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Catching Up or Lagging Behind? The Hungarian Economy a Quarter of a Century after the Political Transformation – Report on the Conference of the Pázmány Péter Catholic University*

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On 12 November 2015, the conference of the Heller Farkas Institute of Economics of the Faculty of Law and Political Sciences of the Pázmány Péter Catholic University (PPKE) was followed with keen interest by a large audience. The conference analysed the path of development of the Hungarian economy in the past quarter of a century, and presented the changes in its competitiveness in an international dimension and with a national economy approach. Various domestic institutions were represented at the conference: in addition to the professors of the PPKE, the researchers of the Institute of World Economics of the Centre for Economic and Regional Studies of the Hungarian Academy of Sciences as well as the professors and teachers of the National University of Public Service (NKE), the University of West Hungary (NyME), the University of Szeged (SZTE), the Budapest Business School (BGF) and the International Business School delivered lectures.

In his opening speech, Deputy Dean Professor István Szabó called attention to the importance of the analysis of and consideration for historical experiences as well as to the fact that the various areas of science contribute to development with their specific aspects. The task of both law and political sciences as well as of economic science is to serve people and the society.

Associate Professor and Head of Institute Klára Katona (PPKE) gave a comprehensive lecture on 'The Impact of the Elements of Foreign Capital on Hungarian Corporate Investment in the Past Quarter of a Century', recalling in the introduction the theory of Modigliani and Miller, according to which the separability of investment and financing decisions assumes a perfect capital market. In practice, however, exactly because of market imperfections, corporate capital structure decisions play a very important role in the increase in corporate value. Taking financing decisions is not only subject to internal considerations, but also depends on a number of external

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factors, and thus basically on the development of capital/financial markets. In her lecture, Katona presented the positive and negative effects of foreign capital inflows, and using a database containing the top 5000 companies in terms of sales revenue, she analysed the developments in the sources of Hungarian- and foreign-owned corporate investment in Hungary in the period between 1994 and 2012. As the main finding, she pointed out that the ratio of debt in investment financing was higher in the case of foreign companies, but it was mainly attributable to long-term bank loans and not to loans from parent companies.

In his lecture titled 'Hungary's Regional Competitiveness in the Carpathian Basin', Dean and Head of Institute Attila Fábián (NyME) explained that defining the Carpathian Basin as space for existence is more difficult in a geographical sense, and easier in an economic and social sense. He emphasised that in spite of the development funds, inequalities had increased to a greater extent at regional level than before, and metropolitan regions had become the real winners of the transformation, while the rural and eastern border regions had become the losers of regional developments. His analysis made it clear that improvement of the regional competitiveness of the Carpathian Basin requires cooperative, cross-border strategies. The human capital base, the historical relations and intertwining of cultures as well as the replies to be given to the common demand of increasing the welfare constitute the relevant foundation. Fábián highlighted the important role of the changes in regional and local specialisation, corporate competitive advantages and spatial concentration in the spatial realignment processes of the Carpathian Basin.

Associate Professor Etelka Katits (NyME) provided a comparative analysis of the sectors of the Hungarian national economy based on a study co-written with Éva Szalka. She analysed the financial indicators of the top 5000 companies with the highest sales revenues for the period of 1992–2013. In her lecture, she distinguished several periods, from the hectic sales revenue of the 1990s through the increase in the 'golden era' starting from 2000 to the blocking effect of the economic crisis in 2008. In addition to the periodic fluctuations in competitiveness, she cast light upon the inadequate capital structure, which is one of the fundamental growth problems of the Hungarian corporate sector. In the sectors of the national economy comprising of the largest Hungarian- and foreign-owned companies, especially in services, trade and construction, the ratio of external funds is high (60–80 per cent), because companies were unable to finance their sustainable growth from internal sources. She concluded that increasing the sales revenue at any price neglects the creation of harmony between expectations concerning profitability, financing, return on total assets and productivity. She referred to the key role of industry in laying the foundation and ensuring of sustainable growth.

Krisztina Vida, a researcher of the Hungarian Academy of Sciences and teacher of the IBS analysed the trends in catching up of the Visegrád countries. The key question of her lecture was whether more convergence can be expected in our region. The years from the accession until the crisis (2004–2008) were characterised by diverging, but mostly improving macroeconomic trends, primarily in the case of Poland, the Czech Republic and Slovakia. It was followed by the crisis period (2009–2013), when recession, stagnation or lower growth as well as gradual recovery and consolidation were observed. Finally, the post-crisis period, in which the convergence to one another and to EU averages/regulations of the examined macro indicators in the region is well visible, began in 2014. Vida pointed out that within the V4, on the basis of most of the indicators, Hungary was the 'black sheep' from the accession until the crisis, i.e. contrary to the other three partner countries it was unable to make good use of the momentum and opportunities offered by the membership. In the past few years, however, Hungary's positions improved considerably. Since 2014, the indicators of the Visegrád countries have shown a better convergence, and together they are closer to standard EU levels than ever. Moreover, forecasts suggest that the favourable trends and catching-up may continue in the coming years as well.

Associate Professor István Kőrösi (PPKE), a researcher of the Hungarian Academy of Sciences, gave a presentation on 'The Chances of Competitive, Social Market Economy in Hungary'. He pointed out that in Hungary the past quarter of a century rolled by in the spirit of contrasting policies and economic policies. In the period between 2002 and 2010, the Hungarian economic and social development was on the wrong track, characterised by decline and serious losses. In 2010, Hungary took a new road, where the task was the simultaneous reduction of financial imbalances, the increasing of employment and putting the country on a sustainable growth path. Following 2010, the new Hungarian economic policy focused on the rapid starting of crisis management, the reduction of the general government deficit and the starting of cutting the debts. Numerous positive results were witnessed in the period between 2010 and 2015, both in terms of stabilising the economy and launching sustainable growth. Hungary and the countries of the Visegrád region are taking significant economic policy steps for catching up, but several factors of lagging behind have become permanent: declining wage share, development gap (slight convergence was observed in some periods, followed by increasing distance again during the crisis), migration of skilled labour, insufficiency of domestic savings and investment from own sources. The way of increasing competitiveness is exactly the rise in productivity through investment, which provides a basis for the catching up of wages and the expansion of the internal market.

Professor Katalin Botos (PPKE and SZTE) gave a presentation titled 'Political Transformation and Economic Policy. The Truth of Ferenc Rabár'. She started with pointing out that the political transformation that took place a quarter of a century ago left a burdensome heritage that influences our days as well: the unrealised wage–price reform and the significant government debt. In her presentation she strove to dispel the misbelief that the first government failed to ask for debt relief. She explained that at the very beginning it was not feasible. She presented that the initial ideas took into account a wage–price reform, because wages did not contain a number of costs that are part of wages in a market economy, such as housing, public health, education. She explained that in 1990 it would have been possible to implement a comprehensive reform with a parallel wage increase and reduction of contributions. As it was not done, the level of wages remained low compared to those in the West. Therefore, the 'reform' of large systems entailed significant tightening in terms of reducing the standard of living, and it is hard to implement the changes.

Retired Associate Professor József Botos (PPKE and SZTE) gave an overview of the past and future of the sustainable pension system. He presented how the Hungarian social insurance system developed in the past quarter of a century. Looking back, he recalled that between 1990 and 1993 the social insurance system contributed to the smooth transition. Between 1993 and 1998, social insurance was divided into two funds in a self-governance system. This system did not stand the test, and was terminated in 1998. At the same time, pillar II, the mandatory pension insurance was introduced, which deprived the state pension insurance of funds. The budget made up for the missing amount, but drifted into deficit as a result of that. Therefore, the Orbán government terminated the mandatory private pension fund system in 2010. In 2013, a social contribution tax was introduced for entrepreneurs, which indicated the end of the insurance paradigm. However, corporate contribution was terminated in public health, so the insurance principle prevails to the maximum extent there. Sustainability would require a change of paradigm in the pension system again, acknowledging that the costs of bringing up children also mean investment, and children are needed for producing old-age incomes.

Professor Csaba Lentner (NKE) elaborated on the subject 'Certain Strategic Issues of the Functioning of the Local Government System – Past and Future'. The consolidation of the local general government subsystem became a necessity in the operation of the Hungarian State, which was reorganised following the political transformation. As of the beginning of the political transformation, the decentralisation of tasks from the central government and the failure to decentralise the relevant funds as well, then the bridging with loans of the own contribution part of the investment possibilities that opened with the EU accession in 2004 resulted in a considerable amount of debt for local governments. Lentner presented the process of indebtedness of the local government sector and its subsequent successful consolidation, referring to the thorough fact-finding work of the State

Audit Office and the multi-phase consolidation work of the government, by which an important segment of the risk of state bankruptcy was eliminated. He mentioned the risk of becoming indebted again and the relevant tools of prevention as well as the change in the role of the local government sector, i.e. the challenges of becoming an organiser of the local economy from a maintainer of institutions.

In his lecture, Tamás Halm, a teacher at the BGF, presented higher education as a factor of competitiveness, using a comparison of resources and outcomes. In his lecture, which was richly documented with data series, he explained that after 1990 the number of students in higher education increased very rapidly, and the expansion of financing did not keep up with it. Three acts were adopted for the regulation of higher education, which were amended more than one hundred times. Those who work in the system faced a painful decline in quality. In the recent years, higher education has been characterised by a strengthening of central control, some really justified rationalisation and not only relative, but absolute cutting of funding as well. Although the educational government realises and acknowledges the achievements of higher education, even classifying it as a success sector of the Hungarian economy, it has deemed substantial reorganisation necessary. The tightening of quality requirements, the increased consideration for the demands of companies and institutions that employ graduates as well as the efforts to increase institutions' own incomes all point to the right direction, but no significant progress can be expected without a material increase of state funds allocated to higher education.

Associate Professor Tamás Szigetvári (PPKE), a researcher of the Hungarian Academy of Sciences, presented the situation of the Hungarian infrastructure at the time of the political transformation and now, with special regard to the transport sector. In his presentation he gave an overview of the most important changes that took place in the Hungarian infrastructure in the past 25 years, then elaborated on the main developments focusing on transport. The developments in the Hungarian economy are a good example for the fact that freeways, high-performance railway, good air transport and in the case of industrial and agricultural commodities the possibility of cheap inland water transport are among the most important conditions of the selection of a location for industrial, commercial and logistics facilities. Transport has become one of the most important determinants of the economic development and the increase in competitiveness of Hungary. However, for Hungary to be able to comply with this fundamental condition of competitiveness, also quoted from Porter, the funds provided by the European Union proved to be indispensable. Prior to its EU membership Hungary could implement the necessary investment only through a considerable increasing of government debt, which, in turn, had a negative impact on the competitiveness of the country.

The conference presented the changes in the position of the Hungarian economy in the past quarter of a century in a comprehensive manner, with deep analyses. By analysing the various areas, the presentations proved that in our times only an economic policy that generates long-term, sustainable growth and stability can lead to success. Hungary and the countries of the Visegrád region are taking major economic policy steps for catching up. This requires the application of a reasonable economic policy mix, which facilitates knowledge-oriented, organic development.