

Between the Trauma of Trianon and Today: Thoughts on the *Economic History of Hungary for the Last 100 Years**

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Barnabás Virág (ed.):

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In the Year of Unity, the Magyar Nemzeti Bank (the Central Bank of Hungary, MNB) could hardly have commemorated the anniversary of the signing of the imposed Treaty of Trianon in a more appropriate and elegant manner than with a perceptive and analytical account of the events determining the course of economic history in the past ten periods of ten years.

Providing a cross-section of the economic history of one hundred years (especially these “long” one hundred years) is an enormous challenge, all the more so because many of the politically motivated explanations from the past decades (together with their “anointed” proponents) still live on, often painting an inaccurate and distorted picture of specific periods or decades.

The book truly fills a huge gap. Here, it must be pointed out that this is not simply the usual and “obligatory” formality found in reviews. Lamentably, economics courses at Hungarian universities and doctoral schools no longer include economic history, even though future generations could learn much from the virtues and mistakes of past economic and monetary policymakers.

It is therefore appropriate to say that the editor (Barnabás Virág) and the company of authors (Gergely Baksay, Judith Balázs, Pál Pozsonyi, Antónia Hüttl, Gábor P. Kiss, Béla Simon, Gábor Dániel Soós, Eszter Szabó, Katalin Szőke) have produced

* The papers in this issue contain the views of the authors which are not necessarily the same as the official views of the Magyar Nemzeti Bank.

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something that has been severely lacking. A quick glance at the telling chapter titles only reinforces this impression: *The reviving economy of the truncated country: the 1920s. Global crisis and stabilisation: the 1930s. Global conflagration and reconstruction: the 1940s. The liquidation of private economy and the trauma of the Revolution: the 1950s. The evolution of goulash communism: the 1960s. Oil price shock and indebtedness: the 1970s. Lack of turnaround and reform: the 1980s. Free again: the 1990s. From Vanguard to Bringing Up the Rear: the 2000s. The era of balance and growth: the 2010s.*

Somewhat arbitrarily and hopefully fittingly, the reviewer summarises the conclusions based on the chapters evaluating the economic history of the past one hundred years.

1. Dividing the past one hundred years into ten times ten years was a wise choice. The balance position of these decades was influenced by utterly different geopolitical and ideological factors and power constellations. No wonder that the results are also markedly different.
2. All of the authors analyse the reasons for the success or failure of the decade they examine. We can almost certainly conclude that those (unfortunately few) periods were successful during which economic and social policy served the nation's interests. It should be borne in mind that in the successful periods, economic policymakers and economists who were recognised at the European level (e.g. Sándor Popovics, Tivadar Surányi-Unger, Elemér Hantos, Farkas Heller, Ákos Navratil) led the way: their works on monetary policy, the general government, prosperity, the dangers of income inequalities or the large-space economics of the countries along the Danube are still relevant today, in several respects.
3. The failure of economic policies in the past decades was largely influenced by serving foreign political interests and ideologies: policymakers did not tolerate those who voiced their independent, divergent opinions, and such people were killed, undermined or forced into exile. They include several outstanding economists and social scientists (e.g. Sándor Lámfalussy, István Muzslay, Miklós Káldor, Tamás Balogh, Béla Balassa, Tibor Scitovszky). These luminaries were replaced by epigones regurgitating the mainstream ideas imposed on Hungary, who were unable or unwilling to break free from the conceptual shackles forced on them.
4. The authors convincingly show that the witches' brew of reforms targeting the operation of the economy and economic restructuring failed in the early 1970s. This led to economic stagnation. Driven by cold political calculation, politicians turned towards foreign lenders to manage social tensions, and the Hungarian

economy embarked on a path leading to indebtedness arising from sustained imbalances.

One lesson to take to heart is that if fiscal expansion does not contribute to the economy's efficiency and competitiveness, market coordination, the careful management of state assets, and the restructuring that becomes necessary from time to time, then the budget deficit and government debt may increase so much that the burden will be borne by future generations for decades.

5. Economic growth cannot be sustained without balance. After the geopolitical turning point in 1989, the crisis of transition was overcome in a relatively short time, but the government at that time chose balance over economic growth after considering the trade-off between the two.
6. An important lesson from the studies in the book is that curbing investments and consumption pushes the economy into a negative spiral due to budget cuts, which has dire social consequences.
7. In the years around the turn of the millennium, Hungary pressed ahead in terms of economic figures in the Central and Eastern European region, but on account of the mid-2000 financing turnaround, the state and households could only maintain economic growth by borrowing, which led to high twin deficits in the budget and the current account and a surge in external debt. As a result, economic growth ground to a halt after 2006, and global financial crisis of 2008–2009 hit Hungary in a vulnerable position. The most serious structural issues included low employment figures and FX indebtedness in the context of muted investment activity.
8. The new economic policy launched in 2010 and the monetary policy after 2013 put Hungary on a convergence path once again. The initially widely lambasted unconventional economic policy increasingly became accepted globally, because it proved to be effective. The budget's position improved, and this paved the way for the turnaround in growth.

Transformation of the tax system began, the turnaround in the labour market started, and with it, new incentives went into effect in the labour market, contributing to the creation of hundreds of thousands of new jobs in the following years. Meanwhile, internal and external balance were restored, and government debt relative to GDP was put on a sustainable downward path.

The author of the chapter examining the period is right to note that: *“the re-expansion of retail lending took place in a healthy structure, and the introduction of macroprudential rules provided additional stability for the sustainable functioning of the country. Due to the general economic recovery, the reduction*

of previous debts, the constantly improving labour market situation and the restoration of general confidence, a turnaround in investment and growth unfolded from 2013 onwards.”

The experience of the 2010s clearly demonstrates that *harmony between the branches of economic policy can restore financial balance*. This is attributable to the structural reforms that were carried out to complement the fiscal and monetary policy measures. The strategy based on this has successfully stabilised Hungary, putting it back on a sustainable convergence path.

9. Thanks to the editor’s and the authors’ meticulous, accurate and professionally appropriate work, the book is not a mere collection of bombastic proclamations. It encourages readers to think and reflect on the topics, in which the statistics at the end are of immense help.
10. The elegance in the printing, the book’s collection of figures and tables are worthy of the Magyar Nemzeti Bank’s mission, and the gravity and detailed presentation of the issue.

Based on the above, the reviewer recommends the book not only to the narrower group of professionals but to anyone who wishes to have firm and credible reference points for understanding the intricacies of economic policies from the past decades.