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The New Hungarian Public Finance System – in a Historical, Institutional and Scientific Context

HUNGARY began to address the profound reasons for the economic crisis after 2010, which resulted in the creation of a new public finance system. This renewal of the public finance system was justified and supported by three factors: the increased importance of public finances all over the world and the spread of the institutional approach; the Hungarian historical traditions; and the social expectations in regard of restoring trust in the government. In practice, the new system is based on three pillars: fiscal policy, which ensures burden sharing; monetary policy, which ensures optimisation in a broad economic-social context; and efficient public auditing that can be utilised at the social level.

KEYWORDS: economic history, public finances, public finances model, central bank's policy, fiscal policy and regulation, national budget, public debt, public finance crisis management

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The market economy transformation that began to pick up pace at the end of the 1980s and its extreme form after the first free elections did not fit into the Hungarian economic and social system, the national interests and the historical traditions. There were several problems inherent in the economic policy introduced after the political transition with a number of unfulfilled promises. The crisis that broke out as a result of the collapse of the sub-prime mortgage markets in the spring of 2007 in the English-speaking countries found Hungary in a very weak economic condition, which was due to the imprudent, one-sided economic policy of the previous years. It became obvious that the excessive autonomy

of market players and the lack of supervision regarding their activities could not lead to lasting market equilibrium; moreover, it led to a crisis. The independent, autonomous market players are not able to find the way out of the crisis through mechanisms which they believe to be self-regulating, nor can they resolve a state of disequilibrium on their own and efficiently relative to their size either at the level of individual companies or at the sectoral, macro-economic or global economic level. For decades, Hungary followed this neo-liberal model, which did not fit into her economic and social conditions at all, and which resulted in a financial crisis, followed by a systemic crisis, first in the English-speaking countries and then in the continental European region by 2007–2008.

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In addition to the model's crisis, the problem was further exasperated by the fact that the regime-changing Hungarian economic policy implemented the neo-liberal policy that was unfit for the Hungarian historical traditions in an ill-matched manner using methods that resulted in dysfunctional disturbances. Whilst maintaining most of the features of the paternalist planned economy and simultaneously introducing certain elements of the welfare state model prematurely, this economic policy created its regulatory system in full and at a rapid pace along the lines of free market economy. Thus, the crisis that had deepened by the autumn of 2008 became twice as strong in Hungary.

The experience in the past decade has shown that only a strong state can guarantee the independence of the country and the integrity of its borders and its people, protect its citizens from crime and terrorism, represent the country's and the nation's interests in the best way that can be expected, and fulfil our expectations. Only a strong state can ensure its citizen's livelihood, create jobs and help those in trouble. A good, fair and likeable state is needed which serves the country and the nation and, as a result, can manage the state finance reasonably and efficiently. Due to the crisis, the powers of public authority, the measures of social policy and, in particular, the economic interventions aimed at mitigating the effects of recession have gained significance.

ANTECEDENTS OF THE RENEWED APPROACH TO PUBLIC FINANCES

Since the outbreak of the 2007 crisis fundamental changes have taken place in the attitude towards the management of public finances. These changes have been quite diverse, but in several cases one common point may

be that according to the underlying approach, the economic decisions and processes can only be evaluated in a wider context than what is usual, taking into account all the possible effects. This is partly why the role taken by the state has gained significance, as the state is the institution which by definition is responsible for dealing with issues that affect a wide range of citizens.

I will focus on institutional economics from among the theoretical schools that serve as the basis for the renewed Hungarian approach to public finances and I will also show briefly how public finance and state finance research has influenced the development of the Hungarian constitutional state all along, demonstrating that focused and efficient state involvement is not foreign to Hungarian thinking. Finally, I will also discuss the role of internal social expectations.

THE INSTITUTIONAL IDEA

Nearly all the greatest figures in the more than two-century-long history of economics have dealt with issues of public finances, but the approach that deliberately tried to integrate economic processes into the social-political reality first emerged only about one hundred years ago. Institutional thinking is especially timely today, as the financial crisis that broke out in 2007–2008 showed that the market should not be left on its own and economic issues cannot be interpreted without considering their far-reaching consequences.

According to the British economist, *Ronald Coase*¹, who was awarded the Nobel Prize in 1991, economics had neglected institutional issues for a long time and exclusively focused on supplementing and formalising what *Adam Smith*² described in his undoubtedly revolutionary book *The Wealth of Nations* published in 1776, which generated profound changes.

This means that economists failed to devote ample attention to what was going on in an organisation or a company – this is what Coase addressed – nor to the social and political environment and context in which economic decisions were made.

Undoubtedly, more attention should be given in economic policy and public finances to the fact that economic and financial transactions incur costs. One of the key tasks of economic governance is to reduce these costs. Institutions, rules and laws must be created which reduce the transaction costs. If we accept the fact that these costs typically derive from uncertainty and risk, then one of the goals of the state should be to create an environment in which market uncertainty is properly controlled and mitigated. Therefore, one of the main directions of institutional thinking was to find out what regulatory matrix was needed in order to create a well-functioning economy and state. According to *Dani Rodrik*³, a professor at Harvard University, four institutional groups can be distinguished that are indispensable for economic and social development:

- ① Market creating institutions
- ② Market regulating institutions
- ③ Market stabilising institutions
- ④ Market legitimising institutions

Central bank regulation is an important tool in the institutional approach to the public finance system. This was the first area that underwent, and is still undergoing, significant renewal in response to the crisis. According to the Rodrik model, the central bank is one of the key stabilising institutions of the economy. In this classical approach, it ensures price stability, but these days the responsibility of central banks for general macro-economic stability and possibly for social stability is also mentioned as a key factor. The outbreak of the financial crisis put an end to the previous consensus on monetary policy. The effects of

monetary policy on redistribution have come to the foreground; the modelling and transparency of central bank decisions now require the development of an interpretive framework that allows the complex interpretation of monetary policy decisions in a social context.

THE SYSTEM OF PUBLIC FINANCES IN HUNGARIAN ECONOMIC THINKING

The concept of state economy, which is synonymous with today's public finance system, was defined by *Gyula Kautz*⁴ in 1885 as follows: “[it is] the economic strength of a nation that constitutes a state, organised and made effective for public purposes and providing a common economic power to meet the common needs of society.” This outstanding figure in public finances who worked in the age of Hungarian dualism even assigned a technical framework to it, when he used “the organic system of state finance” as a related concept. “Even in more advanced countries, we do invent this kind of financial management as one of the greatest functions of executive power and especially of governance, and we see it as a public finance system that results from the medium, the administrative elements and rules inherent in it and, accordingly, we call it finances or, better to say, state economy (and state finances)” – Kautz argues.⁵

The richness of the area of Hungarian public finances and state finances had been apparent from the very beginning of the Hungarian State⁶, given even more significance during the development of industry and trade and with the rise of the middle class during the reform period in the 19th century.⁷ It became institutionalised in the age of dualism. The recovery of the country's budgetary independence was enacted in Act XII of 1867, which provides that “although the ruler is common under the *pragmatica sanctio*, as the Hungarian

... crown belongs to the same king who rules the other countries too, this does not make it necessary to define the civil list of the king as common expenditure. This kind of common agreement is not required in the pragmática sanctio, and His Royal Highness, the Hungarian king agrees that the Hungarian National Assembly, at the submission of the responsible Hungarian ministry, shall separately vote on the civil list of the Hungarian king. Thus, voting on and serving the civil list of the Hungarian king shall not be a common matter.” Despite limitations of space, mention must be made of Kálmán Széll⁸, Sándor Wekerle⁹ and Vilmos Mariska¹⁰, who were key theorists of public finances at the end of the 19th century and the beginning of the 20th century. However, despite the state finance reforms that had a stabilising role at that time, Hungarian public finances and the experts working in this area had to face newer and newer challenges all the time. Emil Klug and Adolf Soltész¹¹ wrote in 1917: *The increase in public needs makes it imperative to increase public revenues in every area, including direct taxes ... Thus, much bigger public burdens will be imposed on the tax-paying citizens than before on the basis of a system in which the old tax categories resting on outdated principles are mixed with newly enforced modern principles which fail to create a harmonic system. It is a natural consequence of the foregoing that the measures of the current legislation are so complex and cumbersome that the general public finds it hard to get their bearing in it.”*

Public and state finance issues and special technical methods have constantly been part of the history of the Hungarian State. It is also true though that the intellectual achievements in this area of inquiry became more pronounced with the sudden upturn in commercial and economic life (the Reform Age and the age of dualism) and after the shocks and crises that hit the economy as well as at the time of the shift to new modes of produc-

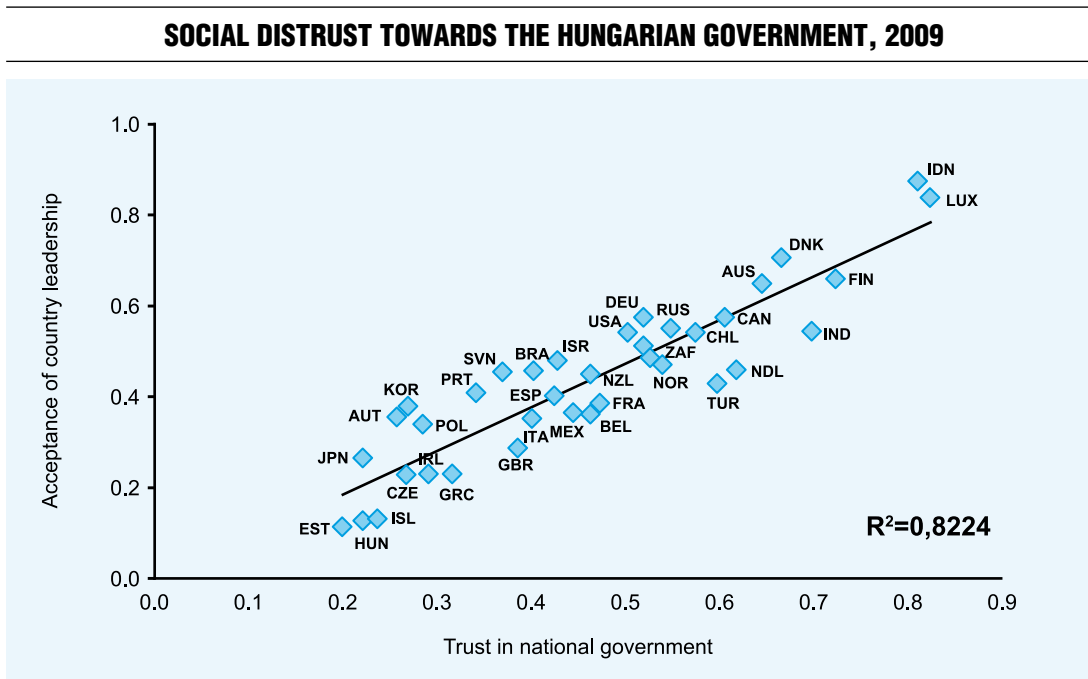
tions (the periods after lost wars, attempts at convergence).

INTERNAL SOCIAL EXPECTATIONS

A well-functioning state is based on trust. One of the most far-reaching consequences of the 2007–2008 crisis was that the confidence of the citizens in the government and the state was shaken considerably. This erosion was especially strong in Hungary, where the government’s confidence index and satisfaction with the leadership of the country were significant even in an international comparison. According to an OECD survey conducted in 2009, Hungary was the laggard among the developed countries in both respects (*see Figure 1*).

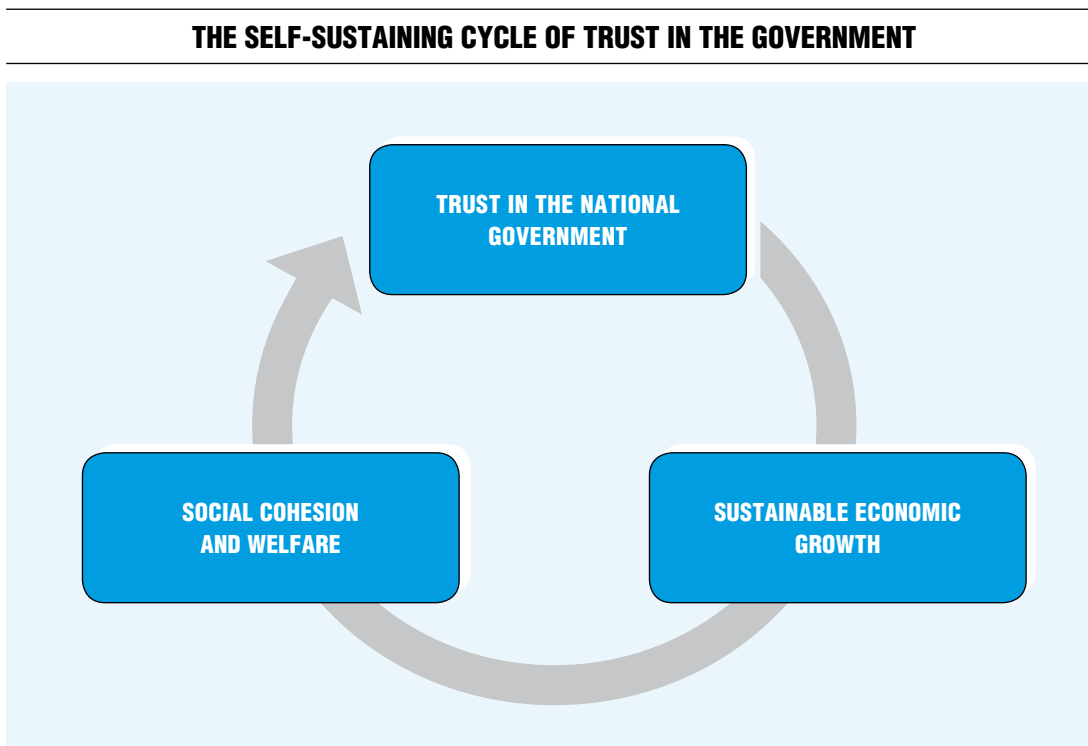
Trust in the government is a key element of efficient economic policy, as successful crisis management presupposes both finding the right answers and implementing decisions effectively. The latter one largely depends on how much confidence the citizens, small enterprises or the leaders of big companies have in the government. It is impossible, or at least very difficult, to create social support for the necessary transformations without trust in the government, especially in view of the fact that the renewal of the public systems typically incurs costs on the short term, and the benefits become tangible and visible only on the long term. The erosion of confidence in the government may result in compliance with the rules becoming looser (e.g. in connection with the payment of taxes) and taking less risk, which is detrimental to the economy. This may lead to a failure to implement investments, slower growth and a loss of jobs – practically making effective crisis management and boosting the economy impossible. Confidence may be regarded both as the outcome of previous reforms and the basis for the transformations

Figure 1



Source: OECD

Figure 2



Source: own editing on the basis of OECD data

that lie ahead of us; that is, it is a basic condition for economic upturn and social cohesion.

Confidence in the government means that the citizens of the state think that the direction taken by the government is essentially right (see *Figure 2*). This basically depends on whether the government acts in accordance with the citizens' preferences and on how the citizens feel the impact of government decisions in their daily life (perceptual approach). In a broader sense, trust in the government depends on two factors:

- ① social trust, that is, how much citizens trust the entire social system,
- ② political trust, that is, how much citizens trust the government itself and its institutions.

In Hungary, the crisis certainly had an impact on social confidence as well, but the lagged position in the international comparison may have been due largely to the reduction in political confidence, which significantly hindered recovery.

THE RENEWAL OF HUNGARIAN PUBLIC FINANCES AFTER THE 2007–2008 CRISIS

The fact that Hungary can be regarded as an example for the new public finance thinking in the post-crisis period after 2007–2008 fits well into this series of historical developments, as there has been a significant renewal both in fiscal and in monetary policy.¹² The pillars of the Hungarian public finance system represent a strong basis. Budgetary policy is based on an efficient taxation system that introduces efficiency in the sharing of social burdens.¹³ Monetary policy uses an approach that considers complex economic effects and puts the measures into a wider social context, whilst the system of public auditing provides a framework for the efficient supervision of the use of public funds at the social level.

Fiscal policy is a tool of the executive power

to centralise the processes of national economy and redistribution, the methods, the extent and the nature of which enforce the political priorities and public finance principles of the government in respect of the economy and society. Its major tool is taxation and creating additional demand at times of crisis, which can mitigate oversupply and kick off recovery in the economy. The key technical executor of fiscal tasks is the National Tax and Customs Administration. At its foundation in 2011, the guiding principle was to perform the task of the tax and customs authority more efficiently, more transparently and more cost-effectively than before. The uniformly managed organisation ensures revenues for the central budget, and the new organisational set-up ensures that financial and other crimes are detected more effectively and efficiently compared to the previous structure of its predecessors. Another important executive body for fiscal tasks is the Hungarian State Treasury, which attends to tasks related to the execution of the budget and also functions as a tool for controlling state finances at the government level.

In order to keep market players and the whole of state finances functioning, the Hungarian government took on a regulatory and supervisory role where it was able to directly influence financial conditions. It seeks to finance the operation of the state by optimising the tax system, in other words, creating extra tax revenues through reorganising the public dues system and, at the same time, reducing the tax burdens of domestic residents, which helps households to generate more income. The official price regulation for public utility service providers also enhances the spendable income of the people. The state seeks to ensure its funding internally (self-funding), whilst it manages the budget deficit and the public debt by means of a burden sharing fiscal policy and even enacted a regulation for debt management in the Fundamental Law and the

cardinal Acts. With the state consolidation of local governments, the avoidance of national bankruptcy was extended to another segment of state finances. As a result of comprehensive fiscal reforms in 2013, Hungary was removed from the countries that were under the excessive deficit procedure of the European Union.

Monetary policy is the other important branch of public finance policy. The key monetary authority, that is, the National Bank of Hungary (MNB) participated in refinancing the real sector up to the middle of the 1990s and in financing the public debt up to the turn of the millennium, to a constantly decreasing extent.¹⁴ The withdrawal from this classical role was gradual during the performance of the initial obligations entailed by the accession to the European Union. The gradual reduction of the central bank's refinancing functions, however, took place without due care, often causing economic disadvantage, as it was not justifiable at the current level of development in the Hungarian economy and society; on the contrary, additional refinancing expansion would have been needed in order to strengthen the domestic businesses and agricultural producers. The same holds true for the withdrawal of the central bank from the financing of public debt: neither the government debt, nor the budget deficit was reduced by pulling the central bank out of financing. Moreover, the financing of the public debt and the budget deficit on the free market is even more expensive, depriving the budget of funds for social expenditure and economic development.

Article 41 of the Fundamental Law, which can be seen as a basis for the renewal of public finances, provides that the National Bank of Hungary is Hungary's central bank, which is responsible for monetary policy as set out in a separate cardinal act (the Central Bank Act). The primary objective of the MNB is to achieve and maintain price stability. It sup-

ports the government's economic policy using the available tools of monetary policy without endangering its primary objective. The National Bank of Hungary is a member of the European System of Central Banks (ESCB). In carrying out their tasks and meeting their obligations conferred upon them by the MNB Act, the MNB and the members of its bodies shall neither seek nor take instructions from the government, the institutions, bodies or offices of the European Union, the governments of the Member States or any other bodies or political parties, with the exception of the European Central Bank (ECB). The mechanism supporting fiscal policy is created at the discretion of the central bank on the basis of its responsibility for the national economy, which is implemented without jeopardising the primary objective of price stability. Preserving the guarantees for the independence of the central bank, the National Assembly adopted a new Act on the central bank in 2013 (Act CXXXIX of 2013). In addition to the classical tasks of the central bank, the new regulation specifies effective macro-economic tasks and interventions as well as international cooperation and the supervision of the financial brokerage system.

For two decades, the low level of inflation, which was one of the primary tasks of the central bank to ensure, has been seen as a factor indirectly boosting economic growth; however, by now this connection has become questionable in economic policy. Since the 1970s the American central bank has been working along the lines of a triple objective, where keeping inflation low is just one (but not the primary) objective, the other one is boosting growth and the third one is creating jobs. Economic growth and the expansion of employment have clearly become the top priorities in the Fed's monetary policy since the 2007 crisis. In order to mitigate the crisis, it introduced extensive monetary easing. As a

result, by the autumn of 2014 the American economy managed to get out of the crisis, and the Fed stopped its policy based on monetary easing. In September 2012 the European Central Bank decided to refinance weakly performing members of the monetary area on the government security market.¹⁵ The Japanese central bank (BoJ) is also using powerful monetary easing measures in order to boost the economy. The Bank of England's „*funding for lending*” program was also designed to stimulate the economy.

The bases for a new, unorthodox central bank policy that follows the trends of the global economy¹⁶ were created in our country in the spring of 2013. The bigoted, normative and one-sided primary objectives of the central bank focusing only on inflation did not survive the crisis. Not even in Hungary. The interest rate cut cycle,¹⁷ the Funding for Growth Scheme (FGS)¹⁸ launched in the summer of 2013 and the Self-Funding Program announced in the spring of 2014 represented effective steps in the reduction of funding costs, achieving a turn in growth and significantly reducing external vulnerability, which was seen as one of the weak points of the Hungarian economy. The FGS is an organic continuation of the predictable and gradual approach that the MNB adopted for cutting the central bank base rate. The program was supported by the fact that price stability had been achieved by the beginning of 2013 in Hungary and financial stability had also improved significantly; that is, the country was in a state ready for growth. Another important step forward was when the legislator integrated the Hungarian Financial Supervisory Authority and its powers into the central bank as of 1 October 2013. With this step, the central bank's macro-prudential regulations were complemented by micro-prudential regulations and influence as well as by the auditing tools required for such

regulation in line with the international and European trends.¹⁹

One of the key elements of the Hungarian public finance renewal was the transformation and strengthening of the control system of state finances. One of the preconditions for economic recovery and breaking free from the debt trap is strict saving, responsible management of public funds and national assets, which, first of all, means keeping public finances on a short leash and using an effective and efficient control system for state finances. It is a fundamental national interest to have a transparent, efficient and accountable system that manages public finances and national assets. Without professional and regular controls Hungary will never be able to recover and overcome its current economic and social problems. With the Fundamental Law coming into force on 1 January 2012, a new era began in our country in the sense of public law, as the Fundamental Law sets out several stringent requirements that serve the purpose of responsible financial management, including, in particular, the rule on debt. Another important new feature of the Fundamental Law is that the Fiscal Council was included among the bodies that have a constitutional legal status, i.e. it received equal status with the SAO and the National Bank of Hungary (MNB). The Fundamental Law also specifies that in order to reduce the total debt, the Fiscal Council has a right to veto, which means that the Hungarian legislators undertook important self-restraint. The primary aim of the mandate granted to the Council is to submit the best, most reliable and most well-founded draft budget possible to the National Assembly. It is the members of the National Assembly who will have to vote and assume responsibility, but the Council guarantees that the requirement of the Fundamental Law in connection with debt will in no case be disregarded.

Following the adoption of the Fundamental Law, the next bill discussed, enacted and adopted by the National Assembly was Act LXVI of 2011 on the State Audit Office of Hungary. The new regulation effective as of 1 July 2011 ensures that the State Audit Office can operate more effectively and act even more successfully in order to protect the use of tax-payer money and the assets of the nation. On the basis of the new Act, the SAO has become one of the most important elements of the system of economic checks and balances ensuring the democratic operation of the Hungarian State. The new regulation introduced several important changes by extending the supervisory mandates of the SAO, noticeably strengthening the organisation's independence and making the auditing work more transparent than ever before. The Act provides a comprehensive audit mandate for the State Audit Office of Hungary, which means that as a general rule, the SAO may audit the use of any public funds and state assets.²⁰ It is of primary importance for the quality and efficiency of control over the public finances that, pursuant to the new SAO Act, the audited entities are now obliged to cooperate and take measures in connection with the findings of the State Audit Office. Using the words of President *László Domokos*, the period of auditing without consequences has come to an end in Hungary, and order will create value.²¹

A NEW TYPE OF THE PUBLIC FINANCE SYSTEM

Science is a system of interrelated parts of knowledge, which determine the subject matter and the methodology of the investigation, the way in which the knowledge gained through research is organised and the regularities deriving from the knowledge so organised.²² Science is everything that seeks

to understand reality. Everything that is about reality and its interpretation. The study of public administration, which was actually born in the 18th century, has embraced a new meaning, new content and new knowledge since the 2007 crisis. In his scholarly work that established a new school, academician *Lajos Lőrincz* defined²³ the fundamental features of public administration studies, raising this field of inquiry to the level of scientific disciplines.²⁴ As *Lajos Lőrincz* put it – which appears to be a reference to previous work²⁵: the study of public administration is a research area that *Zoltán Magyary* calls public administration, thus it is not necessary to squeeze the approach into it that is used by jurisprudence. Therefore, despite contemporary aversion, we can call *Zoltán Magyary* a classical figure of the Hungarian research into public administration without any reservation.

By way of its interdisciplinary nature, the study of public administration integrates politics and the economy and legitimises the established order by means of its legal tools. Although the operation of the state that has been guided mostly by neo-liberal principles for decades may be likened to a joint stock company, the generation of profit can hardly be given priority in the management of public services. The period after the crisis has shown that the state and its services should succeed by focusing on common good. After all, the state embodied in the DPM²⁶ paradigm, as if it were operated by a manager, was born in the neo-liberal economic system under a mechanism that proclaimed and enabled the unlimited automatic processes of market players. The state did not influence, control and regulate the operation of joint-stock companies properly, thus this form of companies, which was the basic unit of neo-liberal production, turned out to be a failure without state influence.²⁷ As a result, using the same

operating principles that this company form was characterised by for the operation of the state was doomed to failure. The unregulated joint-stock companies and banks – as a system – failed due to the operation of the state that failed to apply regulations. The lack of regulation at the level of companies made the regulator that is entitled to regulate (the state) almost totally free of regulation.

In reference to Hungarian history²⁸, Lajos Lőrincz concludes that when royal power and governance were strong, the country was safe and its economic situation as well as its international relations were secure and acceptable, while at times when executive power lost its strength, chaos, economic crisis and isolation prevailed. The dilemma of administration and governance in a strong and active or a weak “yes” state is a long-standing issue. Quoting academician *Antal Mátyás*:²⁹ the economists advocating the neo-Keynesian views (representing a neo-classical synthesis) take an ambiguous position in connection with the automatic processes of capitalist economy. In the short term, they call into question the stability of the capitalist private sector. According to *Tobin* and his co-author, *Buitner*³⁰, the underemployment of labour and capital is frequent and lasting enough to justify the opposition to intervention provided by economic policy. *Modigliani* takes a similar position: monetarists are wrong when they believe the economy is already well protected against any shocks and there is no need for a stabilisation policy any more. Their claim that the stabilisation policies have failed to eliminate the problems but in fact they have generated more trouble is not supported, among others things, by the data of the United States and other industrial countries. Nothing proves the adequacy of the highlights and references made by *Antal Mátyás* at the end of 2006 more clearly than the fact that the neo-liberal mode of production had collapsed by the spring of 2007.

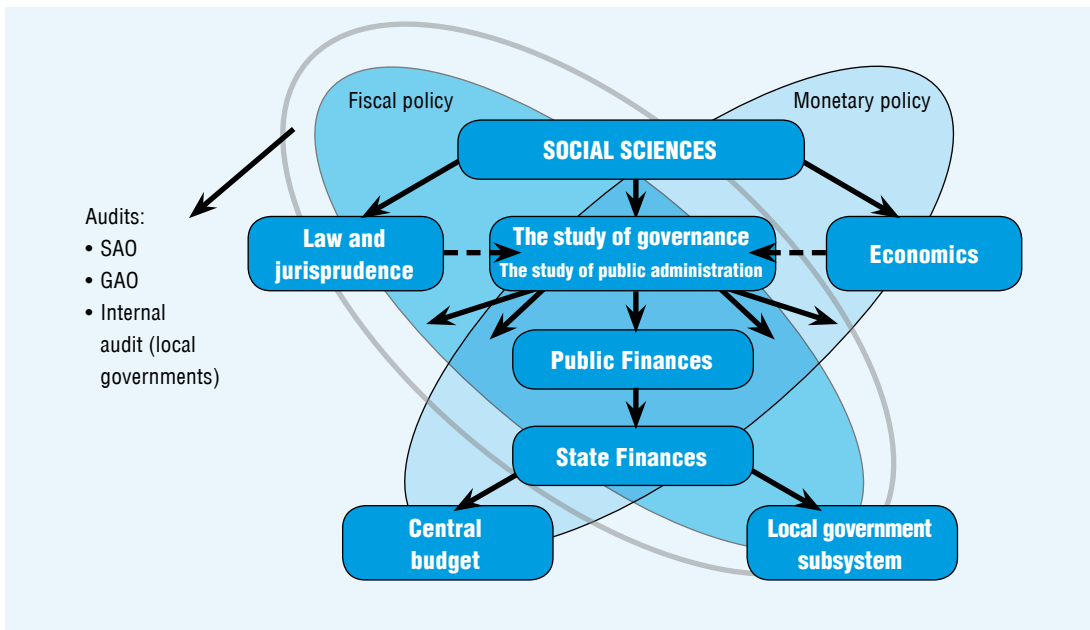
Public finance as a comprehensive category, and state finance as a technical framework for the financial and asset processes of the government form an organic part of the study of governance, that is, public administration. They provide the organising principle and economic framework of the operation of the state. Using its own tools, law creates rules and encodes reigning practices into rules, whereby it promotes continuity, efficiency, transparency and accountability. With the role of the state gaining more significance, a new scientific methodology has been created for the study of its operation in Hungary as well. The study of governance “created” at the interdisciplinary boundary of jurisprudence and economics brings together public law, public finances (state finances), the study of national economy, e-government, public administration management, public service communication and various areas of the public service profession³¹ (see *Figure 3*).

The crisis of the neo-liberal system extended the role and importance of the study of public administration. The sound and transparent public finance conditions of a strong and active state resting upon a good theory provide the basis for a well-functioning state. The study of public administration is an area of inquiry constantly expanding as a consequence of the crisis and incorporating several disciplines.

The banking mechanisms and institutions, the regulatory and supervisory structures, i.e. areas that usually belong to classical finances and are typically included under the categories of banking are now shifting towards the domain of public administration. This is because private banks are unable to support continuous business operation without state and international participation, cross-border regulation, effective supervisory control and occasional budgetary subsidy and state intervention.

Figure 3

THE SCIENTIFIC FRAMEWORK OF THE NEW TYPE OF STATE FINANCES



Source: Lentner, Cs., 2015

In a different context, the state assumes a new role in crisis management, and there is good reason for the state as a strong power regulating and supervising the markets to focus on the financial markets and the banking institutions in response to the crisis and its escalation and in order to ensure consolidation. The coordination, influence and supervision of economic organisations can only be successful if it is managed by well-organised financial governance, i.e. along the lines of clear public finance and transparent state finance subsystems.

SUMMARY AND CONCLUSIONS

The continuous successes of the Hungarian national economy since 2010, the processes taking place in the international arena since 2007, and the successful stages of Hungarian history have always been due to active state

participation. The criticism of the changes introduced in Hungary cannot be justified by challenging the way in which public finances are managed, as it is aligned with the international trends and the Hungarian historical past.

The neo-liberal market economy became the most deeply rooted in Hungary among the countries of the post-Soviet region, and this neo-liberal market economy, unfitting for the country's economic and social conditions – in its raw form without any gradual transition – was created the most rapidly in Hungary, which had essentially collapsed by 2008. Any change in order to recover condition close to an organic state can only be achieved by leaving behind the unfitting and non-organic elements as soon as possible. Since 2010, by introducing a governance model built on burden-sharing and state intervention, Hungary has become one of the most rapidly growing countries in Europe, exhibiting financial stability as well.

NOTES

- ¹ Coase, R., 1937, 1991
- ² Smith, A., 1776
- ³ Rodrik, D., 2000, 2003
- ⁴ Gyula Kautz, 1885, Introduction
- ⁵ For a more detailed overview of Kautz's work in public finances, see Botos, 2006
- ⁶ In 1868 Kautz presented the enforcement of "economic ideas and trends" from the ancient Hungarian state structure, the institutions of our King Saint Stephen up to the time of the Compromise. Centrally organised financial management had been present even before the time of the Hungarian Conquest, but for space limitations I will not address this issue here.
- ⁷ Széchenyi, István: *Hitel (Credit)*, 1830, *Világ (World/Light)*, 1831, *Stádium (Stage)*, 1833. *Berzeviczy, Gergely: De Commercio et Industria Hungariae 1797, Oeconomica Publico Politica 1818, Dessewffy, Emil: Alföldi levelek (Letters from the Great Hungarian Plains)*, 1839-1842, *A magyar vám- és kereskedési ügy és annak végelgázítási módja (Hungarian customs and commercial matters and their final resolution)*, 1847, *Lónyai, Menyhért: Hazánk anyagi érdekei (The financial interests of our country)*, 1847, *Karvassy, Ágoston: Népszerű nemzetgazdaságtan (Popular national economy)*, 1861, *Heller, Farkas: Közgazdaságtan (Economics) I-II. 1919-1920, Pénzügytan (Finances)*, 1920
- ⁸ Acting as Minister of Finance 1875–1878, Prime Minister 1899–1903,
- ⁹ Three-time Royal Hungarian Prime Minister and Minister of Finance during the age of dualism
- ¹⁰ Mariska, V.: *A pénzügytan különös tekintettel a nevezetesebb államok háztartására (Finances with special regard to the public expenditure of major states)*, 1871, *Az államgazdaságtan (State Economics)*, 1885
- ¹¹ Klug, E. – Soltész, Adolf: *Magyar egyenes adók. (Hungarian direct taxes)*. 1917
- ¹² For a detailed presentation of this process, see Matolcsy, 2015
- ¹³ Creating a better ratio for social burden sharing largely means involving international companies and banks in taking their fair share of the public burden – as far as their financial situation makes it possible – and halving the corporate income tax up to HUF 500 million in net revenues (typically affecting national enterprises). In addition, the tax burden was significantly reduced in the household segment (from 36 per cent to 16 per cent in income tax), family tax allowances were extended, the ratio between income tax and consumption tax, in other words, the tax on income deriving from work was reduced, which is further supported by the utility price cuts by 20–25 per cent, thereby generating additional solvent demand through state means (for more on the latter one, see Lentner, 2015, Chapter 31). Proportionate sharing of public dues improves the taxation morale and motivates excess performance, especially for domestic residents, whilst the extra tax revenues can improve the state's financial stability as a factor of competitiveness.
- ¹⁴ For more on this see Huszti – Kolozsi – Lentner, 2006, the table on page 41 and the explanatory comments on pages 39–41
- ¹⁵ Significant developments began to emerge only as of 2015.
- ¹⁶ New leaders were appointed at the central bank, who endorsed the monetary policy that clearly

supported economic growth, ignoring the norms of the previous decades.

- ¹⁷ In 2015 the base rate was cut to 1.35 per cent from 7 per cent in 2011.
- ¹⁸ This objective is supported by a credit line of HUF 750 billion in the first phase of the program (in 2013) and HUF 2000 billion in the second phase (2014).
- ¹⁹ In September 2013 the European Parliament brought the 150 largest banks in the EU under the supervision of the European Central Bank.
- ²⁰ In addition to providing an expert opinion on classical issues such as the bill on the budget and the bill on the final accounts, the renewed audit methodology of the State Audit Office is amply represented by e.g. the fact-finding audits conducted in the area of local state finance subsystems, higher education institutions and, most recently, public services. This latest audit in 2015, “Public services in focus” contributed to the constant improvement of the efficiency and transparency of the use of public funds.
- ²¹ For more details see Domokos L, 2013
- ²² Tamás, András, 2013
- ²³ Lőrincz L, 2005, 2007, 2010
- ²⁴ Bordás, M, 2012
- ²⁵ Lőrincz, 2010
- ²⁶ Decentralization, Privatization, Management – were the economic foundations of the outdated, neo-liberally inspired New Public Management theory, which were replaced by Centralization, Nationalization, Public Good (CNPg) (the latter defined by the author, Lentner, Cs., 2015)
- ²⁷ American sub-prime mortgage crisis, large number of banks and production and service companies going bankrupt. Lack of market coordination, no effective controls. Greediness and avarice (see Bánfi, 2011), corporate operations made subject to profit in the uncontrolled markets.
- ²⁸ Lőrincz, 2010
- ²⁹ Mátyás, A, 2007
- ³⁰ Tobin, J. – Buitner, W.: Fiscal and Monetary Policies, Capital Formation and Economic Activity, In: Tobin: Essays in Economics, Vol. III: The MIT Press, 1982. page 183.
- ³¹ In other words, the study of public administration, that is, the study of public governance taken in a narrow sense, is complemented with areas of inquiry such as national defence, national security and international diplomacy that provide the background for the foreign affairs and foreign trade policy of the Hungarian State. Taken all of them together, we get a complete system of research into public governance, which is pursued by the National University of Public Service as the institution providing a scientific and methodological framework for the active Hungarian State.

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