays down the fundamental principle forthwith: "It takes several insurers to make it work..." (page 27), consequently, social security must be transformed into a system built on the competition of several insurance companies. This is inescapable for "more and more throw off … the yoke of forced solidarity,…for this reason, the financial balance of funding has by now toppled to such an extent that it threatens public finances as a whole." (Page 28) This is followed by a long description of "how public burden-sharing can be evaded in 2006" (page 31). Then an analysis of the effects of demographic changes is given (page 33) with the conclusion that "the pension reform was not able to create the institutional guarantee for the long-term balance of the state pension system." (Page 37)

The next sections that discuss the issues of education, unemployment and demographic policy contain specific proposals. "The present situation is absurd..." and "...it can be changed by regrouping the majority of state subsidies from higher education into elementary and secondary education." (Page 38) A direct consequence of this is the abolishment of the gratuitousness of higher education, for the present situation leads to the deterioration of the quality of education, and thus "the time when the first child is born is inevitably delayed, which will eventually result in the decline of the average number of births." (Page 39) As regards the development of social imbalances, the authors state: "An overwhelming majority of the Hungarian general public found the imbalances excessive as far back as in the mid-90s. What is more, prominent representatives of the political elite talked about the political divide of the country back in 1989." (Page 40) Yet, they continue as follows: "We assume that the income and financial differentials are going to rise for some time in the country." (Page 40) All this is inevitable because "the state economic policy is not sovereign." (Page 42) Chapter I is concluded with a lengthy argumentation in favour of diminishing the role of the state.

■ *Chapter II entitled 'What Should Be Done'* carries on with these arguments. It prints in a frame a famous quotation from Ronald Reagan's first inaugural address of January 20, 1981 that reads: "the government is not the solution to out problem." (Page 51) Although I want to stick to reviewing the book in the next paragraphs just as before, I cannot resist the temptation to voice my basic criticism here. The *Thatcherite-Reaganite* insistence on the rigidly anti-state free-market fundamentalism was a subject of ridicule even at the time of *Bush* Senior, and it became a definite laughing-stock during the *Clinton* Presidency, and remained so in the 2000s. According to the modern development theory, the government has a decisive role in a society's adaptability to the challenges of today's global economic changes. Going bankrupt is caused primarily by the bankrupt government in the Soviet successor states, in the Western Balkan countries and in sub-Saharan Africa and elsewhere, like in several Latin-American countries. The excessive anti-state position and its justification by the 1981 quotation from Reagan is therefore an old-fashioned standpoint. The book under review also cites – quite rightly – the introductory words to the quotation: "In this present crisis..." (ibidem). Consequently, even Reagan did not say that the problem is always the government.

The first part of Chapter II, we have just discussed, deals with general economic issues, while the second part dwells upon the large social distribution systems. The authors gave a questionable title to the introduction to the first half of the chapter: 'Smaller Debt, More Investments', and – again questionably – they write that "people …. must save more." (Page

49) In the authors' view "the programme of the change, consolidation and reforms (should be implemented) during the first 18 months of the government which comes into office after the general elections..." (page 53), because after that the government should turn its attention to preparing for the next elections. The book specifies the major tasks to be carried out during that period of time. The authors think it necessary to establish the Budgetary Council in order to solve budgetary problems. (Page 52) "The Budgetary Council consists of seven members. Its members include the Minister of Finance and prominent professional experts appointed by the Prime Minister …Members of the Budgetary Council – except the Minister of Finance – are not obliged to accept instructions from anybody." (Page 58) "No proposal can be put forward to government …without the prior opinion of approval of the Budgetary Council." (Page 57) The important or even principal goal of the change, consolidation and reforms is accession to the euro zone. A condition of this is to lessen the centralisation of revenues in the hands of the state by almost 1.5–2 per cent in the coming four years, and to reduce state redistribution by nearly 5 percentage points." (Page 59)

Then, quoting *Kornai* in the first place, the authors describe in detail their views on sector-neutral taxation. I am probably not mistaken to think that the gist of the proposal is that "the uniform rate of the personal income tax, VAT and enterprise profit tax should be established somewhere within the bracket of 20–23%, and it would be desirable if the rate of social security contributions were not substantially different from that." (Page 64) The authors emphasise that "sector-neutral taxation does not mean the application of only one tax rate, the introduction of a one-tier system even in the area of income taxation" (page 65), furthermore they stress that the intention is to complete this system with strongly progressive inheritance taxes. Proposals relating to the local government reform and to PPP-financing complement this analysis.

This is followed by the second half of Chapter II, which addresses the reform of the pension system and the health-care system. The starting point is that "the pay-as-you-go….system leads to irresponsible promises and over-distribution" (page 72), and that "there are also great risks in the health insurance fund and pension fund solution which is generally applied in the United States." (Page 73) Consequently, "only the systems that are independent both of the government and enterprises, and that are operated by insurers based on individual accounts and capital accumulation are capable of making people adopt reasonable and long-term strategies." (Page 73) The authors add that "a combination of self-provision and state support is implemented everywhere. It is clearly desirable that in the wake of redistribution, greater subsidies are provided to those in need in proportion of their social needs, while smaller or no subsidies to the well-to-do." (Page 74) This proposal is explained by stating that "contributions are not public funds, the individual can select the pension fund and health insurance fund, …the monies paid in by him are kept on an account under his name, and he has free disposal over that account within certain limits." (Pages 74–75) It continues: "Health-care and pension are the two areas where the relationship between payments and benefits are relatively easy to understand for all adults. …So let it be a pensioner or farmer – all labour incomes should be fully subject to personal income tax and social security contribution liabilities." (Page 75)

Then the details pertaining to pensions and the health-care are discussed. Technically speaking, the essence of the proposal is that, for the sake of clarity, all incomes are to be grossed up, and contribution is to be paid after and documented for each income on individual accounts. Quasi-contributions of less importance are to be abolished. "The 'health ticket' – today called as health contribution (abbreviated as eho in Hungarian) – (which gives entitlement to use basic health-care services) is an expense to be paid by all across the board." (Page 77) "The statutory retirement age has to be raised from 62 years to at least 65 years." (Page 79) The calculation of pensions must be adjusted to the income earned throughout one's career, i.e. to the payments made, rather than the so-called last earned income calculated with some sort of formula. "…we need stringent rules to access any forms of early retirement. …Those who can continue working, should not enter the pension system!" (Page 80) At the same time, the health insurance service package will have to be broken down into three parts. Pillar No. I, the group of services, falling under the so-called state pillar, does not constitute a part of the health insurance system. …Pillar No. II or the basic pillar would include frequent, generally accepted procedures and interventions. …Finally, a third, so-called risk pillar would be created to include health-care services that are exceptionally expensive." (Page 81) This paper cannot go into the further details of this subject.

A quotation from *Lajos Bokros* serves as the motto of the section dwelling upon employment, which – similarly to the Reagan quotation – is highlighted in a frame: "If higher education is gratuitous to those who receive its blessings, then this investment with a considerable probability of return has to be financed from the budget into which taxes are paid by also those who will never benefit from it." (Page 86) It is followed by the authors' comments emphasising the excessive proportion of higher education. They state that the basic problem is not the situation of higher education, but rather the problem is that "20 per cent of the current population is entrapped in the low educational level." (ibidem) Therefore, "the fundamental goal is to make sure that the possible largest proportion of younger generations receives a school-leaving certificate, because without that they cannot even be employed at large enterprises on the production line!" (Page 87)

This chapter is closed by the section entitled 'The Interaction of Fiscal and Monetary Policies', which is to some extent an introduction to the calculations presented in the Annex. Here, the authors explain that there is a chance for the emergence of currency crisis attributable to the fact that "confidence vested in the Hungarian economy collapses in the form of a shock," which "inevitably induces the escalation of inflation." (Page 88) The only comments the authors make here is that as a result of the above "it is possible that…spontaneous euroisation gathers further impetus when households and enterprises, in large numbers, transfer their assets from Hungarian Forints into Euros as a resort." (Page 90)

■ *Chapter III headed 'Social Impacts'*, which is cut rather short, does not primarily deal with the issues referred to in the title. Instead, it repeats more firmly the authors' views regarding social consensus. "Have we got *the so-called* necessary political and professional consensus?" (Page 91, italics mine, Gy. Sz.) – they pose the question. And they give the answer right away: "There is, as a matter of fact, *no* such *consensus, and there is not going to be.*" (ibidem, italics in the original.) "The situation is similar to that when new scientific theories gain ground against the old ones. "A new scientific truth does not triumph by convincing its opponents and making them see the light – writes *Max Planck* in his Scientific Autobiography – but rather because its opponents eventually die and a new generation grows up that is familiar with it." The task of the then government is to take – having parliamentary majority –

the decisions deemed necessary by its own apparatus and its own advisors." (ibidem) "There is no reason to be afraid of public opinion either. …the pension reform prepared in 1996–1997 and formulated in 18 months almost as quickly as a coup had not a jot affected the 1998 general elections. …The reform process, the government action itself …have the power of achieving consensus. …If there is a reform, then its political marketing can also be worked out…" (page 92) Thus, the authors are convinced that their set of proposals is a scientific truth, and that the government, having parliamentary majority, has to implement the proposals without being afraid of public opinion. These are dangerous views, and we are going to come back to their assessment.

The substance of the book ends with this, and a personal epilogue and two annexes follow the three chapters treated so far.

■ In the *Personal Epilogue* István Csillag essentially offers an explanation to why he failed to carry out the ideas outlined in this book at the time when he was a member of government, quite an influential one. According to the personal epilogue, there are two reasons for that. The first is "...the greatest ills are the elimination of democracy and the prevention of a populist dictatorship..." (Page 95) The second is that: "The smaller coalition party has no other means than withdrawal from the coalition, or any hint to such blackmailing..." (pages 95–96), which was not advisable to do under the given circumstances. This means that in his judgement the dominant coalition partner was responsible for the failure of the necessary reforms. Annex I refutes the false assumptions and wish-dreams, and one can generally agree with what has been stated there.

■ *The second Annex is entitled 'Detailed Calculations'*, but it does not give account of these detailed calculations; it only sets out their results or perhaps the basic assumptions behind them in a tabular form. The textual part gives an overview of the steps that are necessary to restore the budgetary equilibrium, and then it provides a comparison of the "reform path" and the "collapse path". The first is the scenario without the evolution of currency crisis; the second assumes the occurrence of currency crisis. Hoping that the currency crisis can be prevented, we are going to concentrate on the reform path in the following.

The author's conception and its consequences can perhaps be best illustrated by the tables showing numerical values. Accordingly, in case of the reform path, the rate of GDP growth will decline by 2.5 per cent in 2007, at unchanged price, due to the disincentive effect of the restriction, and it will stabilise at 3 per cent in 2011. This rate differs very little from the expected growth rate of the EU-15, and it is likely to fall behind that of the EU-25. This means that based on the authors' assumption, no real convergence is to be expected until 2011. They also assume that in the total absence of real convergence the negative balance of the main items of public finances will diminish steeply, and then the balance will become positive exactly in the year before the general elections, in 2009. This positive balance will continue to increase in 2010, in the year of the general elections and in the year after, and in 2011, the positive balance will attain 16.8 per cent of the central budget revenues and 9.3 per cent of the revenues of the whole government sector. This writer have not yet heard nor have presumably others heard about the revenue surplus amounting to 9.3 per cent of the budget of the whole government sector and 16.8 per cent of the central budget. Nor did he hear about the possibility of turning the present central budget deficit of 20.5 per cent, expressed as percentage of revenues, into a surplus of 16.8 per cent in five years – from 2006 to 2011. In the case of the total budget of the government sector, this presumed change would entail transforming the 11.4 per cent deficit of 2006 to a surplus of 9.3 per cent by 2011. These figures cannot be regarded as realistic, nor can they be taken for the starting point of any realistic analysis.

Continuing with the analysis of the figures disclosed in the book and with the above train of thoughts, we cannot hold it to be realistic that in 2011 the total budget of the government sector spends 10.1 per cent of its revenues and the central budget 18.2 per cent of its revenues on debt repayment when, according to the 2006 adjusted figures shown in the authors' table, the growth of debt stock amounts to 18.5 per cent of the revenues of the total budget and to 10.4 per cent of the central budget revenues. Additionally, in this case the figures of the central budget are to be taken into account since the debt stock of local governments and social security funds is negligible. The present writer has no knowledge of any precedent anywhere or any time in which 18.2 per cent of the central budget revenues would have been spent on debt repayment rather than debt servicing, a figure which is to be supplemented by interest payments, which are also considerable in size, but which are not quantified by the authors. It is totally inconceivable that according to the adjusted figures, the debt stock growth amounting to 18.5 per cent of the central budget revenues in 2006 could in five years be converted into a debt stock reduction amounting to 18.2 per cent of the revenues by 2011. These numbers are unrealistic, and if this is so, then consequently, the following row of figures is also necessarily unrealistic: according to which figures the gross debt of the central budget, expressed as percentage of GDP, will drop from the adjusted value of 61.3 in 2006 to 40.4 per cent in 2011. These numbers are out of touch with reality, there is no historical precedent to prove that changes of such magnitude can be accomplished within such a short time.

So where does this really horrendous surplus in expenditure come from, and what is the source of expenditure designated for debt repayment? In the authors' view, they can be generated by the radical reduction in the expenditure items of the general government. Based on the authors' assumptions, the major expenditure items of the general government, expressed as percentage of GDP, will be down from 61.6 per cent in 2006 to 46.9 in 2011. The gross sum of the expenditure side will drop from 32.3 per cent to 22.9 per cent in the central budget, from 12.5 per cent to 11 per cent in local governments, from 6.5 per cent to 4.4 per cent in the health fund and from 8.8 per cent to 7.7 per cent in the pension fund. It is quite inconceivable to implement such a transformation especially without the presumed real convergence. The authors fail to specify the reduction of which expenditure items of the central budget is assumed to produce such a steep decline in total expenditure. Taking account of the present status of health-care, a reduction of such magnitude in health fund expenditures would result in the total collapse of health-care. In the light of the demographic trends, the reduction of the pension fund could only be accomplished by curtailing the level of benefits, which is politically unthinkable, because the government relies on the votes of the pensioners.

The consequence of the above figures would not be limited to the collapse or at least to the totally radical transformation of the welfare state, including the health-care system, the pension system and presumably even the educational system, whose figures are hidden in the central budget and not quantified. The consequence of the above figures may actually lead to the collapse of society, public order and the collapse of the state. No society can be made to accept the collapse or such a drastic transformation of the traditional welfare system or in fact state institutional systems. No society can be made to accept such a fast pace transformation from the concept of solidarity to the concept of extreme individualism. Even if such a transformation were unquestionably proper, no society can tolerate such fundamental changes within such a short time, whereas in reality, as I am going to elaborate below, these changes cannot be considered unquestionable proper. It is true that every society must adjust to changes, and the more adaptable a society, the more successful it is. But an adaptation of such fast pace is impossible – even if it is agreed that the direction of changes is the correct one. This proposal is out of touch with reality.

Now we have arrived at the two basic assumptions of the authors and at the predicted schedule of the implementation of the reform.

■ One of the basic assumptions is that this conception is scientifically proven correct. In reality, this is not the case. There are ideas that can be proven scientifically or that are actually proven, others are scientifically disputable or disputed, and there are some ideas where even scientific provability is doubtful. It can be proven scientifically that the present conditions are not maintainable, and it is not possible to cope for long with such a budget deficit and current balance of payments deficit and with such insufficiency of internal private savings. The optimum date for the introduction of the euro, the permissible level or optimum degree of budget deficit and even the best method of measuring budget deficit are scientifically debated. There are strong scientific arguments supporting the idea that countries, such as Hungary, that are catching up will have to overcome a substantial backwardness in environment protection and infrastructure, even in health-care, education, science and culture. In addition to this, they have to overcome general social backwardness and one that affects, in particular, certain social groups. It cannot be accomplished without the utilisation of external resources which serve productive purposes. In other words, it is argued whether it is proper to apply the Maastricht deficit criterion of 3 per cent to these countries in an unchanged form, which percentage has been calculated without regard to the above consideration. There are sound arguments against it, which suggest that the development needs of these countries have to be born in mind. We can now return to the items that can be proved scientifically. It can be considered scientifically proven that the level of the withdrawal of revenues the authors expect to take place in the last years of the period under review cannot be tolerated and that it would stir up economic, social and even political crises in the country.

Let us continue with the arguments and proceed to the questions that are beyond scientific provability: questions linked to value judgements. The present writer attributes paramount importance to social solidarity and equal opportunities, while the authors of the reviewed book obviously give preference to the individual's freedom of choice against solidarity and equal opportunities. Furthermore, these are only differences in degree, and the reviewer is also in favour of personal freedom and the individual's possible greatest freedom of opportunities of choice. Even the authors of the reviewed work may not oppose the possible greatest equal opportunities and they promote the idea of solidarity as a complementary aspect. This writer, however, does not treat his preferences as scientifically proven even if there are emphatic scientific arguments behind them, and he must ask the authors to accept that.

It directly results from the above that there is no clear-cut and scientifically founded answer to the question of what the extent of the budget, the welfare state and redistribution should be. Even a basic economic textbook, such as the work of *Samuelson – Nordhaus,* which is probably known to the readers of this review, teaches that the budget, the welfare state and state redistribution, and in fact the state as a whole have inevitably a lesser role in the colonial states, such as the United States, and a larger role in societies where traditions have a stronger part to play, like in Continental Europe. In addition, as I have already stated in one of the introductory paragraphs, the institutional system is path dependant, a function of the historical background. Hence, there is no point for the authors to thunder against Kádárism – a political regime, with which the reviewer demonstrably never identified himself with and never made a compromise with – because it is an element of the development course Hungarian society had taken, and its effects are felt even today. Consequently, Hungarian society today clearly insists on the stronger role of the welfare state, state redistribution and the state, in general. No matter how much the two authors of the reviewed book disapprove this mentality, this mentality prevails and it can by no means be changed in five years, it can be changed, at the very most, slowly.

▪ This argument cuts the ground from the authors' second basic assumption, i.e. the reforms can be carried out without consensus, and having parliamentary majority, the government must carry them out regardless of the opposition against it. This is not true, since even proposals that are scientifically proven correct, such as the reduction in the budget deficit and current balance of payments deficit can be accomplished if there is at least a certain degree of consensus. Consensus is achievable, because everyone can be convinced that no one can spend more in the long run than he earns. On the other hand, in case of value judgements, such as the degree of social solidarity and the size of the welfare state, decisions can be taken only through the democratic decision-making process and with the ongoing involvement of society as a whole and its institutions, rather than merely voting in every four years. Pursuant to the provisions of the Constitution, the parliamentary majority may – de jure – pass its decisions, but the parliamentary majority is short-witted if it – de facto – ignores public opinion and the views of civil organisations.

This is the point where we have to touch upon the questions of scheduling. According to the authors, 18 months are available for carrying out the reforms. Their view is supported by two arguments. On the one hand, international experience shows that the adjustment measures, or consolidation as the authors refer to it, have to be implemented really quickly; a requirement which may perhaps be qualified as a scientifically proven truth. On the other hand, the authors hold that this scheduling follows directly from the four-year election cycle and from the time required for getting ready for the subsequent elections. However, I wrote this paper on 26 October 2006, six months after the parliamentary elections when one-third of the 18 months has already elapsed, and it is not very likely that the planned reforms can be realised within 18 months. The events of these six months unquestionably prove that there is a need to create consensus.

In my judgement, in terms of the proposed scheduling, the authors make the mistake of not differentiating between measures that can be or need to be carried out in a concentrated manner and the ones that require much longer time for implementation. It is quite true that the measures aimed at setting off the budget deficit reduction have to be taken or even implemented quickly. As I have mentioned before, there is a chance for creating consensus in that regard, and therefore even their implementation would meet with no difficulties.

However, creating the proper size of a welfare state that is economically and socially acceptable is a task for which the designated time limit of 18 months for implementation is plainly inconceivable. The authors' approach in which they fail to differentiate between measures that are to be carried out instantly and inevitably and the ones that are to be implemented slowly or not even necessarily is clearly counterproductive, because the efforts aimed at incorporating in the 18-month timetable questions that cannot be resolved within such a short time actually represent obstacles to accomplishing the very measures that indeed belong among the tasks of this 18-month period.

With this, we have come to the end of the review and the most important part of the critique. Our sole task remains to be to make brief comments on the ideas described in Chapters I and II of the book which have only been reviewed so far. However, it is difficult to perform this task properly within the given framework. The authors outline detailed proposals with special regard to the tax system, health-care, pension system and education, implicitly suggesting that the adjustment and the stabilisation cannot be accomplished without a radical reform of these institutional systems and without reducing the budget from 60 per cent of GDP to 45 per cent of GDP within a period of five years. I have already pointed out in the foregoing that this conception is fundamentally mistaken. The task is to start reducing the deficit by creating social consensus behind it, – this is to be accomplished, first of all, by means of increasing revenues and curtailing expenditures which are beyond doubt unnecessary, and by introducing general austerity measures which are inevitable and necessary – however, without the immediate and radical diminishing of the size of the state and without reducing the scope of redistribution, and by so doing to create the possibility of introducing further reforms prudently and on the basis of a wide consensus. The authors thus treat the above two tasks together, but I think they should be definitely separated.

As a direct consequence of this, I cannot undertake to make paragraph-long comments on the authors' views on taxation and the reform of the large social distribution systems described in a few pages in respect of each group of questions, because each group of questions would need to be tackled at least in an independent article. I obviously agree with several proposals, and hold others as worth considering, and again others as rejectable. We must inevitably agree with the radical elimination of the legalised possibilities of tax evasion, with the simplification of the tax system and with the broadening of the tax base, the success of which alone would very likely or undoubtedly solve the budgetary problems. On the other hand, it is difficult to accept the proposal, according to which the Budgetary Council, that is an advisory body, has a right of veto even concerning recommendations. It is worth considering the priorities of the educational system. Although it is true that the greatest problem of the country is the unemployment of an ever increasing group of underprivileged people with multiple social handicaps due to lack of education, however, if this problem were resolved at the expense of higher education it would hamper the long-term development of the country. There is no denying that there is a need for the concept of self-provision to play a bigger role in the health-care system and pension system, furthermore, the above systems will have to be used to encourage private savings. However, if the aspect of solidarity were to be neglected such institutions would be deprived of their very basis of existence, as a result of which those falling behind may face even grimmer prospects. Finally, I am of the opinion that we must definitely reject the views which hold it inevitable or even desirable to further increase social inequalities. Moreover, these views are in contradiction with a number of specific proposals presented in the book.

In summary: I certainly recommend that this book should be read. Its great merit is that it tries to give an answer to a complex set of questions based on a uniform conception, thus practically provoking a debate about it. It cannot be expected from a work of this size and especially from two authors to offer final answers to the questions raised and, above all, to all aspects of the questions. I hope that with the review and the critique of the book I will contribute to initiating and conducting a debate which descends even to particulars, and to finding solution based on wide consensus.

György Szakolczai