



## A RECKONING OF ACCOUNTS\*

*Thoughts on Péter Ákos Bod's Book*

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Péter Ákos Bod is undoubtedly one of the most diligent economists working in Hungary today. During a career of more than four decades to date, not once has he missed an opportunity – or the self-imposed duty – to share his thoughts, feelings, observations and suggestions for improvement with his colleagues and the public at large. For the past ten years alone, he has published several monographs on economic policy and theory (2008, 2010, 2011, 2014). His book under review here is his fifth volume published on the subject within the span of a single decade.

None of these works of Bod's consists of a regurgitation or compilation of previously published material, as is so often the case in scholarly publishing these days. It is not an object with the faint semblance of a book, but a book proper, no less. The work reflected on here sprang from a doctoral dissertation submitted to the Academy by Bod, a regular contributor to *Hungarian Review* and other journals on economics and public affairs. He is also the author of original publications and book chapters discussing the results of independent research.

In Bod's case, as with any other prolific writer, it might seem hardly conducive to confine the inquiry to a single work. Yet this is precisely what I will attempt. The book at hand forms an organic link along a chain of articles, reflections, professional talks and public statements delivered by the former Governor of the National Bank, today a university professor, with a view to illuminating (if not seeking to render more acceptable) the dead-ends in which Hungary has more than once found itself over the past three decades.

Let us start by making one thing clear. This is not an addendum to the host of self-congratulating laudations, yet another example of the recently fashionable (although in view of the country's recent history far from unprecedented) genre of

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\* *Magyar gazdaságpolitika – tűzközletről* [A Frontline Report on Hungary's Economic Policy]. Budapest: Akadémiai Kiadó, 2018, 161 pages.





patting oneself on the back. Nor is it the case of an author for whom nothing is good enough. It is much rather that Bod, like many other active observers of the fall of the Iron Curtain and its aftermath, expected more and better: a faster pace of catching up with the West, a more prosperous and more predictable future for our kids and grandchildren – hopes we all cherished as we answered the historic call to transform our political and economic system.

We were aware that we had bitten off perhaps more than we could chew, and had no doubt in our minds that success overnight could only be expected by the boundlessly naïve or those without any sense of inhibition. Yet three decades is not a lapse of time to be sniffed at, even on the scale of history. By 1975, the Federal Republic of Germany and Japan had become, despite their horrific losses of assets and human lives during the Second World War, two of the economic superpowers of the world, as well as countries to emulate in terms of their cultures that differed vastly from the dominant American model. In the case of Hungary, it was and has remained a widely contested question, by social scientists and the public alike, whether a Hungarian model truly existed, and if it did, in what sense it could be considered the example to follow. What kind of message could this model possibly relay to the world?

Without wishing to get bogged down in this debate, let us advance the proposition that Bod's contemplations, grumblings, and often acute observations must be seen and interpreted as parts of a series of phenomena experienced by a broader society. The book is admittedly subjective in nature. As such, it maintains a well-considered distance both from the genre of the academic treatise, which serves as its starting point, and from the dry style, rigorous documentation, and tedious citation of sources typical of scholarly argument.

Obviously, the author feels, after so many precedents to the contrary, that it is possible, indeed necessary, to present his findings – gathered as Minister of Industry, National Bank Governor, an authority on the global banking scene, advisor to the government, and a prominent public figure – in a more subjective vein. Indeed, on pages 23–26, the author asks himself the question of whether it is possible or advisable to publish a book of professional aspirations when it is informed by so much personal stake and involvement. He answers in the positive, without allowing the work to converge, fully or even to a determining extent, to the genre of memoir.

This small monograph of hardly 160 pages has eight chapters, designed to arrange scattered commentary in an ordered, unified whole reflecting a single perspective. In what follows, we will confine ourselves to highlighting a few of Bod's observations off the beaten track by way of illustrating the message of the entire book.





In the most important claims of the first chapter, the author states that, while the crisis did not stem from Hungary, the mistakes of the period from 2002 to 2010 had weakened the immune system and competitiveness of Hungarian economy. Unlike in Poland, but similarly to several countries in continental Europe, this resulted in a protracted, W-shaped setback, from which the country was only able to recover by marshalling a number of unorthodox solutions. Bod is emphatic in calling attention to the world-wide gaining ground of unconventional methods, while pointing out that they cannot or should not be used as an excuse for autocratic, arbitrary decisions flouting the rule of law.

The arguments deployed in the second chapter will likely be attacked from many quarters. Here, the author expounds his long-standing view that the petty freedoms and half-hearted reforms of the Kádár era were more detrimental than conducive to preparing for the transition to democracy and market economy. He argues that these minor concessions ultimately promoted an un-civic, law-evading attitude while cementing Communist rule. These reforms, for whatever they were worth, did not bring better economic performance compared to other countries; instead, under the influence of a liberalised foreign economy, the competition-hostile system at home triggered rampant bankruptcy. In general, Bod holds reform economics in lower regard than most, inasmuch as he sees it as an attempt to save what is beyond redemption, rather than as a precursor of market orientation.

The third chapter is about the democratic turn. On the one hand, the author points out that our regained sovereignty allowed and mandated planning for the future of the Hungarian state and its economy according to an entirely new paradigm. On the other hand, in Hungary – unlike in the post-Soviet states – it makes no sense to talk about a *transition* to market economy. What happened was not a transition but a return to institutions of market economy and a legal system that had previously existed and latently survived in their essential features, ready to be resurrected.<sup>1</sup> And this is a qualitative difference.

This perception would certainly have benefited from a broader international perspective. Just to cite an obvious example: in the Baltic states, Soviet hegemony was unable to obliterate a centuries-old tradition of the Hanseatic League which these countries were able to build on. By contrast, the Caucasian states (mainly Georgia and Armenia) and Ukraine may have pursued exemplary and radical economic policies from time to time,<sup>2</sup> but these efforts were either rejected or widely distorted by a society lacking historical precedents.

The fourth chapter investigates a set of issues that remain highly controversial today. Chief among them is the observation that this new world of ours began in the depths of crisis, when the public had expected life to improve dramatically





overnight as soon as the Soviet-type distortions had been eliminated from the system. Memories of rapid recovery after each of the two World Wars were still vivid, particularly among the older generations.

At the same time, few people, including professionals, comprehended the true extent of the consequences entailed by decades of isolation from the international community and global markets, combined with an entirely distorted institutional framework and system of incentives. It was like invasive surgery: we had to have it worse before we could feel better. On pages 70–71, Bod explains convincingly, and with more than a hint of self-reprimand, how few decision-makers at the time, both in Hungary and abroad, really grasped the delicate balance between the requisites of creating fiscal equilibrium and the imperative of building new institutions. As a result, they insisted on intellectual schemes that were not only myopic but clearly inapplicable in our region, while severely underestimating the sacrifices of genuine change. By means of smarter communications, the Czech and Russian leaders of the day carved out better positions with decision-makers in the West than their Hungarian counterparts managed to achieve, without regard to the actual merit of the specific solutions adopted by them.

In the fifth chapter, Bod affirms the need for a market economy, but raises the question: exactly what kind of market economy? Continuing the aforementioned argument, he recalls that the only way to switch to a market economy that seemed palatable and modern was the radical overhaul – not just for the public, but in the eyes of most professionals and consultants at the time. Contrary to that perception, Bod maintains (cf. pp. 81–83) that the qualified success of the Antall cabinet was still a success, particularly for two reasons. First, the conditions for a peaceful transition were not always in place in the region; they had to be established in the first place, and then maintained for years. Even in Hungary, none of this could have been taken for granted. A case in point was the taxi drivers' blockade. Second, the transition took mind-boggling tolls in several countries. The solution adopted in Hungary aimed at minimising these losses by not only affirming the slogan of a socially responsible market economy but actively practicing it.

The sixth chapter is even more self-critical in tone. Bod admits that the next crisis, the great financial meltdown of 2007–2009, did not come out of the blue, and could have been prepared for more effectively. This is an interesting approach considering the recurrent motif in the international literature of the crisis, which stresses the general conviction, held by all – including professionals, market actors and economic policy think tanks, save for a handful of self-anointed doomsayers – that nothing like this could ever happen again.<sup>3</sup> However, as Bod rightfully points out (p. 88), Hungary had begun to lag behind years before the onslaught of the crisis – earlier than any of her neighbours or the core members of the EU.





As the author emphasises, the application of solutions apparently progressive by any international comparison often remained superficial. In reality, the efficiency of governance deteriorated at a rate far faster than one would have gleaned from macroeconomic indicators (p. 92).

Of course, the country's peripheral position and marked exposure were a given, but the ill-advised decisions of economic policy certainly added to its vulnerability (p. 100). Bod reminds us that the stop-and-go politics of 2002–2010 was itself heterodox: no policy advisor or economic textbook ever recommended such a solution as the way to go forward (pp. 104–108). In any event, the detrimental consequences were accumulating fast.

The seventh chapter discusses the turn of 2010. On page 116, Bod asks the question, neither rhetorical nor easily answered: was it about giving more elbow room or sheer voluntarism? He answers, correctly, that the former attitude of seeking compromise was replaced by sovereignty-based politics, coupled with increasingly radical government decisions (p. 123). What gradually emerged was a trend termed “unorthodox” by its proponents, marked by single-instance decisions (always problematic to plan for the long haul in terms of fallout) and other measures nowhere to be found in the government's mid-term programme and self-affirmed foundations of principle. While these measures certainly meant a break with, or if you like a reform of, the practices of the previous decade and a half, they stemmed from the case-by-case deliberation of the government and specific single decisions made in its highest echelons. As such, they could hardly seem revolutionary to the analyst well-versed in historical antecedents (pp. 137–138).

The eighth chapter, devoted to the issues of the present and the future, relies (heavily, rigorously, and for good reason) on studies published in the course of 2016 and 2017 by colleagues, particularly political scientists and interdisciplinary commentators. Bod concludes that the data cited therein fail to corroborate the highly vocal opinions about the exceptional performance of the Hungarian economy, despite the undoubted fact that the direct peril of insolvency had passed by the middle of 2012. Employment had reached a historic high, while the country's external accounts began to show a reliable surplus.

However, the moment we include a broader perspective of international competitiveness – criteria routinely used by investors and analysts (p. 142) – we will find, as does the author himself, that the government is to be lauded for this “solution” no more than it is to be blamed for its attendant hardships. Specifically, the lack of predictability, substandard government practices, and the string of non-transparent, often downright suspect transactions are hardly conducive to long-term quality investments and an enduring path of growth they enable.





In closing (pp. 152–156) Bod raises a tough question. Is the trajectory of growth in Hungary after 2010 to be interpreted as veering off the mainstream of the generally accepted Western model, as most of his sources would seem to suggest? Or is it to be considered as yet another attempt by a developmental state, as is often the case in underdeveloped countries? Bod admits that Hungary does not possess the attributes of a developmental state, even as he hastens to point out that a deeper involvement and activism on the part of the government than is customary in the West is not all that alien to Hungary in view of the broader context of economic history.

Bod's chosen topic and mode of explication leaves a major question unanswered. This has to do with what is often referred to as the trap of being caught in the middle of development. Originally proposed by Simon Kuznets, and recently expounded by Barry Eichengreen and his colleagues, the view that there is something inevitable about the onset of standstill in certain dynamically growing countries has become the focus of much international debate.<sup>4</sup>

This means that, once easily mobilised reserves have been depleted, many countries at the stage of development of Hungary may easily find themselves stagnating, if only because the measures needed to maintain the rate of growth not only lack the properties of spectacular politics but are frequently adverse to maintaining political power. The issues range from institutional development to the improvement of education and accountability. It would be nice to know whether Bod believes that we have already fallen into this trap. Does this situation of ours harbour clear and present danger, or is it no more than hypochondria? It would have been important to present arguments pro and contra; the scope of the book would certainly have allowed a more detailed explanation.

The debate I have touched on is far from being exclusive to the economist profession in its reach, although at present it remains largely confined to works in progress and econometrically researched conference papers. If the assumptions outlined above hold water, then we must regard the Hungarian victory over the recent crisis as a Pyrrhic one. Conversely, if the derailment observed from China to Brazil has to do with the given level of development, industrial culture, geographical position, or some other condition, then one will be justified in painting the picture of a future brighter than the one proposed in Bod's book, as is done by analysts with intimate ties to the government.

All things considered, Péter Ákos Bod's latest book, as its predecessors, is a thought-provoking, serious work destined to generate much professional and political debate. By its very nature, it addresses both the Hungarian public and a wider European audience. And there is no doubt that the increasing





globalisation of change, recently reaching China and the Arab states, will soon amplify the significance of knowledge in the field scrutinised by Bod in the opus reviewed here.

Yet in view of the past quarter century we cannot afford to regard democratic, market-oriented developments as being somehow pre-ordained or inevitable.<sup>5</sup> The setback in Turkey and Russia serves as a test case to explain – a test of both analytic prowess and judgement. I do not think any of us are in possession of the philosopher's stone. What we can certainly do is welcome the daring publication of such a unique work, one so particular in its genre and profile. It may well foster an objective, cool-headed conclusion to the ardent debates over economic policy rampant in Europe today, and perhaps provide a starting point for solutions superior to the ones we have implemented to date.

*Translation by Péter Balikó Lengyel*

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<sup>1</sup> This tallies with the argument proposed by the author of this review in Csaba, L., *The Capitalist Revolution in Eastern Europe* (Cheltenham: Edward Elgar Publishing, 1995).

<sup>2</sup> Aslund, A. – Djankov, S., eds., *The Great Rebirth: Lessons from the Victory of Capitalism over Communism* (Washington, D.C.: Peterson Institute for International Economics, 2014).

<sup>3</sup> Reinhart, C. and Rogoff, K., *This Time is Different: Eight Centuries of Financial Folly* (Princeton: Princeton University Press, 2009). The authors embrace an ironic approach to discussing the phenomenon of social forgetfulness, whereby each new generation is taken unawares by the recurrence of previously observed economic mechanisms.

<sup>4</sup> Eichengreen, B. – Park, D. – Shin, K., "Growth Slowdowns Redux: New Evidence on the Middle Income Trap". Washington, D.C.: *NBER Working Paper*, 2013. No. 18 673 (available online).

<sup>5</sup> Huntington, S., *The Third Wave: Democratization in the Late Twentieth Century* (Norman: University of Oklahoma Press, 1991).

