HUNGARY EMBRACING GLOBALIZATION: THE CHALLENGE OF COMPETITIVENESS

MAĐARSKA PRIHVATA GLOBALIZACIJU KAO KONKURENTSKI IZAZOV

LÁSZLÓ CSABA, Professor of Economics and European Studies,
Central European University, Budapest and Chair, Commmittee on Economics,
The Hungarian Academy of Sciences (Web: www.csabal.com)

Abstract: *This think piece is an attempt to survey the evolution of competitiveness in a small open economy under the angle of costs and benefits of globalization. First a historical survey assesses the road leading to the present sage of transnationalization. Then a situation assessment is presented, followed by a survey of challenges and factors of competitiveness. Finally some general lessons are listed, without attempting to be exhaustive.*[1]

Apstrakt: *Ovaj kratki rad je pokušaj prikaza evolucije konkurencije u malim otvorenim ekonomijama sa aspekta troškova i koristi globalizacije. Prije svega, ovaj istorijski pregled istražuje kako je došlo do današnje faze transnacionalizacije. Onda se daje ocjena situacije, sa pregledom izazova i faktora konkurencije. Konačno neke opšti primjeri su prikazani, bez abicije da budu iscrpni.*

JEL clasification: F 02;
Original scientific paper; Recived: January 15, 2007

Hungary today is one of the most transnationalized economies among the medium sized nations. The combined value of exports and imports account for 14o per cent of its GDP and around 4o per cent of assets are in the hands of foreign owners. Four fifth of the country's trade is transacted with EU members.[2] Looking from a bird's eye view, Hungary is one of the major success stories of open door policies. The country has emerged from the doldrums of Communism as a country, whose exports have increased no leass than sevenfold/!/ in dollar terms in 1989-2oo5. Sixty per cent of those exports consist of machinery and equipment, about twice the share that of Spain or Greece. The inflow of foreign direct investment stock is put, by the Ministry of the Economy estimates for 2oo6 at the range of 53 bn euros, in per capita terms still counts as number one in the postcommunist region. Literacy is general, secondary school enrollment is above 9o per cent, and over 4o per cent of the cohort of 18-25 year olds participate in tertiary education. The latter constitutes about a tenfold increase against the last years of Communism, when higher education had been kept elitist and thus enrollment rates were among the lowest in Europe. Since 2oo4 Hungary has been a full member of the European Union. This breakthrough was facilitated, inter alia, by the country's joining the NATO by 1999, in a resolute break with the past military alliance with Russia/in the 1945-9o period/.

The Road to Globalization and Structural Upgrading

Time and space do not allow for a detailed account of economic history. What matters from our angle is perhaps twofold. First, Hungary has undergone a long period – 35 years – of reform socialist experimentation/Berend,199o/. The latter allowed for testing, and on empirical grounds, unanimously rejecting inward looking solutions and hostility to FDI. Second, the country has undergone

1 This paper is an extended version of the author's presentation to the joint Brenthurst Foundation and Konrad Adenauer Stiftung conference on *Globalization and Economic Success*, Cairo, 13-14 November, 2oo6. Useful comments by conference participants are appreciated, with the usual caveats.

2 Source of all data, unless otherwise indicated : Economist Intelligence Unit, Country Report Hungary, update, Nov., 2oo6 and National Bank of Hungary statistics, available at: www.mnb.hu

a decade of evolutionary change, which – contrary to several countries, such as Russia or Poland – has not induced major shocks, but built on a fair degree of continuity, trial and error, and generally cooperative behavior among political and social agents/Karsai and Csáki,2oo1/.

These processes can generally be seen as favorable to sound macroeconomic policies and gradual but continuous institution building across the political cycles. Also the governmental system based on the German model of strong standing of the Prime Minister, allowed unpopular reforms to be instituted in due time[7].

While contemporary theory was firm in postulating the impossibility of any successful transition/Offe, 1991/, in reality Hungarian transition has been successful due to the ability of the government to act when it deemed to do so/while democratic controls have been retained/ and also because of the broad professional consensus over the major features of economic policies. The latter included the rejection of non-traditional forms of privatization/i.e the priority to sell rather than to hand out free of charge/, the need to sustain the solvency of the country even if it requires unpopular balance of payments adjustment, and the need to rely increasingly on strategic foreign direct investment. The latter held especially for the so-called strategic sectors, such as energy and banking, i.e areas where the importance and ramifications of large foreign ownership has remained a source of discord even nowodays in some of the core EU, notably France, Italy, Germany and Spain.[8]

By contrast, the expermientation, but primarily the ensuing conceptual clarification in the 7os and 8os, when third way reforms had been on the agenda, has helped to convince the core of Hungarian economics profession, but also the bulk of the business community and polity that there is no viable alternative to fast privatization to foreigners. Lacking the resource richness of Russia and not expecting major price rises for oil and gas in the global markets, Hungary faced basically only two options. One was the actual one of wholesale sellout to foreigners. The other could have been a model of „national path of development", where the features normally associated with FDI, such as the infusion of new capital, new management skills, new network possibilities, new on the spot learning, enhanced credibility of the new owners and many direct and indirect benefits, would actually have been accumulated and acquired via a process of slow self learning. This is, though in theory, conceivable, in reality that takes a very long time. And it is doubtful if the required sums, knowledge and ability to act are available in time.

Furthermore the prospect of membership in the European Union, much more than actual membership itself, has orchestrated a powerful consensus in the policy making elites and in the business community in accepting the need for some basic lines of argumentation and action, such as the need to give up inflationary polcies, the need to build institutions ensuring the rule of law, the need to accept fiscal discipline, or the imperative to iron out differences in peaceful rather than violent means/ such as the killing of Serbian PM Zoran Djindjic in 2oo2, or the military conquest of the Supreme Soviet in Moscow in October 1993/.

In this process the various phases of negotiations with the EU, such as the association agreement, the membership negotiations, the acquis screening and finally the formulation of the membership deal have all played a decisive role in shaping the actual face of Hungarian institutions and policies alike/Csaba, 2oo4/. The continuous intertwining, also across the political cycles, with the Commission and other EU level fora, eventually allowed the bureaucracy to emerge as a guardian and promoter of European values, way beyond what the domestic political balance of forces of the day would have allowed for. Such issues as making public debt explicit/in 1997/, the abolition of capital punishment, or commiting the central bank to price stability via an independent statute/in 2oo1/ have all marked the milestones of change.

All in all, the country has been on the growth path for over a decade, i.e ever since the second half of 1993 to 2oo6. Not even the rather harsh and heterodox adjustment package of 1995 has constrained growth, although some slowdown did occur/Kornai, 1997/. The driving force of this recovery has ben exports and investment, i.e the sustainability of the process has been established.

The period of 2oo1-2oo6 has seen a turn, that might be characterized in a number of ways. We may term it adjustment fatigue, a turn to populism, or joining the wave of EU-core inspired laxity in

3 For a comparative perspective see the insightful account of/ Bönker , 2oo6/.

4 The renewed emphasis of what the French call economic patriotism, or the Germans the need to ensure social control over major firms, or the Spanish practice/never promulgated but conducted/ of not letting foreigners to acquire controlling stakes are all cases in point.

fiscal matters. The crux of the matter is that the middle of 2oo1 has seen a major policy turn. What seemed at the time an innocent temporary move of the shuttle in a political business cycle, with the onset of the elctions in the spring of 2oo2, has actually turned into a long lasting period of economic history. The election capaign has not come to an end by late 2oo2 as most observers would have expected. Instead the policy of fiscal laxity sustained until late 2oo6. With the promulgation of the Convergence Program of September 2oo6 the Hungarian government[9] has made the first clear signal of its being aware of the severity of macroeconomic imbalances, that may undermine growth in the medium run.

State of the Art: Healthy Business, Ailing Public Finances

The Hungarian economy thus has been successful in mastering the more difficult double task of transition and EU integration in the 1989-2oo2 period/when the accession treaty was signed in the Copenhagen Council of december that year/. However it proved much less effective in mastering the more conventional tasks of solid public finances and adjusting to normalcy of intra-EU bargains. In a way, one may revert this observation. Political agents of various sorts have proven to be much too quick in adjusting to contemporary EU „normalcy", which is featured by a lack of vision, by a concern for immediate welfare and popularity effects and a general myopia. The rejection of the Constitutional Treaty of the EU in 2oo5 by two of the original founding nations, i.e of France and the Netherlands has clearly signalled the concern of the elecorate over elite politics and what the majority percieved as a lack of interest by those in power in their immediate real life concerns, such as sustaining unemployment, growing difficulties of integrating multicultural societies, and welfare threats - alleged or real – from the liberalization of the services sector, most notably financial services.

Owing to these complex processes the rules of the game within the EU have undergone a series of modifications. At one level, enlargement without prior intra-EUreforms could be mastered only if the redistributory practices were trimmed back – a feature only strengthened by the adoption of the Financial perspective for 2oo7-2o13. At a different level, in the meantime, the regular trespassing of the stipulations enshrined in Stability and Growth Pact, i.e the fiscal framework for monetary integration by the major players/especially of France and Germany/ went basically unpunished. Rather the March 2oo5 Brussels Council agreed to soften up the Pact. These two developments were interpreted – rather mistakenly – by the policy-makers in the new member states as the loss of both the stick/enforcement mechanisms/ and the carrot/of EU transfers/ for well behaved economic policies/more on that in Csaba, 2oo7/.

One may well counter with the platitude that good policies in general and sound macroeconomic stances in particular are in no need of being „rewarded" by any external body, since these reflect the best interest of the nations concerned. Furthermore it is equally true, that in the medium run markets in general and capital markets in particular severely punish those who do not play by the rules. However the period of 2oo1-2oo6. has become rather peculiar from this point of view.

For one, international markets were preoccupied with terrorism, oil price shocks and with debates over a possible soft or not so soft landing of the American economy due to the soaring twin deficits under both Bush presidencies. Furthermore new member states tended to be lumped with the EU, especially knowing their revealed intention/and contractual obligation/ to join the single currency. The latter would/will shield these small economies from currency speculation, exchange rate volatility and risk premia. Third, and not least, individual member-states of the eurozone tended to be lumped together, with Italy for instance not having to pay the price of the populist policies of Mr. Berlusconi. All these processes have awakened the false feeling of security, i.e expecting that once no mishap occurred in the past, these will not happen in the future either.

Let me be clear: it goes without saying that the reasons for soft fiscal policies lay within the new member states, a statement that can be proven for Hungary as well/Győrffy, 2oo7/. However, it would be hard to overlook the importance of the negative demonstration effect emanating from core EU for a country where fiscal stringency does not have currency, and public opinion, contrary to many other nations, is not at all harsh on fiscal profligacy.

The continetal European unwillingness to undertake the reform of a welfare state, which is beyond the financing ability of any government committed to sustainable public finance and robbed

---

5 Available at the website of the ministry of finance: www.pm.gov.hu. The updated version as of December 2oo6 differs only in minor respects, such as the sequencing of measures aimed to achieve the same quantitative targets on the same trajectory.

from its possibility to inflate away claims by the single currency has spread quickly to central Europe. In the Hungarian case detailed analyses could prove what was the ultimate reason, over and above ad hoc/temporary phenomena and consideration, which has turned the previous consensus over solid macroeconomics into a Ptolemaian consensus. The latter means that both major parties adopted populist/expansionary/ redistributory economic stances. Thereby they have been instrumental in pushing each another to the corner. Whenever one side would have come to the point of sobering, the other side tried to exploit this ruthlessly and immediately, in the /false/ hope of major popularity gains, that would/should have turned the draw in their own favor.

It is one of the eldest insights in the political economy of economic policy reforms /Bates and Krueger, 1992, p.432/ that reforms never materialize in a period, when redistributory concerns dominate the policy agenda. And the latter has been the case in Hungary in the 1997-2oo6. period. Quite unsurprisingly the last major reform in terms of institution building was pension privatization as of 1997. However, successive measures have in part reverted the benefits, furthermore electorally motivated increases in public pensions in 2oo2-2oo5. have added at least an annual 2.5 percentage point of GDP to an already soaring general government deficit/Orbán and Szapáry, 2oo6/.

Under these circumstances successive Hungarian governments were betting on buying time and cheap external finance, which was a fact of life in the 2oo1-2oo5. period. This has lead to a situation where the external debt/GDP ratio rose from 52 percent to 69 percent by 2oo6. and will further grow until 72 per cent by 2oo8.[10] This gives ground for concern insofar as times of economic expansion, such as the 2oo1-2oo5. period, when growth has never fallen below 4 per cent per annum, both deficits and exteral debt should have decreased, preparing for rainy days in general and the compelling need to introduce the single currency in the immediate policy arena in particular.

In order to explain the inexplicable, one needs to refer back to the fact that structural reforms have come to a halt since 1997/the year of pension privatization/. For this reason the public sector remained largely unreformed, privatization slowed down/until the December 2oo5 sale of Budapest Airport/. Slow management, lacking incentives, insufficient transparency and performance criteria and red tape saddle the area. The quantitative expansion of education rarely followed market signals. Instead ideological postulates, imitation of continetal Europe and regional policy considerations prevailed. Lavish early retirement schemes, that had been perhaps inevitable in the early transition years of 1989-93. to milden the market shock on the labor market, survived for an additional decade and a half. This has created an unbearable burden on the basically publicly funded pay as you go schemes. Disability schemes were misused just as much as in the worst cases of continetal Europe, such as Italy and the Netherlands. Some large public firsms, such as the railway company or local transport firms, or the national airline, could accumulate losses and live up capital assets without any serious consequences for them/not so for public finances/.

By contrast, monetary policy tended to be relatively successful in the 2oo1-2oo6 period. To cut a long story short, while inflation targets tended to be regularly missed/and is likely to be the case in the 2oo7-2oo8. period according to the forecast quoted below/, the rate of CPI, stuck at the level of 1o per cent in the 1999-2oo1 period has gradually been coming down with 6.7 per cent in 2oo4, 3.6 pc in 2oo5. and about 3.9 per cent in 2oo6. While fiscal adjustment in 2oo7 will induce a temporary increase to 6.9 pc, this will come down to 4.1 pc by 2oo8. according to the Bank. The December 2oo6. decision of the monetary policy board not to raise interest rates despite the forecast price hikes is a clear indication of the conviction of monetary policy about the temporary nature of those hikes. Similar assessment is reflected in the Standard and Poor's rating agency`s improved assessment of Hungarian economic policies and prospects issued immediately upon the adoption of the budget/and the Convergence plan for 2oo7-o9/.[11]The exchange rate of the Forint, which was managed in the 1931-2oo1. period, gradually stabilized in the 2oo3-2oo5. period, despite the fact that capital account items have been fully liberalized by 2oo1, in line with the committments taken up by Hungarian joining the OECD in 1995.

Decelerating inflation and stabilizing exchange rates, together with an open trade regime and FDI friendly overall policies were favorable for an investment-led boom in the corporate sector. It is particularly noteworthy that the political debates and

10 National Bank of Hungary: *Inflation Report*. November, 2oo6. available at: www.mnb.hu

11 Reported in: www.inforadio.hu , 21 December,2oo6.

the ensuing macroeconomic laxiy have not deterred direct foreign investors. As a sign of maturing, two features could be observed during the 2ooo-2oo6. period. First, two thirds of FDI tends to come from reinvestments, i.e those who have found a way to Hungary tend to expand their businesses, rather than withdraw them as soon as these recoup. This also reflects the subordinate role of investment incentives in bringng about business decisions. Second, and not least importantly, outward foreign investment has ben gathering momentum. Big Hungarian and locally based corporations, such as the national Savings' bank/OTP, MOL, the oil giant, but also a number of TNCs started to use the country as a bridgehead for their expansion in neighboring countries, such as Romania, Slovakia, Serbia, Bulgaria, Macedonia and Ukraine. This is though bad news for the current acount perspective, since FDI is less and less fit to cover the imbalance. However it is a sign of maturity, when a locality acts not only as a recipient, but also a source of capital flows.

One of the potential dangers in such a FDI led development path is the emergence of a dual structure, where small business and large corporate sector hardly co-operates. In this case capital intensive development may translate into jobless growth and the wealth created will be extremely unevenly distributed. This has not been the case in Hungary. First, with the passage of time subcontracting and local sourcing gradually has improved, not least due to import liberalization and the ensuing competition. The traditional difference between less demanding local and more demanding foreign markets has disappeared for most activities. Second, TNCs contributed significantly to social security system of the country, which has helped to stabilize inequalities, in the range of 1:7, which is above the Scandinavian but below the Itlian, Spansih levels[12], not to speak of post Soviet countries, China or Latin America. Poverty is among the lowest among the countries surveyed in the World Development Report, 2oo6. of the World Bank. Unemployment has regularly been below respective EU averages, coming down from 8.6 pc in the 1996-2oo5. period to 6.1 pc in 2oo1-2oo5, whithe EU averages being 9.8 and 8.8 pc for the respective periods.[13] Not least importantly, the 3o largest, foreign owned firm contribute to about 4o per cent of Hungarian research and development/R+D/ spending. This is, of course, less than would be needed or ideal, since in successful advanced economies, such as Sweden or Japan two thirds of R+D comes from the business sector. Still, its contribution to industrial upgrading is by no means negligible: rather it must be seen as the driving force behind structural upgrading in production and export sales alike. This is all the more manifest, as these R+D expenditures take place in the pharmaceutical, electronic and IT sectors, to mention just a few besides the traditional engineering industries. Improved performance of the financila services also are conditioned basically by major investments by foreigners /accounting for over 8o per cent of asset ownership/.

Challenges for Competitiveness and Reforms

It should be clear from the above said that Hungary has reached, to some degree, the limits to spontaneous development. Also the first and second generation reforms of the 199os have delivered what they could. After a decade a new wave of structural reforms are needed, despite the fact that major parties on the left and right allied themselves with a practice of protecting the status quo as a social accomplishment. While this reasoning is obviously false, insofar as the sustainability of the financing of those arrangements is not given.

For one, while Hungarians do expect lavish provision of public finances, in line with other European citizens, they are not really willing to fund those via the acceptance of a lastingly high tax-high services deal along the Scandinavian lines.[14] The latter follows from the generally low level of transparency in public finances, noted by all external observers. Therefore it is hardly a surprise that for the median voter the relationship between the amount of public dues he pays and the quality and quantity of public services he recieves is less than trivial. For instance, in a country of 1o million only 1.9 mn people pay over 9o per cent of personal income tax. By contrast, according to the records of the national Health Center/OEP, 13 mn persons hold cards that entitle for free medical care. During the first serious performance check in the hospitals in the summer of 2oo6 there occurred cases when one person, at least on paper, died no less than seven times, was analyzed and treated with costly procedures/according to the new Minister for Health/.

12 TÁRKI Institute for Social Research: *Fehéren-feketén*/In black and white/. Budapest, March 2oo6.

13 European Central Bank: *Statistics Pocket Book,*November,2oo6. Frankfurt/M.,p.41.

14 Tóth, I.Gy/2oo6/: Államhívő magyarok/Hungarians believing their state/.*Figyelő,* vol5o.no.16.

In a way, this is a typical continetal European catch 22 situation, where mypoic politics has major difficulties in managing any change that would hurt particular interest groups. The solution is, most probably, a decade long incremental reform that will, at the end, produce a better balance between means and ends.

More urgent is, it seems, the remedying of the fiscal disequilibria. Hungary will, in the forseeable future, have to join the single currency, due to the terms of its accession agreement, but also following its own best interest. Small open economies find rescue from exchange rate and interest rate vulnerability emanating from international capital markets by joining currency blocs. Thus the question is not the if, but the when. As it seems today, following the procrastination of the 2oo1-2oo6. period, this time is unlikely to be before the next government is well into its office, i.e around 2o13. But in order to qualify by then, 2oo9-2o11. must see a credible and sustaining improvement in terms of deficits, debts and inflation alike.

In order to master this challenge the Hungarian government faces two separate, though related, tasks. For one, raising revenues and cutting expenditures in a sustainable fashion, by introducing fiscal rules and severing the budgeting procedure, has been started in 2oo6. This process will have to continue and strengthen in the upcoming years. Second, any sustainable fiscal equilibrium presupposes that major sources of imbalances, such as the uncontrolled functioning of public enterprises, lack of new public management in the state administration, the over-extension of municipalities and the institutions under their jurisdiction/thus outside the control of fiscal authority/, and yes, the above mentioned welfare state elements all need to be reformed. The term implies an expenditure pattern, which is cost efficient and is in line with the ability of the Hungarian state to raise revenue.

Let us recall: in a country with open capital account, and broad touristic and other exchanges, in the internet age, when money is no longer equal to a gold bullion, but a sign on the computer, the tax revenue is crucially dependent on the willingness of subjects to comply. Not only big firms, but „the man in the street" also flees to safe havens, from Liechtenstein to Luxemburg and the Bahamas if the burden of public dues becomes crippling. The tax amnesty in Italy in 2oo5, as well as daily experience in Germany and France amply demonstrate this point.

Therefore third generation reforms will take a long time and move in the direction of a slim and selective state provision of goods and services, i.e away from the universalist ideas of the second half of the 2oth century. Also means to enable the state to raise revenues, by broadening the base and strengthening enforcement/of lower rates/ is the way ahead. The fact that such reforms have ben launched in all EU sttes is a ground for being more optimistic than extrapolation of the experience of the past decade would warrant it.

From the point of view of competitiveness it is important not to relapse into the conventional discussion over unit labor costs and statutory tax rates/ especially that the latter often differ significantly from effective rates levied/. For Hungary full membership in the EU and the emerging new policy line, that is becoming more congruous with introducing the euro, may be a basic comparative advantage. Geographical location, in line with new economic geography theories, should matter. After all, Budapest is closer to Munich or Milan, than Berlin or Rome respectively. And the Munich-Milan axis has been one of the engines of continetal European growth for over two decades by now.

High enrollment rates in higher education and near-universal secondary education also count among the pluses, despite some quality problems. Acceptable levels and improving physical infrastructure, consolidated political life and a generally peaceful social atmpsphere[15] all count among the lasting locational advantages. Also, the mood continues to be generally proFDI. This holds both for the political class as a whole/notwithstanding the reliance on populist calls when it comes handy/ and even more for the population at large. Decade long experience of working with foreigners, also at TNCs, the ensuing possibilities for travel, professional advancement and not least, close to international remuneration, together have made it impossible for anyone to use TNCs as a boogeyman. Also governmental policies, though never entirely free from red tape, tend to be generally and lastingly generous vis-a-vis foreign investors. The possibility to rely on the EU regulatory framework, and as a last instance, the European Court of Justice with its supranational prerogatives, all render Hungary an amicable investment spot for several years to come.

15 What really matters here is the lack of any general strike since 199o. Also industrial conflict never went beyond a few hours/!/ of stoppages contrary to French or Italian practices. The several weeks of/mostly peaceful/ demonstrations in September/October 2oo6, triggered by the loss of face by the PM/ should not be mixed up with industrial conflict.

But it would be one-sided if we would not explicitely mention the weak points for competitiveness. First, looking from the perspective of an OECD member advanced economy, specializing in technology intensive production/Török, 2oo5/ it is worrysome to see the improbably low level of R+D spending. The state and companies together have never managed to spend more than 1 per cent of GDP in the past 15 years/compared to close to 3 pc in the pre-1988 period/, and this feature is unlikely to change in 2oo7-2oo9. acording to what we know of the Convergence Plan[16]. This is worrysome since there is no adaptation of technological progress in the long run without a certain level of local abilities/knowledge/skills. Second, the quantitative expansion of education has brought about the replication of the continetal European experience of quality decline and structural mismatch in a number of establishments, although not across the board. In concrete terms, employers can, and indeed, must be selective in screening the graduates from various institutions, all state acredited/but that no longer being a quality control item/. Knowledge of foreign languagues, especially in good command, is not yet as general as what transnationalization would require. Finally the quality and type of regulation, from customs administration to court practices, from public procurement to a user friendly working style in government departments, a lot remains to be done. And although corruption, measured by court cases and other proven standards, as against allegations, is far not so bad as its name would suggest, it would be positively misleading to deny the relevance of the issue and the need to fight against it more intensively than in the murky days of early privatization had been the case.

Preliminary Lessons for Emerging Economies

What kind of conclusions can be drawn from this condensed story of Hungarian globalization? First and foremost we find, that path dependence, as reflected in immediate policy recommendation does not hold. The Communist past, decades long embeddedness in the crippling East bloc trading and finance have not precluded a small country on the medium level of development to emancipate itself and opt for market economy and democracy. Second, successes in early and radical reforms also do not prejudge success in larter stages, when the third generation reforms, especially of the welfare state, have more been contemplated rather than implemented. Third, the type of structural reforms that are needed for competitiveness and success are rathewr global than region specific. Solid finances, rule of law, transparency, investment in R+D and in education are not peculiar traits of the EU. The Union has, undoubtedly played a beneficial role as a policy anchor in the 1989-2oo4. period. However, by 2oo5, enering into a crisis in its workings, it has not been able to enforce those rules, especially in the fiscal area, that could have been conducive to institutionalizing solid public finances.

Fourth, quite in line with global/World Bank experience/Bourgignon and Wolfensohn, 2oo4/, ownership of policy reform must be local. Only those reforms that enjoy local support, that are seen as endogenous, can reach the implementation phase. Fifth, professional but also policy consensus needs to be orchestrated as a side condition for major change. As we have seen, the conflictual turn in democratic policy and the ensuing populism in economic matters can, and indeed do, slow down the conception and implementation of those reforms, whose rationality is a given from a purely economic perspective. For this reason building up reform coalitions and professional consensus, and also convincing the general public about the merits of changes, that may hurt in the short run, though do deliver in the long run, must be part and parcel of any reform strategy, which includes institution building, thus requires stability over several electoral cycles. Welfare reform and reform of public finances as well as public institutions surely count among those.

Finally, sixth, joining in globalization is by no means a threat, it is a possibility.Indeed, for small open economies, it is a side condition for economic prosperity. In our account of facts and figures, what has been missing conspicuously, was any case of sudden capital reversals, exchange rate crises, mass impoverishment due to enforced adjustment programs, or most importantly, lasting stagnations – i.e the conceived ills ritually referred to in the *discourse* on globalization. Opening up the capital account has, in fact, enabled the country to get a realistic level of its exchange rate, while financing the disequilibria that emerged in part due to fiscal policy, but in larger part, owing to the nature of catching up and modernization.

16 The Lisbon Strategy of the EU, to which Hungary is an integral part , would in fact compel the country to get back to the 3 per cent level of the earlier period. This however seems unlikely in view of the measures listed in the Convergence Program, the only operational medium term policy document.

References

1/ BATES, R. and KRUEGER, A. /1992/: Generalizations arising from the country experiences. In: BATES, R. and KRUEGER, A. Eds: *The Political Economy of Economic Policy Reform*. London: Basil Blackwell.

2/ BEREND, T. I./199o/: *The Hungarian Economic Reforms, 1953-1988*/. Cambridge and New York: Cambridge University Press.

3/BOURGIGNON,F.andWOLFENSOHN, J. /2oo4/: 'Development economics: looking back, looking ahead'- keynote delivered to the ABCDE conference, Washington,October, forthcoming in the special issue of *World Bank Economic Review.*

4/ BÖNKER, F. /2oo6/: *Fiscal Policy in Central Europe: from Transition to EU Accession*. Cheltenham/ UK and Northampton/US: Edward Elgar Publishing Co.

5/ CSABA, L. /2oo4/: Transition in and towards Europe. *Zeitschrift für Stats- und Europaissenschaften,* Vol. 2. N°. 3.

6/ CSABA, L. /2oo7/: *The New Political Economy of Emerging Europe.*Second, revised, updated and extended edition. Budapest: Akadémiai Kiadó/an affiliate of W Kluwer, Dordrecht.

7/ GYŐRFFY, D. /2oo7/: Deficit bias and moral hazard on the road to EMU: the political dimension of fiscal policy in Hungary. *Post-Communist Economies,* Vol. 17. N°. 1/in print/.

8/ KARSAI, G. And CSÁKI, Gy /2oo1/: *From Transition to Integration*. Boulder, Col/USA. Columbia University Press/Atlantic Studies on Societies in Change, N°. 1o4.

8/ KORNAI, J. /1997/: Adjustment without recession. In: ZECCHINI,S.ed: *Lessons from the Economic Transition*. Dordrecht-Paris: Kluwer Academic Publishers for OECD.

9/ OFFE, C. /1991/: Az egyidejűség dilemmája/The dilemma of synchronity/. *Társadalmi Szemle,* Vol. 46. nos/8-9/, pp. 113-122.

1O/ORBÁN,G. And SZAPÁRY, Gy./2oo6/: Magyar fisk'lis politika-*quo vadis?*./Where is Hungarian fiscal policy heading to?/ *Közgazdasági Szemle,* Vol. 53. N°. 4.

11/ TÖRÖK, Á. /2oo5/: *Competitiveness in Research and Development*./with B. Borsi and A.Telcs/. Cheltenham/UK and Northampton/Md/USA: Edward Elgar Publ.Co.