

The Power in Us

Foreword by the Chief Editor



The Hungarian economy has regained the momentum it had in the period between 1999 and 2002. At that time Hungary could achieve 2.5 times the average growth rate of the European Union. Now, in the second half of 2014, we are once again in the front line. In 2014 H2, Hungary's (annual) growth rate was 3.9 percent up on a year earlier. This ranks Hungary first in Europe. The European Union, and particularly the euro area, cannot boast such upbeat figures. In the same period, the Member States of the European Union grew by a 1.2 percent, in the aggregate, while the euro area's growth rate remains a modest 0.7 percent

GDP growth has been uninterrupted in Hungary since 2013 Q2. What is more, it is picking up.¹ Household real income is on the increase. The inflation rate is zero. The general government deficit is shrinking. Despite the exchange rate destroying impacts of the regional military conflicts, the government debt has not increased. The households indebted in foreign currency will be recapitalised in the immediate future. Local council debt has already been consolidated.²

In a brief economic historical analysis retrospective to the beginning of the current cycle, one can state that the situation could even be better. The fast fiscal policy changes adopted between summer 2010 and late 2011, already prompted some action in the economy. The wind of growth touched us. Expansion fluctuated between 0.5-2.5 percent. This was a good start. But then it met a headwind. As the centre-right government could hardly be overthrown from inside the country, efforts were made from abroad. Repeated rating downgrades, exchange rate speculations, threat of never being released from the excessive deficit procedure and the withdrawal of EU support. A host of actions to militate against improvement. And the country did fall into a downturn between early 2012 and 2013 Q1. The reason is that we were thrust back. The offensive power was broken by tax policy measures, actions at streamlining budget management, and above all, the society's loyalty to the centre-right government. And we have not sunk. Then another impetus was given. By the National Bank of Hungary. Starting from 2013, the MNB launched a Lending for Growth programme in the framework of a new monetary policy. Within 2 years the central bank's base rate was cut to nearly one quarter. As a result, government debt financing became cheaper.

At the current 2.1 percent base rate, we run the government for HUF 280 billion less annually. As a result of chopping the refinancing base rate to a historical low, commercial banks' credit rates also fell. Although it is true that they do not lend any more. It is true that the government has entered the market as a purchaser and an organiser of banks. As a result of the lower central bank base rate, lower rate is paid on commercial bank deposits at the National Bank of Hungary. The central bank saves money on the interests paid and simultaneously releases the funds from the reserves for fuelling growth. Both in ethical and in financial terms. Growth and the investment projects providing the basis of growth make sense. Savings are not eaten up by inflation, as its rate is currently zero. The generated profit is not eroded. It is worth investing in Hungary. Despite the fact the narrower profit margins, the inflow of foreign capital in Hungary has not ceased: financial capital continues to flow to purchase Hungarian government securities, settle here and establish factories. And population also supports government securities. The primary place where investments are deposited is no longer banks, rather the number of retail purchasers and the value of investments into the government securities issued by the Hungarian Government Debt Management Agency increase.

We may say, the situation is not bad. The power is in us. We can feel the power inside and around us. So what to do next?

We should never think in terms of four-year cycles. We must build the system. A model. Looking forward. A Hungarian model. To make a model of our own, instead of copying other models. However, this needs more than what we have achieved so far. Let's extend the new value that has been produced, GDP growth. Let's give more tax allowances. Let's encourage the National Bank of Hungary to buy government securities. The Bank of England is given this opportunity. So is the central bank of the United States. And now already the European Central Bank. Why not give MNB the opportunity? Of course, not all maturing government securities should be bought by the National Bank of Hungary, but it should buy some. And let's do something positive for the Hungarian agriculture, too. We should have canneries and sugar refineries again.³ And not only one. We should have more.

And let's carry even further if we want to see a strong society on the basis of an expanding national economy. Last year the middle-class elite assumed power from the banker elite. However, only on the top governmental level. In public thinking, the opposite forces still have their impact felt. It is not certain that we have two-thirds of the votes in public thinking. Many have left us. Even conservative middle-class intellectuals have turned against the centre-right government. Some of them are economists and lawyers who used to work for us. They even outshout leftist liberals in our criticism. They have not trusted the unconventional financial government started in 2010 and in the success of the Hungarian model. They did not believe this can be done. So they fled. Even if they return, they have lost their credibility.

The very roots of problems: the level of public opinion and public thinking must also be changed. Re-positioning the media is already on track. However, the centres of intelligence and management, i.e. universities, especially schools of economics and

law, which are the constant sources of the intellectual elite, are not necessarily suitable for training the new generation of professionals adjusted to the altered needs of the domestic social and economic system. Unfortunately, we have a lot to make up for. All during the past twenty five years, the pro-market neoliberal doctrines have been taught in legal and economic education.⁴ Although by now a few universities have already abandoned the old-fashioned and outmoded ideas⁵, unfortunately, the majority remains archaic. This means that the overwhelming majority of the future intellectuals are still only trained in the old-style doctrines of a bygone era.

Well, there is still a lot to be done.

More money needs to be invested in scientific life. But in an organised and focussed manner. Good textbooks need to be written. New and innovative ones. The crisis has overridden and overwritten everything. Hungarian coursebooks are an example for less overwritten items. There is no way out of the neoliberal financial system's systemic crisis and the distress in the harmed societies, and there is no recovery from misery if we continue to enforce the same methods that were applied when the crisis struck.

We hope that the social responsibility programme undertaken by the National Bank of Hungary to promote a new kind of public thinking will break the current hegemony of neoliberal theories and practice. It is required for creating a lasting Hungarian model. It is indispensable. A strategy for the expansion of education, scientific activity and financial awareness raising. The extensive range of creative donation. The improvement of rural higher educational institutions, support to the new scientific publications and new kind of training programmes undertaken by university departments, embracing the most outstanding postgraduate (PhD) students, and financial assistance to foreign study tours, publication, book writing by fresh and recent graduate teachers. One again, the National Bank of Hungary makes profit on its activity and gives from the reserves to ensure that new and modern theories are published in books, taught at universities and appear in the thinking of the intellectuals of the future. And in our national identity. May the power remain in us.

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NOTES

- ¹ The gross domestic product was up by 0.3, 1.9, 2.7 and 3.7 percent in 2013 Q2, Q3 and Q4, and in 2014 Q1 respectively.
- ² The consolidation of local councils' debt is discussed in my study published in the October 2014 issue of *Pénzügyi Szemle* (Financial Review), which explains the causes of indebtedness and the need for consolidation. (Vol. 59, No. 3., 2014) www.asz.hu/penzugyiszemle/aktualis-szam
- ³ One of my frequently repeated criticisms concerns these factories. On my way between Szeged and Budapest I always watch the broken windows of the cannery at Nagykőrös, once a bustling factory. Only one is left from the formerly dozen sugar refineries. At Kaposvár. Typically, in foreign hands. I will only

be able to say that we have made progress in re-vitalising agriculture only when I can see several sugar refineries and operating canneries, among them the one at Nagykőrös. Agriculture was the sector that raised Hungary during the era of the Austro-Hungarian Monarchy.

- ⁴ The picture may be misleading, as in the media the social scientists of the centre-right intelligence have come to the limelight in programmes watched and preferred by a predominantly audience. However, the “to surface chat the silent depth responds”. In the deep pits of higher education still the spirit of free market economy seem to be haunting. What is more, feudal relationships prevail in traditional tertiary institutions maintained by the state. Under the guise of university autonomy, they maintain a tired old and deteriorating educational structure. Moreover, one third of the 550 potential places in higher education remain empty.
- ⁵ I sometimes jokingly tell my good old students at the National University of Public Administration: for years my subject was an “option” because of the practice of fast privatisation that dispensed with the guarantees of national controls and my criticism, expressed in my books, of taxation that was not dimensioned to the financial muscle of multi-national companies and banks, however, now I have become one of the mainstream-designers, despite the fact that my approach to public finances have not changed since my graduation.