

Let Us Learn from Our Own History – Experiences from a Century and a Half of Public Finances*

Pál Péter Kolozsi

Csaba Lentner:

Az állampénzügyek fejlődéstörténete Magyarországon a dualizmustól napjainkig (Evolution of Public Finances in Hungary, from the Age of Dualism to the Present Day) L' Harmattan Publisher, 2019, p. 280 ISBN: 9789634145103

What is the best way to understand economic processes? Through individual, historical examples, or rather through models that are abstract and therefore independent of space and time? Economists have been dealing with this question since economics emerged as a discipline of its own. According to one extreme opinion, it is enough to survey the events of the past (“those who forget history are doomed to repeat it”), while others believe that every economic era is different (“this time is different”), and therefore looking back provides no solution to our current problems.

The relationship between economics and economic history has swung like a pendulum for the last 100 years: in the early decades of the 20th century economics was never taught in higher education without a course in economic history, but today it is quite rare that university students have such courses in their curricula. One of the most influential economists of the past century, Joseph Schumpeter, who was born in the Austro-Hungarian Monarchy but settled in the United States in the 1930s, argued that an economist needs to merge three disciplines in himself, namely economic history, economic theory and statistics, with the last one enabling the integration of the first two. This approach was adopted by the universities during this era, and the three pillars of courses in economics used to be theory, methodology and economic history. However, in the second half of the last century significant changes took place in this field. Economic history was displaced from courses of economics, and the pillars of the curricula became microeconomics, macroeconomics and econometrics: the inductive historical

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Pál Péter Kolozsi is a Head of Department at the Magyar Nemzeti Bank. E-mail: kolozsip@mbn.hu

approach that relies on historical experience lost its influence, and the deductive, abstract way of thinking that starts from theoretical foundations became a widely espoused scientific standard. The theory of Robert Lucas formulated 40 years ago (“Lucas criticism”) has become a kind of general guideline for social sciences, which postulates that it would be naïve to base economic models and economic policy decisions on past observations – the only way to build up properly substantiated macroeconomics is to use stable microeconomic, i.e. theoretical foundations.

However, the past decades – and particularly the economic crisis that erupted in 2007–2008 – cast a new light on this approach. The mere fact that in 1993 two economist-historians who dealt with institutional matters received the Nobel Prize in Economics (Douglass North and Robert Fogel) implies some kind of change, but economic history was especially appreciated when at the outbreak of the crisis economic policymakers had to face the fact that the mainstream theory, which had become very abstract and removed from practical problems, was not ready for crisis management, and historical experience was the only source available for decision-making. History is not a formula that can be taken automatically without any reservations, however, combined with substantiated theoretical knowledge, it is actually highly usable base material for resolving the problems of the present, for addressing the actual challenges – this may be how we can summarise the approach espoused by economists who question the mainstream economic logic and emphasise the relevance and added value of historical experience. In Hungary, one of the best known representatives of these economists is Csaba Lentner, who collected 150 years of experience concerning public finance in his book published in the spring of 2019 with the title *“Evolution of Public Finances in Hungary, from the Age of Dualism to the Present Day”*.

The monograph consists of seven chapters, providing a proper structure for the 150 years under examination. Chapter I is a kind of introduction, which defines the purpose why the book was written and places it in the domestic field of science and history of ideas. Chapter II presents the state-directed economy of the dualism era, i.e. it focuses on the period between 1867 and 1918, particularly on the economic aspects and effects of the Compromise of 1867 and points out how the calmer political atmosphere favoured economic life, and how the support given to industry contributed to the “build-up of a state-controlled market economy from the feudal society of estates within a short time.” Chapter III presents the economic administration of the interwar period, with special regard to the consolidation of Bethlen and the military development of the 1930s, including the targeted industrial policy actions of the era (such as the 1938 armament programme of Győr). Chapter IV discusses the public finances and economic administration of the planned economy, starting with socialist industrial policy, through the regulatory reform of 1955–1956 and the new economic mechanism of 1968, all the way to the

decline of the planned economy. Chapter V specifically deals with the conditions of the political changes within the economic situation of the transition, accession to the European Union, privatisation and presentation of the banking system of the transition to the market economy, and the crisis management initiatives taking the form of adjustments. Chapter VI focuses on the economic administration and system elements of the active functioning of the state after 2010, specifically presenting the Fundamental Law that provided the foundations for the changes and the related statutes (stability act and other acts on public finances) as well as the system-level changes that occurred in the space of monetary policy (changes in taxation structure, renewal of the control of public finances, fiscal structural reforms, turnaround in fiscal and monetary policy). It is in this chapter that Csaba Lentner defines the “Hungarian model” that crystallised from the actions implemented after 2010, which he interprets on three levels: first as successful crisis management, second as the policy of wage convergence, decreasing utility costs and the policy of widening the opportunities for establishment a family and creating a home, and third as the totality of the public policy turnarounds creating the conditions for a turnaround in competitiveness. Chapter VII summarises the major arguments of the work, including the theoretical and systemic conclusions, the corollaries on the importance of fiscal discipline and having “a good taxation system”, furthermore, the renewal of the policy of the central bank after the crisis and the revival of institutional thinking.

The book entitled “Evolution of Public Finances in Hungary, from the Age of Dualism to the Present Day” describes the processes of economic administration of the period since 1867 taking a systemic approach, examines the interaction between fiscal policy (government) and the central bank in thorough and novel way, accessibly presents the major theories of public finances, and moreover provides a systemic framework for the mechanisms of the state. Although the monograph itself focuses on the last 150 years, in its introductory chapter it presents the historical-interpretative framework of Hungarian public finances, going back all the way to the time of the establishment of the Kingdom of Hungary. In Lentner’s book the era of dualism, then the two world wars, the system of planned economy, the regime change and the period after 2010 are presented and placed into a Hungarian historical framework in the broad sense of the term. It is actually one of the strong points of the monograph that it views the current processes in public finances from a historical perspective, and this is how the two main arguments of the author becomes understandable, notably that (1) the weaknesses of the transition to the market economy made the system of public finances unsustainable, which became clear during the crisis of 2007–2008, and (2) from 2010 a new era began in Hungary, strengthened by a high level of authorisation by the society and new legal regulations, which implemented a model where the state has an active influence on the economy.

The monograph integrates seamlessly with the scientific works by the author published so far, but also goes beyond them. His book published in 2013 with the title “Public Finances and Study of Government Finances” presents the Hungarian public finances framework reorganised after 2010, while “Regime Change and State Finances. Facts and Misconceptions”, published in 2016, analyses and evaluates the period after the political changes, i.e. the two and a half decades following 1990. The monograph published now looks back to the cradle of Hungarian capitalism, the era of dualism, and then analyses the highlighted economic periods of Hungarian history – i.e. on the one hand it goes back earlier in time than the previous books, and on the other hand it connects the analysis of current developments to the conclusions that can be drawn from the last one-and-a-half century, thereby giving a kind of scientific summary of the earlier works by Lentner.

Lentner’s opinion is that government finances cannot be “squeezed” into the scope of economic science, and that the examination of the evolution of the state economy should rather be built on the “intellectual flourishing of political science and jurisprudence of 1000 years”. This idea was present in other publications by the author as well, but it develops into a thesis in this monograph. The author already mentioned in several works, but clearly stated in this monograph that the appreciation of the state observed in recent years means a new chance, from which “perhaps, an exact area of science of public governance could emerge in the disciplinary field between economic science and jurisprudence”.

The monograph clearly supports the idea that knowledge of the evolution of Hungarian public finances provides the only opportunity and method to understand the current challenges and to recognise the possibilities in this field, and also that concerning the case of Hungarian public finances, knowing the Hungarian experiences and domestic authors is at least as necessary as knowing the international literature. On a related note, Lentner’s monograph clearly fills a gap in that it presents the sometimes painfully lesser known authors of the domestic literature on public finances to the interested reader, those who were active during the era of dualism as well as those of our time. This book can be considered a freshly unique piece in the world of science, which is becoming increasingly global and thus more and more uniform: in addition to references to the outstanding international literature, it does not neglect domestic authors, whose knowledge of the terrain and attachment to the domestic conditions significantly enhances the relevance of the reference list.

According to Lentner, the current Hungarian economic system is best defined as state-directed capitalism, which considers the public finances theory and practice of the era of dualism as a kind of “intellectual precedent”, with special regard to the necessity of the state taking on a more powerful role. After an analysis of historical periods, especially the era of dualism, Lentner arrives at the conclusion

that the historical examples justify the crisis management methods applied in Hungary from 2010, meaning that centralisation is not an aim, but rather a tool in the implementation of consolidation, similarly to stronger influence and control of the state in the economy. In the same way, in the “building of capitalism”, in the elimination of the backlog in development, state centralisation and influencing the economy does not represent the “end result”, but rather a transitional state, until the economy “recovers”, adding that the state should not let go of the hands of market players even after that, and its reasonable coordination activity remains necessary.

Lentner’s book provides food for thought also for those interested in scientific methodology. It is a common opinion in scientific circles that quantitative research is superior to qualitative research focusing on qualitative features (cf. “qualitative is poor quantitative”). Certainly, the time of theories without factual substantiation is over, but having seen the shortcomings of abstract economic thinking in recent decades it would be a difficult task to refute that ignoring the non-economic (institutional) factors put in focus in the analyses of historians would also lead to serious errors. Now is the time to re-evaluate economic history, this being an effective way to bring economic theories closer to reality. Knowledge of economic history could be very instrumental in understanding: what are the factors that enable growth and development, in what way, why and when can important changes happen, with special regard to factors essential for long-term growth. One can always learn much from examples that “have stood the test of reality”, and in uncertain periods like the one we are living in, conclusions drawn from historical analogies could become especially important. Naturally, this is only true if we can not only describe what has happened, but we also have a properly substantiated theoretical knowledge enabling us to understand the causal relations between events of the past (recalling an old epistemological dichotomy: «erklären» instead of «verstehen»).

The monograph “Evolution of Public Finances in Hungary, from the Age of Dualism to the Present Day” fills a gap from several aspects, as a work that can facilitate the scientific and public discourse on public finances. I wholeheartedly recommend this book to economists and readers who are not economists but are interested in public finances, because of the outline of the framework of a systemic discipline of public finances, the accurate and consistent presentation of domestic processes, the systemic level summary of the Hungarian model that has developed over the recent period of almost one decade, as well as the exceptional richness of the domestic and international references.