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On the Political Economy of Policy Reform

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ABSTRACT: Having experienced several decades of successful and unsuccessful economic reforms, Hungary serves as an excellent laboratory to test theories of institutional change. While generalizations based on a single case are always limited by nature, it may still contribute to the better understanding of general conditions of policy and institutional changes for the better as well as impediments to them.

On Long Waves of Institutional Change

Nearly a quarter of a century ago this author attempted to summarize the achievements and limits of the socialist market economy in Hungary for much of the same audience/Csaba, 1989/. The bottom line of the paper, which I think remains valid, is that the individual case shows the relevance of the political constraints on how far any reform attempt may go, while it remains socialist in nature.

Nowadays Hungary is one of the least successful cases of the countries that acceded to the European Union in its northern and eastward enlargements following the collapse of the Soviet Empire. Why has such an early bird become a laggard in terms of performance, whilst not having experienced any major cataclysm over the past 25 years?

In this paper we continue and extend this analysis. For one, if we constrain our analysis to transition to the market proper, Hungary still counts among the unquestionable success stories in managing this historic process, even if we put her development in a broad global comparative perspective/cf Fosu,ed, 2012/. However, if we posit that transition, narrowly understood, is introducing institutions of a market economy, this task must have been accomplished before entering the EU. If for no other reasons, but the Copenhagen criteria for have explicitly required this task be mastered prior to accession. Furthermore the EU – represented by the Commission – undertook a thorough checking on the ground, if transposition of its rules actually happened in the process of *acquis screening*. Only after the performance was deemed satisfactory, first by the Commission and later by the Council and Parliament, accession could materialize in 2004, i.e 15 years after transition began. This was among the longest processes recorded to date, if we disregard that of Turkey, which still continues.

Therefore, it was only legitimate to expect that joining the Community of stability, security and prosperity would foster internal changes and improve long term performance of the country. First, membership was conditional upon introducing more time-consuming reforms. These included environmental, social and other changes, but most importantly an obligation to join the Eurozone "in a foreseeable period of time" - usually estimated at 4-6 years at worst. Secondly, it was hoped that improving the strategic position of the country would trigger a major inflow of new foreign direct investment, outpacing the already increasing outward FDI from Hungary to the east and the south. Thirdly, it was also postulated that convergence to the policies of the core EU countries would improve the quality of overall macroeconomic management. Fourthly, it was widely believed that membership in a currency bloc, or even the prospect of joining in, would ward off any major external shocks that may originate in the global economy. Finally, the synergy among the above listed was taken for granted and thus credit was given to the conventional models of economic integration postulating a steady convergence to the countries with a higher level of development.

It is all the more surprising to observe that catching up started to ebb well before the eruption of the global financial crisis in 2008-9. Moreover, Hungary, having been accustomed to a leader position in terms of systemic reforms ever since the late 1960s, had lost momentum by 2002-2003. It happened just at the time of EU entry would have called for – and allowed for –

radicalizing structural reforms. Ever since the slowdown of growth, the increase in unemployment, the stagnant international competitiveness, explosion of public and private debt and sustaining high inflation indicate the cumulative costs of doing nothing .

Thus we come to one of the more unpleasant insights of policy reform literature. Namely that the position- and the edge - of the 'early bird' can easily be lost. Furthermore, that performance must always be seen in comparative perspective. If Hungary's peers outperformed her, even a per se sufficient delivery qualifies as inadequate. For instance, the 16.2 thousand euro per capita GDP in purchasing power parity, where Hungary stood at the end of 2010 was about the same, 66.3 pc of the EU average a decade ago. However, in the same period countries that historically fell behind Hungary approached and even overtook her. Poland, always significantly poorer than Hungary in the past century, reached exactly 16.0 thousand euros per capita. Even more strikingly, Estonia, coming from the internal Soviet Empire, overtook Hungary with 16.5 thousand euros, despite the 3.7 pc contraction in 2008 and the even steeper fall of 14.3 per cent in 2009, hardly made up by the growth of a mere 2.3 pc in 2010. Similarly Slovakia, which tended to be the poorest part of the historical Hungarian Kingdom – the Highlands – took over by 19.0 thousand euros per capita, and even being able to adopt the single currency since 2007. In short, the country's relative performance was indeed dismal and in need of explanation.

We attempt to paint the broad picture in uncovering the reasons behind the derailment. We leave analysis of the nitty-gritty to other papers and continue the broad comparative theoretical endeavour started a quarter of a century ago. We therefore purposefully omit the analysis of individual measures and non-measures of various governments, which is the task of an economic historian, or of current commentary. Instead we stick to what may be relevant for other countries and for broader economic theory from our interpretation of both success, in 1989-2002, and derailment, in the following decade. This is not to belittle the significance of studying bits and pieces, but we are opting for a different genre. We are interested not in the immediate background, but in what is the mover behind the mover, i.e. those factors which may explain the long run tendencies, not the individual policy moves. Lessons are formulated, albeit in a tentative manner.

Reform Socialist Heritage: Burden and Blessing?

Hungary underwent a series of economic reforms in the 1953-1988 period/Révész, 1990/, thus it has never fitted into the textbook view of a Soviet type command economy. Without reiterating those changes that attracted much attention at the time, let us recall: state property went into managers' hands; prices were gradually freed and so was foreign trade; FDI was liberalized and the country exited Comecon by starting to trade in convertible currency with the Soviet Union in 1990. Also in institutional and political terms most of what counts as tasks of first stage of transition was mastered by the outgoing regime, from establishing commercial banks to allowing for multi-party democracy. True, these changes happened under constant pressure and were outcomes of erosion, not of constructivist foresight. Thus Hungary did enjoy the advantage of being an 'early bird' in terms of systemic reforms, transcending the straightjacket of Socialism.

Many of the changes on the ground happened in a largely spontaneous fashion, as the spread of the irregular economy, or the erosion of public authority and the emergence of various forms of private activities, in the economy and polity alike. Many of the changes listed above, as e.g. currency liberalization, happened in an ad hoc manner, rather than following secret master plans. The round table negotiations of May-October 1989 followed the Polish example and led to truly free elections and an exclusively non-communist government by May, 1990, when the USSR was still intact and was stationing troops in Hungary.

For this it must have been inevitable, that managed transition tended to be associated with the outgoing regime and its successors, the Socialist Party, and resistance to communism often went hand in hand with dislike for market-oriented arrangements, and not only in the field of funding high culture. Economic platforms of the anti-communist parties/Laki, 1991/ were in part utopian, in part statist, exclusive and anti-market in nature. This feature, which is quite odd for west European standards of political science, has survived the following two decades. Still, on the ground, exigencies of governance pushed the first centre-right government of József Antall into much more market friendly policies than their language would have suggested. Most of the institutional reforms, including the law on banking, the tough law on bankruptcy and most big privatizations to strategic western investors were completed on time. By adopting the Kupa programme of 1991, the conservatives committed themselves to what was, by and large, a continuation of systemic changes of the preceding period.

In the parliamentary cycle of 1990-94 macroeconomic performance remained weak. This was only to be expected, as institutional reforms need time to bite. But this was exactly the opposite of the contemporary public mood, which expected quick improvement. Reality was otherwise, with output – 40 pc of industrial and 20 pc of overall – lost, mostly forever. While restructuring did go on, thereby laying the groundwork for future improvements, unemployment skyrocketed to 13 per cent by 1992. This was a real shock to both the economy and society alike.

Recovery in the years 1993-95 was limited and short lived, running into a balance of payments constraint. This was reflected in an IMF rescue package in March, 1995, following the Mexican debacle and bailout in November, 1994. Following the adjustment measures recovery started from 1997 and lasted for nearly a decade, until 2006. This considerable improvement was attributed by most analysts to the Bokros adjustment package of March 1995/Kornai, 1997, Antal, 1998/. With the benefit of hindsight this set of measures, though having provoked broad segments of Hungarian society, has actually contributed only marginally to the recovery of the following decade. While macro-financial rebalancing was, to some degree, a technical minimum, the structural measures of Bokros hardly survived the 13 months he spent in the Ministry of Finance. Symbolic measures, such as tuition fees and co-payment were revoked, most structural measures, except for part of a pension privatization, not even launched.

In the lasting growth of this decade we see the harvest from a decade of institutional reforms, enacted by and large in a synergic fashion. Broad measures like privatization, or setting up new rules of the game, via bankruptcy legislation, were bound to act with considerable delay. Societal learning is always slow, and the first reaction to any change is mostly resistance, later accommodation, and only later playing by the new rules. The third phase matured during 1997-98 and subsequent years. In fact, little if any new domestically owned and initiated reforms took place until 2006 save for adopting EU standards. Macro indicators – from exports to employment – improved precisely at times when policies were rather bad.

From Diligence to Drift

In December 2002 the accession agreement to the EU was signed in Copenhagen. This act symbolized the conclusion of systemic change, as a specific post-communist task. However, it has not implied the end of a long journey towards a well-functioning social market economy, let alone sustainable development. The immediate tasks of transition were over, and external pressure started to ebb. Expectations of fast and steady improvements were general, and not just within the country, but also among investors. Convergence both to EU-15 levels and to the European Monetary Union were seen as done deals. Expectations, domestically and abroad, were anchored to this universally shared perception.

It would be hard to deny that such a mood was likely to lead to complacency, just like in a rather short sighted management of interpersonal relationships. Once the goal is attained, many of us tend to give in to the temptation of doing nothing, or at least saving on unnecessary efforts. This is precisely what happened in Hungary.

It would be wrong to attribute this to the phenomena of 'reform fatigue' so popular in the political science literature. As we have documented above, most reforms were taken in the 1988-93 period, not ten years later. The former started to bite with a decade of delay. But new measures that could well have triggered popular unrest or unease, had not even started until autumn 2006. By now the government had already lost credibility, and the projects were rejected, irrespective of their merits or de-merits.

It would be false to claim that between 1997 and 2004 no reforms took place. What we claim is more nuanced: in this period the EU acted as an anchor for the entire political class, at least for those parts who could come close to governing positions. The common national aim of not being left out of Europeanization prevailed over a variety of divisions, long and short term strains. This has streamlined major policy decisions irrespective of composition of the government and legislation.

The external anchor allowed the EU to push a number of measures which otherwise might not have materialised, from abolition of the death penalty to empowering the competition agency with real powers of trust busting and monopoly control, as well as further streamlining the foreign trade regime. However most of these and other measures were not domestically owned, but introduced to please Brussels.

In turn, when the Copenhagen accession agreement was signed in December 2002, the stimulus for change had weakened, often simply disappeared. Lacking domestic ownership reforms were bound to fall prey to domestic politicking, myopic manoeuvring and fishing for votes in the simplest possible manner. Neither professional nor political will seems to have prevailed and the loss of perspectives was imminent. In a way, the lack of trust and the ensuing populist short termism in politics in general is to be found behind the drift into fiscal alcoholism at the very moment EU monitoring was easing up and membership in EMU was seen as a done deal/Darvas and Szapáry, 2009/ - even if it has proven to be otherwise.

This leads us to one of the most paradoxical periods of Hungarian history, the years between 2002 and 2008. We are unaware of any major policy or structural change, that would have even aimed at, let alone delivered, improvements to be harvested in the next period of governance, despite the hectic and often improvised reforming zeal and intensive preaching of the left-liberal coalition in 2006-2008. Meanwhile macroeconomic performance was still relatively good, growth rates increased from 3.7 pc in 1996-2000 to 3.9 pc by 2001-2006/ECB:op.cit/. The structure of exports improved with machinery and equipment accounting for over 62 per cent in sales or double the value of Italy and Spain. FDI continued to flow and Hungarian firms also started to expand, primarily southward and eastward. But the writing on the wall was not to be missed.

Unsurprisingly, as with all parties, this party eventually came to an end. And it ended sourly, not least because of the lack of the precautionary measures conventional rules that good fiscal housekeeping required.

Hungarian growth stopped in the middle of 2006 and 2007 registered a mere 0.8 and 2008 0.7 pc, with 2009 closing with a truly bad -6.3 pc contraction, quite rare during peacetime. Let us note, that stagnation started way before the global financial crisis could have hit. But the collapse of Lehman Brothers in September 2008 and the ensuing credit crunch struck Hungary particularly heavily. This was caused not only by the vulnerability that was a result of the large and growing external indebtedness of both the public and the private sector.

While the mishap could have happened at any time, the immediate trigger was the ill-fated communication of the leftist government, proclaiming dynamic growth for 2009 in their fiscal plan, thereby uncovering their ignorance of the change of tide in global financial markets. The situation was saved in October 2008 by signing a last minute jumbo standby loan of 20 bn euros -25 bn dollars – in an unprecedented concerted rescue action by the EU, the IMF and the World Bank. The Socialist Government collapsed and gave way to the caretaker Bajnai Government, which, from March 2009 managed to consolidate the situation with elections in April, 2010.

In its 13 months tenure the technocratic administration of Gordon Bajnai, former Economic Minister in the Socialist Government, backed openly or tacitly, but exclusively by the former ruling parties, actually started to clean up the mess with a degree of resolve. Politically corrupt personalities were removed from office and criminal investigations started. In the economy retirement age was raised, and previous vocational privileges limited. Previous excesses, such as 13th months' pensions and 13th months' wages in the public sector were abolished, subsidies cut, administered prices increased. Public sector employment was cut and conditions for unemployment benefit severed. Meanwhile current economic indicators remained weak and the opposition had an easy run in blaming the government for each and every ill, irrespective of its nature, origin and length of existence.

The first period since the formation of the government–with a two thirds majority– may be considered to have ended by November, 2011. The right wing government, having conducted an 18 month long 'economic freedom fight' in their own vocabulary against 'IMF tutelage' was forced to turn to the very same IMF for a similar rescue package, when panicked by the country's severe deterioration of external financing conditions. While this time financing of Hungary has not dried up, as in 2008 or 1990, or as for Greece and Ireland, its costs were soaring, with Hungarian Treasury bills trading on a par with the Italian government bonds, at a prohibitive yield of 11 per cent.

The emerging new stage saw a combination of two contradictory policies. On the one hand, projects to re-tailor basically everything, from the Constitution to the system of regional control, were launched and largely implemented in haste. On the other hand, the government was obviously taken by surprise by the evolving Greek, Irish and Portuguese crises of 2010-11. Since most EU policies were focused on the problem countries, and near-problem ones had to endure more rigidity in terms of monitoring, constraining to the minimum the resort to Keynesian fiscal flexibility, as practised in all core EU economies, including the UK and France. For this reason the second Orbán government introduced a series of austerity measures, which were mostly improvised and lacked sustainability, let alone domestic ownership. While this was the way to forestall yet another rescue package, which was successful, the broader projects fell victim to the need to balance the fiscal accounts. Contrary to expectations, growth has failed to resume, reaching a mere 1.3 pc in 2010 and 1.6 pc in 2011, with an official forecast of 0.5 pc for 2012. Inflation was stuck at 4.7 pc in 2010, 3.9 pc in 2011 and is forecast to be about 5 pc in 2012, the rate of unemployment stagnating around 11 pc, slightly above the EU average. The breakthrough has yet to materialize.

There are basically two possible readings of this outcome. Liberal authors tend to see the developments of 2010-12 as a broad attempt to introduce a new version of state capitalism which is bound to fail under conditions of globalization and Europeanization/Voszka, 2011; Kornai, 2012/. We find their arguments interesting, but not compelling, and stick to our previous interpretation. We still see a series of improvisations without a map or master plan, where the defining feature is the lack of any systemic approach or quality/Csaba, 2011/.

Only time will tell, which of the concurring interpretations squares better with reality. What is beyond doubt is that the Hungarian government officially asked for a new standby loan in the range of 15 to 20 by euros from the IMF/EU duo in November, 2011. This move did imply a

U turn in the discourse on and the style of economic policy-making. As the emphasis on diminishing the debt/GDP ratio, anchored in the new Basic Law of 2011 is to sustain, the ways leading to this end will have to be found without resorting to the 'unorthodox' – i.e. one-off – measures that figured high in 2010-11 . The real challenge is in generating growth while sustainable public finances are also ensured. This is a tall order in a stagnant or very slowly growing European economy, accounting for over 80 pc of Hungarian exports and inward FDI alike.

Lessons in Comparative and Theoretical Perspective

In this section we try to join the ever growing international literature on the political economy of policy reform. This approach is in stark contrast to the pre-dominant approach in the social sciences, the rational choice paradigm. The latter takes inability to change for granted, whereas in policy reform literature a more optimistic assumption on the feasibility of peaceful change from above is adopted. In turn, bits and pieces of how to orchestrate successful change for the better are being analysed. From this angle the axiom is that change though conceivable is by no means inevitable. At a policy analysis therefore, it is both of historic and analytical interest to identify what others can learn from mistakes made by us under given political, historic and economic circumstances.

Similarly in our earlier account on reform socialism, we find that in the decades of transition and Europeanization, lag is still an important explanatory factor. Lag in economics denotes the timely distance between action and outcome. This might be days, in case of exchange rate or interest rate liberalization, and decades in case of pension or education reforms. In the case of institution building 3 to 5 years count as normal.

What we are concerned with here is the following: most of the measures related to systemic change, such as privatization and institution building, are typically ones that exert their influence with considerable delay. Millions of agents need to internalize the new rules. For instance bankruptcy legislation needs to bite first, so as to be taken seriously. The problem of non-payments and barter, once figuring high in transition economics was abolished once non-payment led to suspension of management rights, trigger painful restructuring and layoffs, and in case of recurring, even to the liquidation of the firm. The closure in February 2012 of MALÉV Hungarian Airlines, long considered as a national champion, was a clear example, triggering the foreseeable disciplining effects across the board.

It has been a recurring feature of the Hungarian experience that the myopia, typical also of other mass democracies, does not allow for sitting out the time needed for the final decision over the merits or de-merits of individual measures. Even if actual policies do not suffer major reversals, the fruits of major measures tend to be harvested by the successors, or the successors of the successors, as in the case of the Antall government. This may, and often does, lead to sustaining improvisations, recurring policy reversals and zigzags, themselves becoming the substantive features of decision-making. Analyzing the 2002-2010 period Bod/2011/ talks of an economy becoming captive of politicking over and beyond the features of individual parliamentary cycles and irrespective of the government's makeup. We may subscribe to his view describing style as substance in making all major economic decisions of the 2000s.

Long run economic performance of Hungary – and indeed, any other post-transition economy - can and thus should not be explained exclusively or mainly by factor endowments and a combination of factors. While the role of innovation and entrepreneurship is undisputed ever since von Mises and Schumpeter, consensus ends at this point. Precise mechanisms of growth, let alone of policies and institutions conducive to sustaining development, are yet to be identified in theory and practice.

Being participant observers of the change over the past twenty-five years, we tend to agree with the more agnostic- and also more traditional – views on what optimal policy mix may consist of, in the past, now or in the future. One should not underrate the role of external factors, especially for a small open economy like Hungary. The collapse of Soviet planning and fuel exports, the severing of international financial markets were instrumental in bringing about change. By contrast, lavish external funding in 2001-2008 allowed for, or even positively lured in, policy-makers to drift, as the sunny days seem to have been the norm.

Intellectual fashions play an important role too. Fashions and perceptions based on them are formative in taking crucial economic decisions, at macro and micro, national and household levels as well as in the banking and finance community. For instance the blind faith in the then prevailing theorem of efficient markets definitely contributed to the sustaining adventurous lending practices of banks and the neglect of currency, exchange rate and other risks. As euro adoption was seen as a done deal, expectations for yet another convergence game, where exchange rate and interest rate gains join asset price improvements with zero risk, prevailed over warning signs. The latter included vulnerability, sustaining external imbalances, and internal policy laming in Hungary.

At the final count one must ask if real convergence, in terms of per capita income and in terms of quality of life, materialized or not. Analyses of historical processes drawing on recently released and recalculated long term time series casts doubt on what counts among the cornerstones of neo-classical growth theory. Recalculation of earlier evidence supported by releases of upgraded and updated international data/Berend, 2010/ show the following. Hungary rarely if ever experienced any kind of real convergence. In the golden age of the post-1867 period Hungary has not been converging, 'just' keeping pace with Germany, i.e. the core of global industrial and cultural development. Inflated statistics of the Socialist period have long been discarded, and all recalculated figures in the past two decades show a below average rate of economic advancement. In the 1989-93 period transformational recession took place, with a loss of 20 pc of GDP. Thus recovery to the pre-crisis levels lasted until 1999.

Interestingly, if corrected with components of quality of life, some convergence can be shown for the 1994-2007 period. These calculations, transcending the usual GDP and industry based first glance rehash assessments of official statistics, indicate a structural and qualitative upgrading, but no quantitative catching up in the period mentioned. This is supported by the improvement of the export pattern and the continuous inflow of FDI to competitive sectors including R+D. Actually, nearly the whole of business expenditure on R+D comes from the transnationals.

In sum, while convergence is not demonstrable, upgrading and relative gains against other transition economies are observable. But those limited advances are gradually but demonstrably being eroded in the period following EU accession. One may wonder, if talking about complacency, both of local intellectuals and EU policy-makers and analysts, is justified, when recalling now quietly any doubts were voiced in the years from 2001 to 2008.

As in any small open economy the limitations of textbook growth models focused more or less on internal factors, such as capital accumulation, the use of labour and land, as well as on endogenous technological progress becomes self-evident. The major, often decisive role played by factors extraneous to local conditions and beyond the control of local decision-makers becomes formative. While Hungary enjoyed a modernization and growth push in the post-1867 period, due to the dynamism of Germany of the day, this time it is different. The formative environment for Hungary over the past twenty years was the European Union. The latter, especially in 2000-2010, tended to show signs of sclerosis in more than one area. Internal reforms, initiated back in 1997, to prepare for enlargement, were largely diluted. Attempts to create a political Europe ended up in the watered down Lisbon Treaty of

December, 2009, cementing the status quo rather than opening up new areas. The bold economic renewal envisaged by the 2005 edition of the Lisbon Strategy fell victim to the global financial crisis.

Without wishing to enter a different field, let us just observe that the ambiguity in EU matters continues. While the visionary Europe 2020 strategy is a cookbook for renewal, actual policy making is entirely immersed in day-to-day crisis management and the ensuing short-termism. The debate about the European Fiscal Stabilization Facility and later the permanent European Stability Mechanism, alone exceeding the size of the 7 year Financial guideline, leave little room for major structural innovations and restructuring. Thus the EU remains a sluggish environment for the country, obviously lagging behind the US and China. No good news for real convergence in the future.

In a comparative political economy one of the accompanying conditions for successful reforms is elite consensus. In the Hungarian case we see a strange perversion of this insight. In the initial phase of 1988-2002 the nature of this consensus was pro-EU and pro-market. But by the time accession was by and large accomplished, around 2001 a new type of elite consensus emerged. The latter revolved around populist, myopic policies, trying to maximize immediate benefits from staying in power and serving immediate – often perceived – needs of the electorate.

The agreement over the possibility and even desirability of doing nothing, the wide acceptance of disregard for even medium term ramifications of measures taken in the current situation, has created a new culture of decision-making. The more politics in general and political movements in particular are hollowed, becoming 'professionalized' and care about the marginal and swing voters rather than any kind of principles, values or lifestyles, the higher is the probability of the rule of myopic considerations, offering immediate material benefits, or delivering symbolic acts that lead to 'punishment of the guilty'.

The longer these features, which are by no means peculiar to post-communist or even European societies, prevail, the lower is the probability of adopting, let alone implementing pre-emptive policy measures or being engaged in institution building or investing in areas where recoupment is uncertain and if ever, will materialize only in the long run. 'Reform fatigue', a term frequently used in the literature on policy reform in the continental European context, is therefore clearly a misnomer. It is not societal resistance, manifested in mass demonstrations, in violent actions or wildcat strikes that have slowed down the reforms in Hungary/and much of continental Europe/. It was the change in the self-interpretation of policy actors, in their perceptions, value judgements and manipulation technologies applied, which translated into inaction, or action in the wrong direction.

Implications for Broader Economics

By offering the long view we hope to have contributed to the new political economy of economic change. In reviving the case study approach, coming back in development studies and also in the more abstract lines of modelling, we hope to join in the broad international debate over the fundamental re-thinking the overall state, methods and perspectives of economics as an academic discipline. This initiative was launched by influential authors of different persuasions/Hodson, 2009, Stiglitz, 2009, Caballero, 2010, Rodrik, 2010// and seems to have gathered momentum despite the dismissive tone of resistance coming from the mainstream neoclassical economists, still exerting uncontested dominance in most economics departments at good universities, as well as in the top academic journals.

Our story may allow, first of all, for the establishment of clear limitations of the conventional textbook approach of how to model economic processes and induce several calls for

modifying those practices, which any PhD student must internalize during her studies. The concluding section clearly underscores the inadmissibility of excluding the political from standard economic analysis, if it is to be meaningful. While we do appreciate the attempts of the 60s to fight the 'isms' and exorcise those from academe via reliance on facts and figures, falsifiable or verifiable hypotheses, those attempts seem to have gone too far. For disregarding revealed electoral preferences is not – or should not be – any better in analyzing any real economy, than disregard for consumer preferences was under command planning. This observation is not to belittle the relevance of statistical and quantitative methods. However these are unlikely to constitute the backbone of theory, as current curricula – following Samuelson, Varian, Krugman and Becker – would suggest to students.

Second, quality is back in vogue, also in a growing part of policy-relevant output coming out in mainstream journals. Our case study is supportive of this trend. We find useful to rely on this, as well as on many other softer variables, as non-corruptible managers, socially responsible firms or technocratic, impartial, dis-embedded public administration. These factors are truly hard- or even epistemologically impossible - to quantify. On occasion attempts to their 'operationalization' in numbers leads to more confusion than enlightenment/Török, 2010/, or simply to meaningless composite indicators not really indicating any real world phenomena to any degree. Economics the world over is on the way to re-discovering historic, institutional and qualitative aspects of societal phenomena. Our case study might serve as a minor contribution to this bumpy and long road. We tried to show why axiomatic and simple assumptions are unfit to explain outcomes in the medium and long run, which is, after all the subject and main task of any analytical social science discipline.

Third, adopting the broader perspective helps us to understand why bad policies are popular. This met the revealed preferences of a largely ignorant electorate. The median voter understands little if anything about lags, institutions, the relevance of impartial law enforcement or non-captive state administration and the need to spend on it. Thus the government and its nature and quality are back in the centre-stage, as global comparative analysis of contemporary markets/Tanzi, 2011/ also underscored.

Fourth, if quality of governance matters, it should also remain an integral part of economic analysis proper, especially if application on the ground is part of its objectives. In so doing, the quest for rigor and formalized analysis should not allow for the naive political view, believing that changing of elites, or governments, or political institutions, as rewriting the Constitution or re-drawing the electoral districts, would do miracles. Also it does not allow for appreciating the widespread calls for 'serving justice' and 'finally catching the thieves'. Legitimate those aims may be, addressing them will not turn the tide.

Fifth, our story also cautions against the customarily naive economist's view on diagnosis and therapy. The fashionable management practice of importing improvements and credibility via benchmarking is a non-starter for understanding, let alone addressing, macroeconomic imbalances if those are recurring and rooted in fiscal traditions and voter preferences/Muraközy, 2010, Benczes, 2011/. Copying good policies, be those from the EU or elsewhere, transplanting 'best practices' and formal institutions reflecting those, as constitutional debt ceilings or inflation targeting, will also in the future be of little avail on their own. The less is professional and elite consensus, commitment and internalization of those values, the less will straightjacket, like the European semester or the fiscal compact of March 2012 be effective. This is a clear lesson of previous periods, if seen in the broader EU perspective/Győrffy, 2012/. And, last but not least, good quality leadership, like honesty, is not a factor to be quantified, now or any time in the future. It needs to be nurtured, practised and the results will emerge, perhaps in the long run. But success is not a must for any country in the globe.

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