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Governance in a low-trust environment: The difficulties of fiscal adjustment in Hungary

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Abstract

The favorability of the character of early

democratic transitions of early

fears, development of early

analysis of how lack

of trust in the state

Hungary's transition

budgetary constraints

introduction of the socialist

period of their

same countries and within

effects of their

the elite

circumstances fiscal adjustment becomes more difficult. The main conclusion is that

while the low level of trust did not prove decisive in terms of establishing the institutions of democracy, the existence of trust is critical for effective governance.

Notes

¹For an extensive description of the economic reforms during the communist period see Berend ([1990](#)).

²This section substantially relies on Istvánffy ([1992](#), pp. 997–1000).

³The decision to finance the debt instead of defaulting on it gave rise to significant policy debates, which continue up until today. In 1990 there was some hope that a new Marshall Plan would be forthcoming for the transformation countries, but this proved illusory. Later hopes for cancelling debts were also disappointed, not least because, unlike in the case of Poland, the main share of Hungarian debts were commercial credits rather than governmental loans, which could have been cancelled (see Oblath, [1993](#), pp. 206–209).

⁴See [Appendix](#) for the results of parliamentary elections since the transition.

⁵This list of measures included the introduction of a new budget, the budget, and structural reforms in the short term (see Csaba, [1990](#)).

⁶Kornai (1990) argued that the transition involved a shift from a socialist to a market economy, a change in the nature of the economic system, and a shift in the structure of the economy. This shift was accompanied by a change in the financial structure of the economy, a shift from a socialist to a market economy.

⁷The main reason for the bankruptcy of small or medium-sized enterprises was the lack of capital. Because of the lack of capital, many small or medium-sized enterprises went bankrupt. (see Gyöngyösi, [2002](#), p. 34).

⁸The strains on the budget were due not only to the costs of restructuring but also to the impossibility of continuing the earlier governmental policy of raising revenue from the heavy taxation of financial intermediation (Surányi & Vincze, 1998, p. 154). On the details of the consolidation programme see Szapáry ([2002](#), pp. 107–112) and Várhegyi ([2002](#), pp. 34–36).

⁹Prior to 1991 the NBH borrowed abroad in its own name and lent the money to the budget, charging only the foreign interest rate. However, since inflation was much higher in Hungary the NBH suffered large losses resulting from the devaluation of the forint, which were settled by non-maturing non-interest bearing loans to the government (see Barabás et al., [1998](#), pp. 67–68).

¹⁰These measures indicate that although there was no formal policy of macroeconomic shock therapy in Hungary a process of microeconomic shock therapy did take place, which means that Hungary can hardly be seen as a model of gradualism (see Csaba, [1995a](#), pp. 192–194).

¹¹Interview with Iván Szabó, finance minister between 1993 and 1994 (see also Rádai, [2001](#), p. 96; Matolcsy, [1998](#), pp. 32–33).

¹²The rate of interest decreased from over 30% in 1995 to less than 20% by 1997 while the maturity of the debt was extended from 14 to 16 years (Egert, [2001](#), p. 256).

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years in 1997 and ten years in 2001 (Egert, [2001](#), pp. 256–257).

¹⁷The first pillar is the traditional pay-as-you-go system, which provides a minimum level of pension. The second pillar is a mandatory private pension fund while the third pillar is a voluntary pension fund.

¹⁸This description of the speculative attacks is based on UN ECE ([2004](#), pp. 51-52).

¹⁹In early 2005 public sector wages started to rise again: during the first three months of the year public sector wages were 27% higher than during the same period in 2004.

²⁰In Hungary the payment of a '13th month' wage is part of the compensation package for public sector workers. Turning it into '0 month' wage was an attempt by the government for a one-time saving. Later the Constitutional Court found this move unconstitutional and required the government to pay the withheld benefits.

²¹According to the estimations of Kiss et al. ([2005](#)) a cut of about 4.5% in primary expenditures is necessary to improve the fiscal balance in line with the objectives of the convergence programme.

²²Union density is only 20%, which stands in sharp contrast with the EU-15 (except for Britain), where over 60% of the labour force is a member of a trade union. Collective agreements cover only 34% of the work force, compared with over 60% in the old member states (except for Britain) (see Carley, [2002](#)). Furthermore trade and business

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²⁸The 'honeymoon' period lasted until March 2003 when the Socialist government had a lead over the FIDESZ opposition of over 20% in the opinion polls. However, within four months this lead had disappeared and the opposition overtook the government in public opinion (Hann & Karácsony, [2004](#), p. 704).

²⁹On the social pact in Northern Ireland see Boltho ([2000](#)).

³⁰For a discussion in terms of 'Kulturkampf' see Lengyel ([2004](#), pp. 141-151). On the origins and description of the socio-cultural divide see also Bozóki ([2003](#), pp. 521-530).

³¹Looking back, the leader of the SZDSZ, János Kis, acknowledges that this was a mistake [see interview with János Kis in *Beszélő* (Révész & Mink, [2004](#), pp. 5-15 at p. 15)].

³²For exact data on the turnover of personnel see Fricz ([2004](#), pp. 125-129).

³³This was originally theorised by Buchanan & Wagner ([1977](#)).

³⁴Even György Matolcsy ([1997](#), p. 784) claims that by early 1995 a confidence crisis had emerged, which needed some intervention. His main argument against the package was that if the government had devalued the currency and introduced a new exchange rate regime earlier, fiscal adjustment would not have been needed.

³⁵Some restrictive measures were taken by the government in 1995. Nemzet, *Magyar Nemzet*, 1995. 10. 12. Antal ([1995](#)).

³⁶Rabár made to suffer so much. It could save the economy.

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