

THE POLITICAL ECONOMY OF TRANSITION SNAPSHOTS ON CONTEMPORARY HUNGARIAN POLITY AND ECONOMY

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Course Material Developed by Department of Economics,
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Syllabus

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The course

This course discusses the state of Hungarian economy and the logic of public policies from the perspective of institutional economics. We will focus on the intentions, opportunities and constraints of stakeholders during the study of private and public activities.

The course offers for the participants to

- Become familiar with the analytical and practical toolkit of political and economic analysis.
- Review some important but rarely discussed aspects of Hungarian economy, polity and society.

The first half of the semester will discuss the toolkit of the analysis based on political economy and institutional economics theories. The relation between enterprises and their interaction with the state will be overviewed in the second part of the course. The third part will review some policies (utilization of cohesion funds, development of enterprises, functioning of public sector.)

The course is based on theoretical literature of institutional economics and political economy on the one side. On the other side the material is based on the results of the

researches conducted by the fellows of HETFA institute.

Sound knowledge of economic theory and fluent English is required for attendance. The course invites participants for individual and group research activity and active role in debates. It is inevitable due to the topic and approach of the course. We will discuss topics without established academic narratives that inspires for vital debates: What are the main elements of the framework that directs the activity and perspectives of enterprises in Hungary.

1st week – Introduction, requirements, Main topics and the approach used to discuss them

This lecture presents the approach and the motivation applied during the course. The clarification of methodological issues will focus on three questions:

- The relation of normative and descriptive intentions on scientific inquiry
- The specificities of institutional approach
- The options and constraints for practical application of economics

The two key elements of economic and social change will be studied in the second half of the course: innovation and the role of entrepreneur.

Literature:

- William J. Baumol, Robert E. Litan, Carl J. Schramm (2007) *Good capitalism, bad capitalism, and the economics of growth and prosperity* Yale University Press
- Baumol, William J. (1990) Entrepreneurship: Productive, Unproductive, and Destructive *The Journal of Political Economy*, Vol. 98

2nd week – The economy and its institutional background

This lecture reveals the institutional settings of economic activities. Two questions will be discussed based on the seminal work of Avner Greif:

- How do economic structures, cultural aspects, social mechanisms, private actions and public institutions shape the interactions and payoffs of economic actors?
- What factors do constrain public actors to use their power to appropriate the benefit of economic activities that became available due to the presence of this power?

The cultural, economic and political condition of prosperity can be discussed reviewing these two questions.

Literature:

Greif, Avner (2005) Commitment, Coercion and Markets: The Nature and Dynamics of Institutions supporting exchange In Menard, Claude; Shirley, Mary M (2005) *Handbook of New Institutional Economics* Springer, Dordrecht

3rd–4th week – Some main specificities of public activities

This lecture reviews the institutional economics based theoretical background that is used to study the process and outcome of public activities. Core issues:

- The applicability and constraints of welfare economics and public choice
- The nature of political bargains and its implication for political processes
- The institutional, economic and social factors that shape the transition between different regulatory regimes

Literature:

- Dixit, Avinash (1996) *The Making of Economic Policy: a Transaction-Cost Perspective* MIT Press, Cambridge, MASS
- Glaeser, Edward L., Shleifer, Andrei (2003) *The Rise of the Regulatory State* JEL, Vol. 41
- Szepesi Balázs (2008) *Political Economy of Public Development Activities* CEU – PhD Disertation - <http://www.etd.ceu.hu/2008/pphszb01.pdf>

5th week – The main characteristics of Hungarian economy: the results of contemporary research

This lecture will review the main findings of literature on the structural and institutional features of contemporary Hungarian economy. The discussion will be based on the research of attendants. Core issues:

- Typical actors of the Hungarian economy, their motivation and the factors that shape their success
- Main features of economic cooperation
- The relation between main subsets of Hungarian economy

Literature:

- Balás et al. (2008) *Mit tudunk a magyarországi kapitalizmusról? Közjó és Kapitalizmus Intézet*
- Dobos Krisztina [2007] *Nagyméretű kiskereskedelmi láncok és beszállítóik kapcsolata* MKIK Gazdaság- és Vállalkozáselemző Intézet
- Kovách I. – Csité A. [1999]: *A posztoszocialismus vége - A magyarországi nagyvállalatok tulajdonosi szerkezete és hatékonysága 1997-ben* Közgazdasági Szemle Vol 46.

- Vedres, Balazs (2007) Pathways from Postsocialism: Ownership Sequence and Performance of Firms in Hungary, 1991-1999 *European Management Review*, Volume 4, Number 2, 2007 , pp. 93-105(13)

6th week – The theoretical background of an enterprise based approach

This lecture will study the interlinkage between the shortages of the institutional background and the limits of economic activity. This discussion will be based on the analysis of Hernando de Soto on Peru that presents

- How does holes in public support for private property system obstacle economic prosperity
- How do economic actors find their ways to overcome these obstacles

The Peruvian example does not fit to Hungary, but it can give useful insights. De Soto's work inspires to discuss what are the main institutional shortages of Hungarian economy and how do these shape the economy.

Literature:

- DeSoto, Hernando [1989] The Other Path Basic Books (passim)
- DeSoto, Hernando (2000) *The Mystery of Capital Basic Books*
- Djankov, Simeon, McLiesh Caralee, Ramalho, Rita [2006] *Regulation and Growth* The World Bank

7th week – Hungary and the freedom of entrepreneurship

This lecture reviews the following questions:

What are the main characteristics of the Hungarian value system that frames our institutions?

What mechanisms do form the interaction of enterprises, what are the main pillars of the infrastructure of trust in Hungary?

What are the main characteristics of the relation between the enterprises and the state in Hungary?

- What are the main options for Hungarian economy based on aspects highlighted by the previous questions?

Literature:

- Szepesi Balázs (ed) [2009] *Jelentés a magyarországi kapitalizmus állapotáról.* Közjó és Kapitalizmus Intézet, Budapest

8th week – Regional perspective

This lecture will study

- What are the main unique and regional specificities of Hungarian economy from static and dynamic perspective?
- What are the merits and constraints of data based international comparisons?

The discussion will be based on the research of the participants. Material of international organizations ((EU, OECD, World Bank, EBRD etc.) and results of international benchmarking studies (WEF, IMD, GEM stb.) will be used.

Main resources:

- Az EBRD BEEPS research -
<http://www.ebrd.com/country/sector/econo/surveys/beeps.htm>
- World Bank -Doing Business - <http://www.doingbusiness.org/>
- World Bank Governance matters -
<http://info.worldbank.org/governance/wgi/index.asp>

- IMD competitiveness scoreboard -
<http://www.imd.ch/research/publications/wcy/index.cfm>
- WEF competitiveness scoreboard:
<http://www.weforum.org/en/initiatives/gcp/Global%20Competitiveness%20Report/index.htm>
- GEM data - <http://www.gemconsortium.org/>

9th week – The role of the state to support economic development

This lecture will study the nature of development projects based on a less frequently cited work of Albert O. Hirschman. The course will review the main concepts and the normative approaches of public participation in economic development.

The analytical framework highlights the strict constraints and the potential risks of successful public interventions on the one side and introduces the motivations and rationals behind feasible public actions in this field.

Literature:

- Hirschman, Albert O. (1967) *Development Projects Observed* Brookings Institution Press, Washington D.C. (részletek)
- Hoff, Karla and Stiglitz, Joseph E. (2001) *Modern Economic Theory and Development*. In Meier, Gerald M, Stiglitz, Joseph E. Stiglitz (Eds). (2001) *Frontiers of Development Economics: the future in perspective* The World Bank, Washington and Oxford University Press, New York
- Szepesi Balázs (2008) *Political Economy of Public Development Activities* CEU – PhD Disertation - <http://www.etd.ceu.hu/2008/pphszb01.pdf>

10th week – The context of economic development policy

This lecture discusses

- How do Hungarian enterprises evaluate the activity of public authorities on the field of regulation and development funding
- How do different groups of companies utilize the public schemes offered for economic development
- What is the statistically observable effect of economic development policy grants

Literature:

- Csire András Major Klára (2010) *Az állam és a vállalkozások kapcsolatának néhány jellegzetessége Magyarországon* HÉTFA Kutatóintézet –Bizalom és Vállalkozás műhelytanulmányok IV.
- http://hetfa.hu/wp-content/uploads/HMT04_Csire_Major_AzallamesavallalkozasokkapcsolatanaknehanyjellegzetessegeMagyarorszagonISBN.pdf

11th week – Utilization of EU cohesion policy funds in Hungary

This lecture presents the history and contemporary practice of EU cohesion fund utilization in Hungary. Core issues:

- The impact of institutional and bureaucratic incentives
- The causes of risk and responsibility minimizing attitude
- The explanation for lack of visible results
- The roots of sticky institutions and the options to initiate change

Literature:

- Balás Gábor [2009] *A Fejlesztéspolitika Alapkérdései*, PPH Közpolitika Elemző Kft., Budapest
- Béres Attila [2008] *A GVOP 2.1.1 konstrukció értékelése*, NFÜ Budapest
- Béres Attila [2006] *Áttekintés a fejlesztéspolitikáról 1993-2003* NFH, Budapest
- Csizsák András-Szepesi Balázs [2008] *Az I. NFT eredményei és hatásai 10 kistérségben* HBF-Hungaricum, Kecskemét

12th week – The disfunctions of public functions

This lecture will study why did the organization of public activities become disfunctional in Hungary. Core issues:

- The conceptual framework to analyze public activities
- The normative framework to analyze public activities
- The disfunctions of Hungarian public sector based on literature
- Possible roots of disfunctional public sector in Hungary
- What has been changed since 2010?

Literature:

- Szepesi Balázs, Borbás Gabriella, Balás Gábor (2010) *Az államműködés problémái Magyarországon* HÉTFA Kutatóintézet

<http://hetfa.hu/wp-content/uploads/2011/07/allammukodes1.pdf>

- Szepesi Balázs, Balás Gábor (2009) *Módszertani, elméleti keretek a magyar államműködés problémáinak elemzéséhez* HÉTFA Kutatóintézet

<http://hetfa.hu/wp-content/uploads/2011/07/allammukodes2.pdf>

13th week – Summary – Directions for practical and scientific study of Hungarian economy

The final lecture summarizes the results of the course.

- What institutional and motivational aspects should be incorporated into the framework to conceptualize key issues of contemporary Hungarian economy?
- What are the main feature of Hungarian economy?
- What are the feasible options for the Hungarian economy?
- What are the motivations and options of political and economic actors to modify the path of Hungarian economic development?

No extra literature added