Civic Review, Vol. 15, Special Issue, 2019, 433–442, DOI: 10.24307/psz.2020.0228

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Three Leading Intellectuals on Hungary's Changing Situation – Ramblings in Relation to the Book *Hungary in a Changing World*

Summary

Following its 2015 release by Éghajlat Publishing, the collection of interviews with three leading Hungarian intellectuals, Mihály Patai, László Parragh and Csaba Lentner, sharing their ideas of the world and, more specifically, of Hungary's 21st-century perspectives, was also published in English in 2019. The thinkers portrayed in the book recall their experiences obtained during the period of socialist economy, their personal calling, the events of the nearly three decades that followed the collapse of the soviet bloc, including transition to a market economy, and of the last nearly one decade since the 2007–2008 crisis, especially the new Hungarian economic and social policy model in the making since the 2010 change of government. The book was published by Éghajlat, with support from the National Bank of Hungary, and includes a foreword by Academician László Palkovics, Minister for Innovation and Technology, edited by Lajos Péter Kovács and Klára Lengyel and proofread in English by the late Dr Roger G. Roe, who has, unfortunately, deceased since then.

Journal of Economic Literature (JEL) codes: A2, B1, E6, F11, F65, G01, H6, N10, O15, P20, Y3

Keywords: Hungarian economic and social policy, socialist planned economy, neoliberal transition to a market economy, proactive state model, European Union, world economy, globalisation

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About the book

A collection of interviews made with Chairman of the Hungarian Banking Association Mihály Patai (currently serving as Deputy Governor of the National Bank of Hungary), Chairman of the Hungarian Chamber of Commerce and Industry László Parragh, and professor and leader of the Institute for Public Finances and the General Government at the National Public Service University Csaba Lentner was published by Éghajlat with the title *Hungary in the Changing World*. The interviews were moderated by Lajos Péter Kovács, director of Éghajlat Publishing.[1] In the book, Hungary's economic policy is discussed from the collapse of the socialist planned economy, in other words, from the 1990 political and economic change of regime of these days, seen from the perspective of the aforementioned three leading economists. This novel and non-traditional book of interviews examines problems in a complex manner and provides proposals worth consideration for the political and economic management. The English version of the book resembles a roundtable discussion, with the interviewer practically acting as a moderator. The structure of the book is outside the box. In order to make the exposés more interesting and gripping, the interviews are imagined in a conference hall, with the interviewer acting as a moderator and the informants as participants of a roundtable discussion. There are two reviewers among the listeners (professor Tamás Prugberger and Erika Sebestyén), who have recorded the essence of the responses to the questions and have added their imaginary contributions to the report and now present their ideas to those who live in English-speaking territories and speak English.

Now let us discuss the content of the chapters

The first topic addressed by the roundtable took the economic policy of the Kádár era preceding the 1990 change of regime as its starting point. In response to the moderator's question about how everyday people could live in relative welfare compared to the so-called "genuine socialist" countries of the soviet sphere of influence in Central and Eastern Europe, which gained Hungary the reputation of the "most cheerful barrack" of the COMECON member states. The respondents show that people could secure this relatively high living standard by semi-legal ways that evolved and were tolerated during the Kádár regime. At that time the state not only tolerated but – at a later phase – even supported it. As also mentioned by the "three professional tenors" of the roundtable, this included various economic and corporate economic partnerships and under-the-table work done after or during official working time, and in cahoots with one another, company employees could make additional private incomes using state-owned companies' materials and instruments. The spontaneous and public administration-controlled privatisation preceded and followed the change of regime under these conditions. In response to the moderator's question, the participants sitting around the fictitious roundtable mentioned that the application of various corruption techniques and methods prevented the government from realizing considerable revenues from either spontaneous or government-controlled privatisation, as the overwhelming majority of foreign companies wound up the majority of the companies transferred to them and reorganised during the 1980's from loans, in other words, their goal was market penetration rather than the maintenance of the operation of these companies. The speakers also mentioned that Hungarians (with notable exceptions) also acquired considerable business assets, however, most of them wasted them instead of investing them in business, or simply used them up without even establishing a business. This also characterised the newly established commercial banks, which granted loans under lenient conditions, went bankrupt as a result, and had to be topped up from public assets. Then they were sold by the government to foreign banks and continued operation as subsidiaries of the latter. In their comments the reviewers spoke of their experiences obtained in relation to privatisation. Already before the change of regime foreign companies had contracted cheap Hungarian outworkers for the manufacture of their products. When it came to privatisation, they agreed with the corporate management to undervalue the company, transform it to a company limited by shares and acquire it cheap, allowing, in their capacity as new owners, the managers to retain their employment as executives in addition to the palm grease they were paid. The undervalued sales prices were accepted by similarly bribed employees at privatisation offices. In order to sell their arable lands to foreign businessmen for building hotels and guest houses in recreational areas, cooperatives obtained authorization from the Ministry of Agriculture for taking the land out of agricultural production by slipping the amount of bribe established by the employees of the authorising ministry into the pocket of the proceeding civil servant. However, in the three leading intellectuals' assessment of the change of regime, despite the mentioned drawbacks, the evolution of market economic institutions and the change in the ownership structure is seen as favourable developments, as Hungary has joined the developed world, re-joined Europe, and the production performed here has been included in the value chains of international companies.

In the panel about the collapse of socialism and the evolution of capitalism, it was discussed that after the Soviet Union had run short of funds available for the support of the loss-making provinces of their overgrown empire, Hungary was compelled to take loans from the IMF and the World Bank, and so it started to run into debt. In this context it is worth highlighting the words of Mihály Patai, who mentioned that after the change of regime, negotiations were held about the option of Hungary repaying only the principal amount of the loan, without any interest accrued. All Patai said in response to the moderator's enquiry was that "József Antall simply interrupted the negotiations". He did not mention that in this matter he was under direct pressure from the US and indirect pressure through the social democratic party (SZDSZ)[2]. In the reviewers' opinion, Social Democrats and József Antall, who collaborated with the US and the social democratic party, are utterly responsible for the fact that, unlike Poland, we are still in the throes of the debt service.

Quite rightly, Csaba Lentner pointed out that after the change of regime, Hungary was only given one single option: the adoption of market economy. However, according to the professor of economics, the problem was that adoption was too fast, and the Hungarian population was unprepared for it. As also explained by the other speakers, the overwhelming majority of the population wanted to get rich quickly and were incapable of using their semi-legally obtained wealth in a moderate, disciplined and professional manner, and this was manifest in the operation of Hungary's production, service and banking sectors alike. Being far more disciplined and capable of reasonably enforcing their interests, foreign companies and financial institutions could purposefully use all this to the country's disadvantage.

Finally, a few words were said about the unconventional economic policy that helped Hungary get rid of its dependence on IMF. In relation to this, Mihály Patai noted that Matolcsy's achievements in central banking and the government's results in financial policy should be coined 'new-orthodox' rather than 'unorthodox'. All the participants agreed, however, that the currently middle-aged and older economists still follow the anachronistic neoliberal trend they were once taught at school.

In the next topic, in response to the moderator's question, the participants of the roundtable discussed the rather aggressive enforcement of interests by the multinational companies that entered Hungary during the 1990's and early 2000's, and the way they suppress domestic businesses. They take almost all their profit to their foreign centres and barely leave anything in Hungary. During the conversation it was made clear that in the course of their operation, foreign production and trading companies, similarly to the subsidiaries of foreign banks, insufficiently help Hungarian businesses in development, most of them only enforce their own interests and take the total amount of profit out of the country. For this reason, although to different extents, they are positive about the inclusion of foreign companies in the circle of taxpayers and about the introduction of bank taxes after 2010. The interlocutors also pointed out the social problem caused by the unfair procedures adopted by foreign banks operating in Hungary in the course of FX lending, backed by irresponsible propaganda from previous leftist-liberal governments, and that after the 2013 change in monetary policy, the government and the central bank could solve a significant part of the social problems by conversion and derecognition of FX-loans.

These government actions led to serious tensions between the current centre-right government and MNCs, considered natural by the interlocutors. They think that the stakeholders must note that companies relocated from abroad will primarily consider their own interests; however, the latter must also note that the host state and society have expectations towards them. For this reason, in Hungary's economic policy efforts must be made at a compromise with the companies operating in the country, in the spirit of mutual respect for each other's interests, in order to secure long-term operation. This is the only way to develop useful cooperation between small, medium-sized and large corporations, on the one hand, and Hungarian and foreign companies, on the other, to turn the allegorical "zoo" friendly.

In the *In the drift of global developments*, the talk centred on the previous and current courses of this drift, and Hungary's place in it, and more specifically, within the current world economic and political power centres. The interlocutors set out from the fact that with the collapse of the Soviet Union, the two power centres, namely the eastern Soviet and the western US, ceased to exist. Consequently, a unipolar economic and political centre evolved with US predominance. On the other hand, as László Parragh mentioned during the discussion, this unipolar power is increasingly torn into a multipolar one by the economic rise of China and India. The moderator leading the discussion suggests that in this emerging power centre, once again heading towards a multipolar system, a place is demanded by a renewed Russia, which is regaining strength and does not wish to give up her imperial status. They agree that Russia and the US are fighting a tough battle for Ukraine, a country brought into the US's scope of interest. At the same time, the Crimean Peninsula, which previously belonged to Russia, was annexed by Russia. The European Union, located in the buffer zone, placed Russia under embargo on request from the US, however, the EU and its Member States will get the worst end of it, while the USA makes profit on it, since – as concluded during the discussion – the goods missing because of the EU's embargo are purchased from the US.

During the discussion the interlocutors mention that in this rearrangement, the EU is weakening despite the fact that the centralization that set out from the US has also started both in the banking and insurance business and in the industry and service sectors. It was also discussed that the oil crisis and the banking crises that started in 2007 hit Europe harder than the US. The interlocutors give excellent analyses of both. The relevant professional financial analyses by Patai and Lentner are worth special attention, while the impacts on industry and trade are explained by Parragh. Mention is made again of FX-lending, which also appeared in certain Western-European states, but caused serious financial and social problems mainly in the Eastern and Central European post-Communist countries. While discussing Hungary's case, the interlocutors conversing in the book mention that the transformation of this form of lending through conversion into the national currency was a socially acceptable, appropriate solution by the government, acting in concert with the National Bank of Hungary.

Returning to the lines of power, it turned out that among the member states of the EU, Hungary is in the most difficult situation in the Russian–American conflict, as she lies on the borderline of the cultural areas of the historical Western Roman Empire, a catholic state, and the orthodox Christian Eastern Roman Empire, just as she has always been along her history going back to a thousand years. This was one of the reasons why Hungary had significant markets in the Slavic east, lost partly during privatisation and partly to the embargo resulting from the Ukrainian conflict. As a result of the discussion it was concluded that the emphasis of Hungarian economic policy should fall on regaining these markets, which is also justified by the country's economic geographical situation.

In the fourth topic the interlocutors discussed the benefits of the adoption of euro for the countries that have joined the euro area and the disadvantages or perhaps benefits for those who have not joined the euro area. In the roundtable participants' opinion, the related analyses focused heavily on Hungary. The various governments of Hungary put accession to the euro area on the agenda, and then extended its deadline on several occasions for failure to meet the requirements. As however, this failure has become permanent, the country has not joined the euro area. The reasons for Hungary's failure to meet the accession criteria are explained in detail and at length by Csaba Lentner, and the consequent disadvantages are summed up by Mihály Patai. During the discussion of the related correlations, another mention is made of the Russian-Ukrainian conflict and the trap the EU made for itself with the embargo, weakening the euro to the US dollar.

Moderator Lajos Péter Kovács mentions that highly conflicting developments are taking place in the euro area because the strengths of the participating economies vary. In response to the moderator's point, Csaba Lentner noted that the European Central Bank endeavoured to strengthen economically weaker states (typically in the Mediterranean) by purchasing the sovereign securities they issue. In László Parragh's opinion, the problem in these states is that due to the weakness of the central governments, structural reforms have been postponed, and this resulted in very high unemployment rates. In order to strengthen the euro, this situation must be changed, in the respondents' opinion.

The fifth topic of the discussion tackled *the revival of regions*. László Parragh thinks Hungarian foreign policy has been led to a blind alley in this respect. He explains that Poland has adopted a maverick economic policy, has markets of her own, and Galicia is her only region that once belonged to the Austro-Hungarian Monarchy. For this reason Hungary and Poland do not belong to the same region. Hungary should be comprised in a region with Romania, Slovakia, Serbia, Croatia, Slovenia and Austria. However, Austria, a country that can be classified in this region, would look at Hungary and the aforementioned other Central European countries as if they were her colonies. Regarding the issue of migrants, and in several other matters, Romania represents a position that differs from that of Hungary and the considerable part of the other countries mentioned above. Moreover, as referenced in the book, due to the suppression of the rights of Hungarian minorities living in the neighbouring countries, Hungary has serious conflicts with Romania and – in this question – also with Slovakia. As for Serbia and Croatia, no problems are encountered in relation to the Hungarian minorities living in these countries; however, there are considerable differences between their approaches to halting the migration and easing its pressure, as also voiced during the discussion. It should be noted, however, that since the publication of the book (in the summer of 2015), a favourable turn has taken place in Austria, Croatia and Serbia, and cooperation between the Visegrád (V4) Member States (Poland, Slovakia, Czechia and Hungary) has become full-fledged. Incidentally, the reviewers also note that Romania's views have also changed in a favourable way in the matter of migration. Similarly to Hungary, Romania does not allow migrants who arrive for economic purposes to enter its territory.

Nevertheless, the roundtable has also "established" that there are considerable differences between the standards of the various countries classifiable in this region, and their economic standards should be levelled out. At this point, the interlocutors primarily alluded to the differences between Slovakia, a member of the euro area, and Hungary, outside the euro area, to the advantage of the previous one. The interlocutors arrived at the conclusion that Hungary should first and foremost close the gap by reducing the said drawbacks, analysing foreign solutions and taking them into consideration. The banking system, higher education, the management of unemployment and the promotion of employment should be reformed to a certain extent on this basis. Regarding the promotion of employment, all of them were of the opinion that those community work areas which still remain unproductive should be channelled, even more than at present, towards useful directions, primarily towards production. They went into more detail about the proposals affecting the economic and financial system and already mentioned in the previous topic, namely that the economy should be "directed" more positively towards competiveness.

The sixth topic of the "roundtable discussion" concerned *bank loans, growth* and *opening to the east*. The conversation started with a historical reference to the transformation of a single-tier, centralised Hungarian banking system into a two-tier one in the second half of the 1980's, with the second tier, called commercial and economic, initially lending to the retail and the business sector alike. It was also mentioned that due to irresponsible allocations made with all too favourable conditions, second-tier banks went bankrupt and needed recapitalisation before they were sold to foreigners, with the exception of OTP Bank. OTP Bank was also sold, but the internal management was given a significant role in it, and by now this bank has become the leading bank in the region, and perhaps even in Europe. The Hungarian subsidiaries of banks sold to foreigners – as mentioned several times during the discussions – took a considerable part of their operating profits to their parent banks. The problems caused by FX-lending was repeatedly mentioned, as foreign parent banks do not assume any liability whatsoever for such transactions.

As to the character and role of Hungarian capitalists, the interlocutors find them rather uncreative, as they came into existence with state support rather than on their own. An argument evolved around the political affiliation of the new Hungarian capitalists. Csaba Lentner is of the opinion that over the longer term they are shifting towards the right (in Lentner's opinion capital tends to draw to the right), which is, however, contested by the other two interlocutors based on the assumption that this layer is always reasonably attracted to the side that can best serve its interests. In relation to this, László Parragh suggested and Mihály Patai agreed that a Hungarian business stratum should be created. In response, Csaba Lentner mentioned that in the framework of the Funding for Growth Scheme, the National Bank of Hungary had invested several thousand billion forints into Hungarian businesses, primarily SMEs and agricultural small producers.

The discussion also covered the issue of a correlation between company subsidies and corruption. The question was raised whether the assignment of the majority of public procurement tenders to a single company should be considered as corruption. In Mihály Patai's view the related concerns are ungrounded. Csaba Lentner thinks that corruption is ruled out when the majority of public procurement tenders is granted to a tried and proven company that seems to be most apt for fulfilling the order. The participants mentioned the need of establishing strong, large corporations in Hungarian ownership in Hungary that would contract small and medium-sized businesses.

Opening to the east and the efforts made at penetrating eastern markets were raised as a final topic, covering not merely Russia, but a more extensive area including the Middle East. In relation to this, the Russian contribution to the renovation of the Paks Nuclear Power Plant was mentioned, which is found correct and undisputed by several Member States of the EU, as they have realized that this is the most efficient solution for securing long-term energy supply in Hungary. The interlocutors also agreed that Hungary needed an economic policy with equal emphases on maintaining western economic relations and opening to eastern markets. The CIS member states, which evolved from the former Soviet Union, are ready to import any amount of apple from the Szabolcs region just as the Soviet Union once did. We were not ousted by Western European states through their higher-quality products, but we ourselves pulled out during the Antall Government. Due to Hungary's favourable climate, we could regain these markets for our agricultural products that are higher quality than those produced in Western Europe, primarily those of the Netherlands.

During the "fictitious meeting", the seventh topic included a discussion of the three interlocutors and the moderator who channelled their conversation about *Hungary's international reputation.* Lajos Péter Kovács thinks the West still has a very low tolerance to Hungary, and he asks why this was so. Mihály Patai thinks the West does not blame Hungary for her interest in eastern markets; they merely disapprove the management of the Norwegian Fund, the tax levied on advertising revenues, the comparison of Moscow to Brussels and Illiberalism. In his opinion the most serious problem is the non-diplomatic depiction of Hungarian politicians to the West. On the other hand, Csaba Lentner is of the opinion that the West has no moral basis to criticise us, as they are competing against us in the eastern markets. László Parragh attributes Hungary's adverse image in the West to the fact that the Hungarian economic policy has broken with the mainstream economic policy, has chosen to become independent of IMF through loan repayment, and has stopped FX-lending and the PPP programme. In addition, he thinks that any measure taken in national interest is a pain in the neck for westerners, because they hamper the integration goals of Brussels and the US. The interlocutors arrived at the conclusion that for the West the main problem is that Hungary sympathizes with an economic system close to social market economy rather than the market economy based on the merciless competition supported by Brussels.

The last point in the roundtable conversation was about *the starting points for the market economy of the future.* To launch the conversation, the moderator asked the interlocutors about the most important factors that needed to be considered for planning the future economy. Taking the floor first, Mihály Patai pointed out that the European Union has less than 8 per cent of the world's population but produces 25 per cent of global GDP, and this situation is untenable over the long term. Consequently, a change is expected and will set out from an "extraneous" environment. In their interruptions the reviewers named this change, which has already started: it is the migration threatening Europe with an invasion, which is irresponsibly mismanaged by the EU leaders.

Another factor in fast and constant changes is the movement of multinational corporations towards more favourable commodity and labour markets, which has a positive impact on employment at the time of penetration, however, their departure causes thorough economic and employment problems. To avoid the latter, compromise must be reached with MNCs, but efforts must be made to enable Hungarian companies relocate and take roots abroad. In Csaba Lentner's opinion, primarily agriculture and food processing should be developed, while László Parragh considers the harmonization of social resources as the important factor that enables us to manufacture high-standard technical devices (e.g. sensors and navigation software), to replace low-standard assembly jobs. All the three agreed that a favourable direction in Hungary's future depends on high-standard business and supply activities. This, however, requires a reform in specialised education, vocational training and healthcare, and improvement in the infrastructure.

Rating by the Governor of the National Bank and a ministerial recommendation…

In order to reflect the social and public significance of this specialist book and its authors, it is worth quoting the ideas worded in the Prologue by Minister László Palkovics, to make it clear that the content of the book is thorough and the authors are authentic. "Hungary's competitiveness is no longer manifest in the sale of tasty apricot pálinka from Kecskemét, resilient Rába Steiger tractors and Ikarus buses in western and eastern markets, but in the manufacture of Audi, Mercedes, BMW, Opel and Suzuki cars in Hungarian factories. All these need intellectual capital, creative workers, special engineering know-how, Hungarian small and medium-sized enterprises capable of cooperation with international MNC's, and the government's control capabilities, Hungarian universities, efficient financial interest representation and a highly developed banking system to surround them. These institutions are the strongholds of Hungarian competitiveness, and the authors of the book serve in these fortresses. In the words of György Matolcsy, governor of the National Bank of Hungary, Mihály Patai, László Parragh and Csaba Lentner are the bodyguards of the strong post-2010 Hungarian model, and their intellectual auras, ambition and performance make them emblematic figures."

Moreover, Minister Palkovics goes into further details to acknowledge the merits of the authors as follows. "The authors, who were just coming into their prime, testify to the talent, ambition and peculiar development trajectory of the Hungarian nation though their own life, in a description of the material and intellectual fields from the breakdown of the soviet system and the beginning of the change of regime in Hungary. Mihály Patai, President and Chief Executive Officer of the Hungarian subsidiary of the international bank UniCredit, Chairman of the Hungarian Banking Association, and at the time of the publication of the English version of this book, also Deputy Governor or the National Bank of Hungary and Chairman of the Budapest Stock Exchange; László Parragh, Chairman of the Hungarian Chamber of Commerce and Industry and a member of the Competitiveness Council, and Csaba Lentner, professor of economics granted the Wekerle Sándor Life Achievement Award and the civilian Commander Cross of the Order of Merit of Hungary, and serving as Director of the Institute for Public Finances at the National Public Service University are all personalities who have created future-proof value at their duty stations in the past thirty years; they manage various systems and in the past more than a decade, they have been acting as the "system managers" of the competitive Hungarian economy that has found its own course of development and of academic life."

What else can a book reviewer add to these sublime thoughts and ambitious personalities? We hope that their ideas shared in the book will be a worthwhile material and beneficial pursuit not only for the members of the Hungarian nation but also for anyone all over the world interested in the decades that followed soviet occupation in Hungary and Central and Eastern Europe in the decades and in the peculiar development of market economy, as this novel and unconventional book tackles problems and phenomena in a complex way. It is worth reading.

Mihály Patai, László Parragh and Csaba Lentner: Hungary in a Changing World. Éghajlat Publishing Ltd., Budapest, 2019, 200 pages.

Note

1 The address of Éghajlat Publishing Ltd.: H-1117 Budapest, Karinthy Frigyes út 9. Hungary, eghajlat@eghajlat.hu.

2 "Alliance of Free Democrats". After consecutive election and government failures, in the early 2000's the party that orchestrated the change of regime had degraded along with numerous other parties that participated in the change of regime (e.g. Independent Smallholders' Party or the Forum of Hungarian Democrats).