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Necessary Factors Facilitating Large Scale Policy Change

Hungarian Tax Reform 2009-2018

Abstract

The paper aims to investigate the causal mechanisms and identify the necessary factors of large shifts in public policy and therefore it aims to contribute to the emerging stream of public administration applied research in public sector reform. Existing policy change theories are tested by the paper and a proposal is made to synthetize the findings in order to get a more comprehensive understanding of the nature of policy reforms. The paper also aims to provide a better understanding in the main contexts and in the interacting processes those shaping public policymaking for practical policy analysis purposes.

The case under investigation is the major change of tax policy that took place in the past decade in Hungary (2009-2018). In the same time period, several tax policy changes in mixed directions happened in other developed countries as well, however, Hungary stands out with regards to the consistency and magnitude of the changes implemented. Therefore, it is considered to be an extreme case and it constitutes a puzzle. The ambition of the paper is to combine theoretical insights and individual case knowledge for the explanation of the particular outcomes. The research is organized in an embedded case study design purporting within-case analysis. In doing so, the paper utilizes various statistical datasets, official documents and semi-structured interviews with key players.

The hypothesis is that the coexistence of economic crisis, strong external influence and reform ownership of the domestic elite decision makers were necessary in the causal mechanisms leading to the large scale tax policy shift in Hungary.

Keywords: policy change, policy reform, tax theory, tax policy

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INTRODUCTION

Change is one of the most commonly used terms in our everyday life. Public policy change refers to shifts in existing structures deriving from a change in attitude or in principle (Bennett and Howlett, 1992; Cerna 2013). The realm of public policies is in a perpetual flow of change as elite decision makers adjust them according to their perceived interests shaped by socioeconomic trends, electoral preferences, technological developments, etc. Nevertheless, the advancement of public policy change certainly comes unevenly, concerning its speed and concerning its scope: periods characterized by relative stability of public policies are followed by periods of major changes[1].

Public policy making has an imperative financial dimension: financial resources are raised by the government and then they are allocated to various activities delivered "A state's means of raising and deploying financial resources tell us more than could any other single factor about its existing (and immediately potential) capacities…" (Skocpol, 1985:17).

The revenue side is predominantly made up by tax revenues – typically well above 90% of public sector revenues are coming from taxes in modern states. Taxes account for 30-50% of GDP in modern states[2] - the average tax-to-GDP ratio was 40.2% in the EU in 2017[3]. Taxes directly affect the daily lives of individual citizens while also provide "the sinews of state"[4]. Taxation gives the government access to private economic resources; the formulation of the tax system is the choice of the government on how to raise money: what taxes to levy, on whom to put the tax burden and on what size. The tax system influences the behaviour of the economic agents (both individuals and corporations) and alters the distribution of wealth among different groups. "How a society employs taxation reveals much about the relation between its citizens" (Hettich and Winer, 1999:1).

After a long time period characterized by relative tax regime stability, a major revamp of the tax system had taken place starting from 2009 in Hungary[5]. The essence of this policy change was a dramatic shift of the tax burden from labour and capital income to consumption. While tax policy changes in the same period happened in other European Union (EU) and OECD[6] member states as well, Hungary clearly stands out with regards to the direction and magnitude of the changes implemented. Why is it so? What factors can explain such an abrupt and fundamental change of the Hungarian tax policy? Interestingly, as I will argue later, the topic provides an unanswered riddle, yet little academic discourse has emerged around it[7]. The intention is to make this to happen with the current study.

This paper focuses on the large-scale policy changes, and aims to uncover the combination of necessary factors facilitating such trajectories. As such, the research is embedded into the terrain of policy change theories. Public sector- and tax policy change literature constitutes the conceptual framework of the study. The broad aim of the paper is to test and potentially refine existing theories of policy change, to compare their explanatory power and to contribute to the emerging stream of public administration applied research agendas on public sector reform by making visible and understandable the main contexts and the interacting processes those shaping public policymaking. Such an insight could improve our understanding of the factors hindering and the factors facilitating public policy change to happen.

The paper is structured as follows. First, the analytical framework of study, the relevant policy change theories are presented (Section 2). Afterwards, the research design is set, the methodology is presented, the research question and hypothesis are elaborated (Section 3.). Then the variables offered by policy change theories are operationalized

(Section 4.) and the case study's empirical body of work is presented (Section 5.). Finally, the paper concludes with evaluating the role of independent variables in explaining the causal mechanisms of policy change (Section 6.). The paper argues for the need of refining the theories utilizing the insights learned from the case, and potential further directions of research are presented.

LITERATURE REVIEW

The topic of large scale tax policy change is located at the intersections of policy studies, political economy, political science, public administration studies and tax theory writings. Policy change refers both to incremental refinements in existing structures and the introduction of new and innovative policies replacing existing ones. Accordingly, it posits a change in attitude or in principle of the decision-makers (Hogwood and Peters, 1983; Polsby, 1984; Bennett and Howlett, 1992; Cerna, 2013). The term "policy reform" generally refers to a major change that goes beyond day-to-day policy management, potentially involving structural changes (Alesina et al, 2006), a "deliberate attempt (...) to change the system as a whole" (Fullan, 2009). Reform is inherently political as it represents a selection of values, a particular view of society and is has distributional consequences vis-à-vis the allocation of benefits and costs (Reich, 1995). However, it is not easy to accomplish policy reforms. Large-scale change is considered as "not the norm" by scholars, (Wilsford, 1994:251), even "difficult, if not impossible" (Birkland, 2005:41). Why policies change and when, is indeed a tricky question and a "rather poorly understood phenomena" (Rodrik, 1996). Many policies - even dysfunctional ones – are going through long periods of stability before they change. Why can change eventually happen? What do circumstances allow, what factors facilitate policy change to happen? The axiom that "policy change can and does happen under the proper conditions" (Birkland, 2005: 41) gives little practical help in answering the question. A better understanding on these "proper conditions" is offered by the policy change theories. Sebők and Cerna classified them and identified the most important ones, such as path dependency, punctuated equilibrium, policy learning and the interest group activity centred "Advocacy Coalition Framework" (Cerna, 2013; Sebők, 2014). This classification is considered as it provides a helpful guidance here. In the following section the paper gives a brief overview of the various policy change theories.

THEORIES ON POLICY CHANGE

The theory of path dependency (Wilsford, 1994; Pierson, 2000; Mahoney, 2000). departs from the postulate that "history matters, and it matters a great deal" (Wilsford, 1994: 279). According to the theory, the policy process within an existing institutional framework is dominated by the decentralized interaction of policy actors that can lead to the lengthy survival of certain - even suboptimal - policy outcomes. As such, public policies and formal institutions are difficult to change by design: decisions made in the past encourage policy continuity. Because institutions are sticky and actors protect existing models, it is difficult to change policies (Pierson, 2000; Greener 2002). Still, under certain conditions, a big change that departs from the historical path can be possible. "By developing the interplay of structure with conjuncture, the occasional accomplishment of big change can be systematically understood." (Wilsford, 1994: 253). To introduce a major change policy makers have to wait for a critical juncture (Capoccia and Kelemen, 2007) or a window of exceptional opportunity called conjuncture (Wilsford 1994). The theory of path dependency helps to explain why policy continuity is more likely than policy change, but it also reveals that "critical junctures" facilitate policy change to come by (Cerna, 2013).

Punctuated equilibrium theory also describes the pattern of cyclical changes of policy: long periods of stability are followed by major (fast - and sometimes dramatic) policy changes. According to the theory, once an idea gets attention, it will expand rapidly and become unstoppable (Baumgartner and Jones, 1991; Baumgartner and Jones, 1993). Punctuated equilibrium is the process of interaction of beliefs and values concerning particular policy (termed policy images) with the existing set of political institutions or venues of policy action. (Christensen, Aaron and Clark 2003, Christensen et al. 2006).

How ideas can be transmitted from one place to another is the topic of the policy learning stream of thought, that terms "policy-oriented learning" or "diffusion" as a major determinant of policy innovation and change (Sabatier, 1988; Sabatier and Jenkins-Smiths 1993; Cairney, 2015). Policy learning emphasises the importance of policy diffusion and policy transfer in the policy change processes (Rose, 1991; Dolowitz and Marsh, 1994). Policy diffusion is a process in which policy innovations spread from one government to another (Shipan and Volden 2008). In its most generic form, policy diffusion is defined as one government's policy choices being influenced by the choices of other governments. In other words, the "knowledge about policies, administrative arrangements, institutions in one time and/or place is used in the development of policies, administrative arrangements and institutions in another time and/or place" (Dolowitz and Marsh 1996: 344). Policy makers rely on examples and insights from those who have already experimented with concerning policies (Shipan and Volden 2008; Shipan and Volden, 2012). Policy diffusion and its role in public policy formation can take various forms (i.e. political leaming, government leaming, policy-oriented leaming, lesson drawing and social leaming). These concepts are used to describe the process by which programs and policies developed in one country are emulated by, and diffused to others (Rose, 1991; Cerna, 2013). It can come in a voluntary or in a coercive way, where coercion is the use of force, threats, or incentives by one government to affect the policy decisions of another.

Changes in the main aspects of a policy usually result from shifts in external factors such as macro-economic conditions or the rise of a new systemic governing coalition, i.e. the "Advocacy Coalition Framework" (Sabatier 1988, Sabatier and Jenkins-Smith 1993). Policy change can be understood through the examination of political subsystems (advocacy coalitions) those seek to influence governmental decisions. The theory recognizes that there are various competing sets of core ideas about causation and value in public policy. Coalitions form around these core idea sets because certain interests are linked to them. The members of advocacy coalitions are coming from a variety of positions (elected and agency officials, interest group leaders, researchers etc.) and they shape the particular belief system - a set of basic values, causal assumptions and problem perceptions (Sabatier, 1988; Sabatier and Jenkins-Smith, 1991). Policy options are therefore the function of the position of the particular advocacy coalition vis-à-vis the elite political decision makers: shifts in the government have an impact on the advocacy coalition.

CLASSIFICATION OF THE FINDINGS OF POLICY CHANGE THEORIES

The theories presented above identify factors facilitating policy change. These can be operationalized into the following cohorts: the window of opportunity - provided most notably by a crisis situation 'since it delegitimizes long-standing policies underpinning the status quo' (Kickert and Randma-Liiv, 2017: 91); policy learning, including pressures emanating from supranational institutions in the form of coercive policy diffusion (Christensen and Laegreid, 2017); and the form of political executive (i.e. advocacy coalition) that affects – among other things – reform ownership (Pollitt and Bouckaert, 2011). Top-down reforms driven by elite decision making – influenced by ideas and pressures from elsewhere – constitute the core of the reform process.

A critical juncture (Capoccia and Kelemen 2007) or a window of exceptional opportunity called conjuncture (Wilsford 1994) is identified by the literature as an independent variable facilitating policy change. Such a critical juncture/conjuncture is provided by the constellation of economic crisis. Economic crises by nature deliver welfare losses. A deep economic crisis may deliver policy reforms because the perceived political costs of not reforming (i.e. policy continuity scenario) is larger than the costs of the reform scenario (Drazen and Grilli, 1990). The hypothesis that crises lead to fiscal consolidation and public sector reforms has become part of the "conventional wisdom" (Tommasi and Velasco, 1996).

Shifts in the locus of authority is another critical component of the policy change process (Hall, 1993). A public sector reform is more likely to happen if one political group (or advocacy coalition) becomes a dominant player (Alesina, 2006). This political group is understood as being mainly domestic – however in some cases external players (mainly supranational institutions) play also an important role. This can take the form of a transfer process of policies, administrative arrangements, institutions, and ideas from one entity to another (Dolowitz and Marsh, 1996). The literature distinguishes coercive and voluntary transfer forms. Coercive policy transfer is also termed as facilitated unilateralism or hierarchical policy transfer. This occurs via the transnational or supranational authority when a state is obliged to adopt policy as a condition of financial assistance (Bulmer and Padgett 2014). Nevertheless, the perceived influence of the external pressure on domestic policy making varies. Some scholars argue that foreign pressure in reality has only a weak or moderate effect on domestic policy making (Alesina 2006, Mahon 2004). Some argue that IMF-supported programs' conditionalities are critical to fiscal consolidation, however the eventual success of a program rests on individual governments that are responsible for policy choices, design and implementation (Crivelli and Gupta, 2014). Other scholars stipulate that external pressure in a form of conditionality related to financial assistance (i.e. IMF bail-out program) is the final source of forced implementation of swift and radical policy change (Christensen and Laegreid, 2017; Randma-Liiv and Kickert, 2018). While quantitative revenue conditionality is a regular phenomenon of IMF programs, this can also be related to tax policy or tax administration reform (Crivelli and Gupta, 2014).

The quality of the coercive policy transfer and its outcome depend on variables such as the degree of authority accrued by supranational institutions and the density of rules and the availability of sanctions/incentives (Bulmer and Padgett, 2014). Concerning policy transfer capabilities of governments under the circumstances of coercive policy transfer, Bulmer and Padgett (2014) distinguish muddling through and problem solving type of attitudes of the political executives whereas the muddling through approach leads to weaker forms of policy transfer while problem solving attitude results in stronger policy transfer outcomes.

Political economy scholars find that fiscal consolidation and broad reforms are more likely to occur when new governments take office (i.e. when elections are a long time away); when governments are politically strong (strong mandate, strong state, narrow coalition, strong leadership); and when the executive branch faces fewer institutional constraints (Reich, 1995; Alesina, 2006). Large scale policy shifts are more likely to occur immediately after an election, presumably when the new government enjoys a mandate and when new elections are a long time away (Alesina, 2006). The form of the political system influences also the decision-making patterns: one-party governments in majoritarian systems are able to implement quick and resolute fiscal cutbacks, while coalition governments in consensual democracies will engage in protracted negotiations (Kickert, Randma-Liiv and Savi, 2015). Broad reforms are possible when there is sufficient political will and when changes are designed and implemented by capable planners and managers with strong vision. The larger the number of institutional constraints on the executive, the more delayed and less successful policy reforms become (Hamann and Prati, 2002). Table 1. summarizes the various factors and mechanisms facilitating policy change according to the theories. The approach presented by the theories is going to be applied by the paper with regards to the analysis of the Hungarian tax reform. In reforming the tax system, there are three areas of focus — economic crises, international influence, and domestic politics (Mahon, 2004).

Table 1. Policy change theories: factors and mechanisms

	Path dependency	**Punctuated equilibrium**	**Policy learning**	**Advocacy Coalitions**
Factors of policy change	critical juncture/ conjuncture	change of policy images (values and beliefs)	policy diffusion	belief system of advocacy coalition
	window of opportunity	shifts in external factors (e.g. macroeconomic conditions)	policy transfer (voluntary or coercive)	shifts in systemic governing coalition
Mechanisms of policy change	delegitimize long-standing policies	capable managers with new policy images	one government influences the other (international influence)	reform ownership (strong political mandate, fewer institutional constraints)

Source: Author

RESEARCH QUESTION, RESEARCH DESIGN AND CASE SELECTION

The paper is interested in identifying the combination of necessary factors facilitating significant policy changes. The dependent variable of the article is the outcome of tax policy change in Hungary in 2009-2018. The research question (RQ) of the paper is the following one:

What combination of independent factors was necessary for the Hungarian tax reform in the 2009-2018 period?

Derived from the exhibited scholarly literature and utilizing Mahon's propositions the following factors are operationalized as independent variables:

1. Domestic cleavage structures which define reform ownership through the political capabilities of elite decision makers and the belief system of the advocacy coalitions.
2. The window of opportunity in the form of economic crisis as it delegitimizes previous long-serving policies and undermines the status quo.
3. International influence that makes policy learning, policy diffusion and policy transfer happen either in voluntary or in coercive form.

The hypothesis of the paper is (H) the following one:

The co-existence of all the three factors stipulated by policy change theories, i.e. domestic cleavage structures allowing high level of reform ownership, the window of opportunity in the form of economic crises and the influence of international agents in the form of policy transfer was necessary for the Hungarian tax reform in the 2009-2018 period.

The research focuses on the Hungarian tax reform that took place in the past decade (from 2009 until 2018). In order to achieve better contextualization of the topic, the study looks at the previous history of tax policy changes in Hungary (i.e. the 2004-2008 period), and examines the tax policy developments in other (mainly EU and OECD) countries as well. The time period under investigation is segmented into four episodes of the four consecutive governments. Governments are considered to have the democratic mandate to deliver their political programs therefore they are considered by the paper as the units of the analysis.

A large scale tax policy change occurred in the given time period (2009-2018) and in the given place (Hungary)[8] – these changes were unprecedented in an international comparison, therefore it is an extreme case. At the same time, macroeconomic conditions, the intensity of external influence, the political orientation and the political support of domestic elite decision makers were qualitatively different throughout the observed time-period. There is one auxiliary reason of the case selection and this is the familiarity of case: i.e. as an economist, I have analysed the developments of the Hungarian economy and contacted the various members of the prevailing advocacy coalitions from a macroeconomic point of view by profession[9].

The analytical work is based on macroeconomic datasets (Eurostat; OECD, Worldbank; KSH, MNB, Hungarian Government), official government documents, official and working papers of international organizations (IMF, OECD, European Commission), advocacy coalition policy papers, and other documents as well as semi-structured interviews with members of various advocacy coalitions[10]. Case studies are considered to be a powerful method for locating causal mechanism and explaining single outcomes (Coppedge, 2007; Gerring 2007). Accordingly, the research is designed as an embedded case study purporting within-case analysis.

It is not the purpose of this study though to evaluate the effects of the changes of tax system on the economy and on the society. Tax policy is looked at by taking the big picture: the tax revenue changes of the main tax types are in focus, a more refined analysis is not carried out. Taxes imposed at the local level are not in the scope of the study.

In the next section the paper further elaborates the three factors identified by policy change theories from the perspective of their impact on tax reform with the underlying ambitions to find out how they interplay in the causal mechanisms of tax policy change.

OPERATIONALIZING THE INDEPENDENT VARIABLES

DOMESTIC CLEAVAGE STRUCTURE

"Taxation is deeply redistributive, therefore profoundly political. National tax structures reflect both national preferences and histories" (Wyplosz, 2015:15). Tax policy design and its implementation are outcomes of the political process, i.e. the choices on taxation made by public decision makers are always influenced by political considerations (Woolley, 1984; Hettich and Winer, 1999). These choices are influenced by the given institutional context and the various advocacy coalitions, however political factors have a more explicit role as elected politicians typically use the tax system (i.e. tax bases, rate structures, exemptions and provisions as a set of related policy instruments) to favour particular interest groups in order to increase their chances of re-election (Hettich and Winer, 1999; Brys, 2011). Politicians have an incentive to implement tax reforms that benefit large numbers of voters, especially "swing voters"[11] (Profeta, 2003). Tax reform is shaped by efficiency, by questions of horizontal and vertical equity (fairness), by tax evasion considerations and by revenue potential (Brys, 2011). The various political cleavage structures have other important influences on tax reforms: governments new in office, strong leadership, partisan dominance favours tax reform (Mahon, 2004; Bird, 2004; Brys, 2011).

THE WINDOW OF OPPORTUNITY IN THE FORM OF ECONOMIC CRISIS

The political economy obstacles to reform are easier to overcome during a crisis situation as they undermine the power of vested interests and convinces policy makers that fundamental tax reforms are necessary. As such crisis facilitates to create a sense of urgency, to overcome the coalition of political opposition and administrative inertia that normally blocks significant change and therefore to open a "window of opportunity" for fundamental tax reform that otherwise would not come (Bird, 1992; Olofsgard, 2003; Brys, 2011; Brys, Matthews and Owen, 2011).

There are various types of economic crises, such as inflation, exchange rates, debt, banking, real estate, real economy etc. These crises seldom come alone, there are typical interlinkages between some of them (i.e. inflation and exchange rate crisis or real estate and banking crisis usually come together etc.). Financial crisis is constituted by a situation when there are perceived public sector problems on financing the payment obligations. At its most extreme case it is a sovereign debt crisis that involves either outright default on debt-refinancing, the restructuring of debt (Reinhardt and Rogoff 2011) or requiring the assistance of an international lender of last resort to mitigate debt-refinancing difficulties. Tax policy changes are often driven by adverse macroeconomic conditions, with the purpose to mitigate the impact of the financial crisis: i.e. crisis increases the pressure to raise more tax revenue in order to restore public finances.

Tax reform often takes place when the International Monetary Fund (IMF) makes it a performance condition for its loans. (Mahon, 2004). Governments sometimes face a situation where burden shifting across groups is perceived politically unviable. In these cases the reliance of national governments on international constraints, such as those coming from the International Monetary Fund (IMF) or the European Commission are helpful in implementing tax reforms (Brys, 2011).

INTERNATIONAL INFLUENCE: TAX THEORIES AND POLICY RECOMMENDATIONS

First the theoretical foundations of taxation are presented here, and a synopsis of policy recommendations stemming from the theories is offered followed by an overview of how policy recommendations changed taxation practices over the recent decades especially in OECD and EU member states. Then other sources of international influence are identified and explained.

Three major normative taxation theories emerged influencing policy decisions in recent decades: (1) equitable taxation, the prevalent theory in the 1950s and 1960s; (2) the theory of optimal taxation developed in the 1970's , and (3) the revival and reformulation of the fiscal exchange (Hettich and Winer, 1999). These theories provide guidelines on the preferred tax design and the importance of the individual elements within the tax system as a whole. The theory of equitable taxation is rooted in classical liberalism (emphasizing individual liberty as the primary value, together with equality as next in importance). The theory advocates the minimization of political interference in the life of economic agents and therefore calls for institutions and policies designed accordingly. At the same time, due to its equality principle, the theory also claims that the tax system has to have the function to create greater equality through redistribution. Taxation is therefore imposed in accordance with the ability to pay – so the main focus is on horizontal equity (i.e. same rate for same comprehensive income). The theory assumes broad and single base. It also implies equal treatment of income from any source, including capital. Equitable taxation has exercised an impact on tax reform and design in the Anglo-Saxon countries (mainly in the 1965-1985 period)[12].

Optimal tax theory argues that as the efficiency costs of taxation are potentially large[13], it is worthwhile to focus attention on how to minimize them (Slemrod, 1989). Optimal taxation theory assumes competitive markets in a general equilibrium whereby justice in taxation requires each taxpayer to suffer an equal sacrifice. Equity and efficiency goals are integrated into a single welfare function (Mirrlees, 1971; Diamond and Mirrlees, 1971). According to the theory a key goal for tax design is to reduce the deadweight loss of the system as a whole as far as possible[14]. Optimal taxation theory argues for single and inelastic tax base and calls for broad personal consumption tax. At the same time it advocates shifting the emphasis away from capital taxation (Mankiw, Weinzierl and Yagan, 2009). Optimal taxation theory has influenced policy blueprint from the 1990's onwards (i.e. income tax with a broadly defined base; a renewed emphasis on consumption and expenditure taxation; lower tax rates on the returns from capital assets).

The fiscal exchange approach to taxation derives from the central problem of how to design institutions of government responsive to the electorate and at the same time ensure that electoral processes do not lead to exploitation by organized interest groups (Buchanan, 1976). Its central question is to what extent the government's power to tax should be limited and how? The theory recommends narrow multiple and elastic tax base and reduced emphasis on taxation of capital, non-regressive tax structure with rules limiting tax discrimination. Table 2. summarizes the major theoretical considerations and policy recommendations of the three theories.

Although, policymakers have been selective in adopting theories' recommendations, overall, tax policy moved in directions suggested along several aspects (Slemrod, 1989; Mankiw, Weinzierl and Yagan, 2009).

Based on tax theory suggestions, academic literature developed a ranking of taxes according to their negative consequences on economic growth, which was internalized by international and supranational institutions (i.e. the OECD, the IMF and the European Commission). Accordingly, in terms of reducing GDP potential of a given country recurrent taxes on immovable property are considered as being the least distortive tax instrument, followed by consumption taxes, taxes on labour and capital income (Prammer, 2011; Mirrlees, 2010; OECD, 2010; Csomós-P.Kiss, 2014; Garnier et al, 2014, Mathe, Nicodeme and Rua, 2015; Szoboszlai et al, 2018). It is assumed that switching from 'origin-based' taxes (income tax) to 'destination-based' taxes (consumption tax) could improve competitiveness (LeBlanc, Matthews and Mellbye, 2013). This ranking has been influential for recommending to shift tax burden away from labour. Originating from tax theories' policy prescription a common intellectual framework has developed claiming that the combination of broad tax bases and low rates are the best way to collect revenues while ensuring that taxes distort business and household decisions as little as possible (Brys, Matthews and Owen, 2011; Mathe, Nicodeme and Rua, 2015). Fiscal devaluations – cuts in labour taxes financed by increases in VAT – are a particular form of tax shifts

(Puglisi, 2014). The European Commission has been recommending Member States to reduce taxes on labour and increase revenues from other tax bases (i.e. consumption taxes) since the early 1990's (Mathe, Nicodeme, and Rua; 2015). The role of international organisations is important, both in coercive policy transfer (i.e. IMF conditionalities) and in voluntary policy learning as they play an important role in creating a forum where countries can share information and views about tax issues (Brys, 2011).

Table 2. Tax theories - theoretical considerations and policy prescriptions

	Equitable Taxation	**Optimal taxation**	**Fiscal Exchange**
Theoretical considerations	greater equality through redistribution minimal interference through taxes ability to pay (horizontal equity)	competitive markets in general equilibrium taxation is a reduction of aggregate welfare (i.e. deadweight loss) deadweight loss need to be minimized	limit tax discrimination responsiveness to the electorate
Tax policy prescriptions	**broad and single base** **equal treatment of income**	single inelastic base **broad consumption tax** **lower tax on capital** hump-shaped rate structure	narrow multiple elastic base **lower tax on capital** non-regressive tax structure

Source: Author

The generally witnessed trend toward reduced taxation of capital income, tax systems with flatter tax rates and the growing importance of value-added taxes are consistent with theory prescriptions. In OECD countries, top marginal rates have declined, marginal income tax structures have flattened, and commodity taxes have become more uniform (Mankiw, Weinzierl and Yagan, 2009)[15]. Out of the 36 OECD countries, 33 experienced massive decrease of the personal income tax (measures in percentage of overall tax revenues). Altogether there were 57 periods of sizeable decrease of the personal income in total revenue, out of which 46 periods when the share of personal income in total tax revenue fell by more than 3%[16].

These tax cuts were accompanied by broadening the tax base: "fairness" arguments reinforced economic efficiency arguments for broadening tax bases by phasing out tax breaks favouring particular groups. (Brys, Matthews and Owen, 2011; Slemrod, 1989)[17]. The individual jurisdictions' tax structures moved toward flatter rates and the marginal tax rate on high earners fell in most countries (in the OECD countries, but also outside over the past three decades (Hines and Summers, 2009)

Globalization[18] is considered to be also a factor of international influence facilitating tax policy change as it enhances "tax optimization" behaviour i.e. multinational corporations use internal prices to locate profits where taxation is lowest, therefore it generates tax competition (Brys, Matthews and Owen, 2011). Globalization also implies the increasing use of consumption taxes as the associated activities are relatively easy to localize (as opposed to incomes), which in turn reduces the potential for international tax avoidance. Smaller and more open economies rely less on personal and corporate income taxes, and more on expenditure and trade taxes than other governments do (Hines and Summers, 2009).

EMPIRICAL BODY OF WORK

CASE SELECTION RATIONALE

In the following section the paper analyses the previously identified three factors' role in the causal mechanism of tax policy change both in a general setting and in a particular context provided by the case under investigation.

The main elements in all tax systems are tax bases, rate structures, and special provisions such as exemptions, credits, and deductions. Tax regimes are complex systems, with typically 50-80 different types of taxes employed, often with different tax rates and numerous exemptions applied to various economic agents or economic activities. In any tax system, these elements are all determined jointly. One needs to examine the process by which tax structure is determined in order to understand taxation. "Tax systems can be viewed as the outcome of optimizing political and economic behaviour in a competitive political system" (Hettich and Winer, 1999:59). Tax revenues constitute the large majority of governments' income – it is an essential question how tax burden is distributed: i.e. what actors on what type of activities pay how much taxes. From the perspective of the current study, this is the most rudimentary characteristic of any given tax system.

When one aims to evaluate the changes in the tax policy, there are several possible ways to measure them. One way would be to examine the particular tax rates imposed, exemptions applied, and the changes along these dimensions. Nevertheles, such an approach would prove to be rather insufficient in grabbing the underlying issue of how tax burden is distributed in the society. Another approach would be to measure the various types of tax revenues in nominal terms, or discounting the impact of inflation and economic growth, rather in relation to GDP. However, there still remains the noise of the sometimes drastic cyclical and/or structural changes of the economy and fiscal consolidation needs. Therefore, the most reliable measure of a given tax system is the share of the various economic actors and activities within the pool of total tax revenue. This is the chosen measurement technique of this study where the big picture is in the focus.

The big picture has the following segmentation[19]: (1) taxes on income, profits and capital gains; (2) social security contributions; (3) taxes on payroll and workforce; (4) taxes on property; (5) taxes on goods and services. Tax policy changes are examined by the paper on the dimension of the changes in the share of the overall tax revenues of the above categories. What would be the criteria of a significant tax policy change? There is no agreed definition for this question, therefore there is a need to develop it here.

The assumption is that a significant tax policy shift occurs when the burden share within the total tax revenue mix of at least two types of taxes (i.e. out of the large tax categories) changes by more than 5 percentage points. While the criteria of the 5 percentage point change can be labelled as arbitrary, and one can argue that a smaller (i.e. 2-3 percentage point) change should also be classified as a significant tax policy change, the counterargument is that such fluctuations may be produced by abrupt changes in the macroeconomic environment as well without intentional policy measures, therefore by lifting the criteria threshold to meaningfully higher levels as proposed, such caveats could be avoided. A 5 percentage point change of a major element within the tax structure on the other hand is a measure that reflects a significant reconsideration of the tax policy concerning the weights of certain taxable activities and actors.

The argument for the other criteria, i.e. that tax changes should comprise at least two types of taxes is based on the intention to avoid cases of more incremental tax policy changes and grab the cases of deliberate policy reforms. Nevertheless, tax policy reforms normally take considerable amount of time to deliver intended outcomes. Starting from the point in time, when the idea of a tax reform is born in advocacy coalitions, typically it takes years to get the results, as ideas need to go through fiscal feasibility studies and legislative procedures before implementation, time is needed to get the tax-payers ready to accustom to the new requirements, and finally the revenues to come alongside the expected structure.

It is advisable to examine multiyear periods' tax revenues before and after tax reforms versus those of single years, as that would give a more balanced picture preferably cleared from one-off effects producing undesired biases in the time series. Therefore, the following research will analyse 3-year averages in order to conclude whether a significant tax reform occurred.

A major tax reform therefore was identified in any case when 5% percentage point change happened of at least two major tax elements with regards to their share in the overall tax revenues in examining three-year period averages. Having analysed the Eurostat and OECD databases, eventually there are two such cases detected: Hungary and Lithuania (see Table 3.). Nevertheless, in Lithuania the overall tax burden shift is less fundamental as it can be considered as a rebalancing of the different types of tax on labor, whereas the Hungarian case exemplifies a major policy turnaround with the weight of the tax burden moved from income to consumption (see Table 4.). Therefore, Hungary arguably constitutes the case of a significant tax policy change.

Table 3. The change of share of the tax types in total tax revenue (in %) 2006-2008 average versus 2012-2014 average

	consumption tax	**income tax**	**property tax**	**social security tax**
Hungary	**6,3**	**-7,2**	1,2	-0,8
Lithuania	2,7	**-12,5**	0,1	**9,7**

source: OECD Database / Author

Table 4. The changes in Hungary's tax revenue structure (3-year averages)

	2006-2008	**2009-2011**	**2012-2014**	**2015-2017**
Taxes on income, profits and capital gains	25,1%	20,7%	17,9%	18,6%
Social security contributions	33,4%	32,6%	32,6%	33,1%
Taxes on payroll and workforce	0,8%	1,1%	1,4%	1,7%
Taxes on property	2,1%	2,8%	3,3%	3,0%
Taxes on goods and services	37,6%	42,0%	43,9%	42,9%
Other taxes	0,9%	0,8%	0,8%	0,7%

source: OECD Database / Author

CASE RESEARCH

The analysis covers the three consecutive governments' tax policy changes (i.e. Bajnai 2009-2010; Orbán 2010-2014; Orbán 2014-2018), however, it also gives an account of the previous time period (2004-2008) in order to better contextualize the case.

Hungary joined the EU in May 2004 and almost immediately the EU's Excessive Deficit Procedure[20] was launched (in early summer 2004). The Hungarian government needed to submit a detailed plan how it planned to reduce the deficit. Internal conflicts within the government resulted in a change of the prime minister[21] in August 2004. The incoming Prime Minister Gyurcsány was eyeing to the 2006 parliamentary elections, therefore the government refrained from employing unpopular fiscal consolidation measures. However, in order to formally comply with the EDP, the Ministry of Finance prepared a national program in autumn 2004 – without consulting fellow ministries, the central bank, or economic think-tanks[22]. While fiscal consolidation program and structural reform proposals were aligned with the EU recommendations – implementation was fully missing[23]. This changed after the 2006 elections. The lack of a strong political coalition weakened the political leaders' capacity to implement comprehensive reforms though. Political consent was secured by party-politicking through behind-the-scenes deals among the coalition parties. Interest groups were only minimally involved in policy formulation and eventually all decisions were made by the prime minister.[24] Corporatist institutions, such as the National Interest Reconciliation Council[25], were side-lined (Sárközy, 2012; Hajnal, 2012). Fiscal consolidation focused on the revenue side. The government increased personal and corporate income taxes, social security contributions and introduced a sector tax on the energy and banking sectors.

The domestic cleavage structures were unhelpful in achieving a meaningful tax reform as the political support of the government was weak (no dominant player emerged) and the government was not considering international recommendations on how to create a more growth enhancing tax regime, but was rather focussing on keeping its voter base relatively immune against tax increases[26]. Reform ownership (i.e. tax reforms recommended by the international institutions) was weak.

In this time period (2004-2008) the window of opportunity in the form of economic crisis was absent. Global and European economic conditions were favourable. The Hungarian economy had an average annual GDP growth rate of 4.4% (versus 2.4% in the Euro-area) in 2004-2006, The revenue-side-centred-measures resulted in punishingly high taxes intimidating investment and employment while they also led to flourishing tax avoidance practices; economic growth practically disappeared in 2007-2008 (average annual GDP growth was 0.7% in Hungary versus 1.8% in the Euro-area and 6% in the East Central European[27] region).

Despite the EDP, international influence on domestic policy making was weak. According to the EU rules of those times, in case of such an incident, the member state under the EDP was obliged to submit corrective programs in order to eliminate the excessive deficit. The usual method was that the European Commission (EC), more specifically the Directorate General for Economic and Financial Affairs (DG EcFin) gave an opinion on the member state's fiscal consolidation program. The content of the program was solely the responsibility of the member state's government. DG EcFin also had the task to audit the development of the program, but the programs content and its implementation was fully the responsibility of the member state (Török, 2019).

As the global financial crisis escalated in autumn 2008, due to the weak financial position of Hungary[28], there came a complete freeze on the government's primary bond market. Elite political decision makers called for financial assistance in order to avoid the country defaulting on its debt servicing. In late October 2008, the government signed a stand-by arrangement (SBA) with the IMF, supplemented by a loan contract signed with the EU and another one with the World Bank[29]. The EU was involved in the bailout program under the terms of the EU Treaty[30]. The IMF's SBA included detailed policy prescriptions with quantitative targets in the form of policy measures with numerical objectives and qualitative targets in the form of public sector reforms. The implementation of both the quantitative and the qualitative policy targets was strictly monitored – i.e. the program had firm conditionality criteria. Under the IMF bailout program (2008–2010), the perceived task of the central government was crisis management, with the underlying objective of implementing the agreed (i.e. prescribed) fiscal consolidation measures and the public sector reforms.

Prime Minister Gyurcsány resigned in March 2009, and the incoming caretaker government was headed by Bajnai, until the next elections (scheduled for one year later). Bajnai's caretaker government acted as the agent of the IMF and the EC, without a high level of domestic support or political legitimacy (Török, 2019). The IMF-prescribed fiscal consolidation program contained the correction of the Hungarian tax system among others (i.e. short-term efficiency-enhancing measures with prompt expenditure cuts and long-term structural reforms). The program prescribed tax cuts (social security contributions, personal and corporate income taxes) with a broadening of the tax base and tax increases (consumption taxes). Domestic decision-making authority was severely curtailed. The emergency situation paralysed the domestic political elite and reduced domestic resistance, that is, it opened the window of opportunity for public sector reforms. The shift in the locus of authority (from domestic elite decision makers to the IMF) was present in the form of coercive policy transfer (i.e. the SBA conditionalities). New policy images were adopted. In this process domestic advocacy coalitions were also supporting the policy change: "Reformszövetség"[31] was delivering policy proposals echoing the mainstream propositions in tax policy change (aligned to the taxation theories). It advocated flat rate tax system as lower marginal tax rate was expected to increase the labour supply, and therefore deliver the widening of the tax base. Lower tax rates were also expected to lower the propensity for tax avoiding behaviour (i.e. whitening the economy) and simplify the tax system (therefore reducing administrative costs). Eventually, a key member of Reformszövetség became the Finance Minister of the Bajnai government.

The care-taker government had NPM-like managerial approach in delivering policy changes[32]. The sense of urgency also decreased the institutional constraints and resulted in a relatively high level of reform ownership.

At the 2010 parliamentary elections, opposition Fidesz, campaigning with tax-cut promises, won a two-thirds parliamentary super-majority. The new government led by Prime Minister Orbán faced the challenge of pleasing voters (i.e. deliver tax cuts, refrain from further austerity measures), while also continuing with fiscal consolidation and public sector reforms according to the IMF program?. Moreover, in the post-crisis period, the EC took more seriously its role in preventing macro instability and excessive deficits with the introduction of strengthened mechanism[33]. First, the government introduced a banking tax – without any consultation with the IMF or the EC[34]. This was a violation of the program. Given the confrontational stance of Prime Minister Orbán, the relationship between the new government and the IMF/EC soured rapidly. Finally, the IMF and the EC decided to terminate the bailout program prematurely in summer 2010[35]. The EDP was still in place though, and therefore fiscal consolidation had to continue.

The government introduced sector taxes on selected industries (bank, retail, energy, and telecoms). Otherwise, the Orbán government's tax policy was consistent vis-à-vis the philosophy of putting the weight of taxation from income related taxes to consumption related ones (as a consequence, the normal VAT bracket was raised to 27% in Hungary, the highest in the EU and in the OECD) and broadened the tax base[36] – this strategy was advocated by the OECD and by the IMF. The tax system was further modified by introducing various consumption and turnover-related taxes (unhealthy food tax, financial transactions levy, telephone usage tax, advertisement tax, and so forth). The source of these ideas were typically other countries' taxation practices[37] in the form of voluntary policy learning. Income taxes (both personal and corporate) were cut[38]. In the post-IMF program period the Orbán government aimed to reduce coercive external influence as much as possible. The locus of authority shifted again, this time back to the domestic decision making elite. The National Interest Reconciliation Council and other consultative, tripartite arrangements aimed at collective bargaining, as well as sectoral level consultative forums, were either abolished or replaced by new institutions with limited authority (Hajnal, 2016).

The government had very strong political support: a single-party government with a parliamentary supermajority and a continuously high popular approval rate. Strong reform ownership and capable managers were present (i.e. not constrained by internal political forces, such a coalition partner or strong opposition). The belief system of the elite political decision makers was resembling the mainstream tax policy theories rooted in the school of neo-liberal economic policy. The advocacy coalition of the Orbán government proclaimed similar ideas on tax policy as the previous Reformszövetség and as the recommendations of international institutions: broadening the tax base, reducing tax on income and a fundamental tax philosophy change (Czéfalvay and Matolcsy, 2009). However, while under the IMF SBA program, policy diffusion occurred among the circumstances of a coercive policy transfer and in the post-IMF program period policy learning was voluntary. The source of tax policy ideas was diverse: some were coming from the OECD, some from the European Union, and some from other sources. The window of opportunity in the form of economic crisis prevailed, although it was not as severe as in the previous period. Due to the European debt crisis in 2012 (followed by the 2008 financial and 2009 real economy crisis), the lack of available IMF credit line, Hungary's financial position got under renewed pressure. Fiscal consolidation was also a necessity due to the ongoing EDP.

The government was able to secure its re-election at the 2014 parliamentary elections with 2/3 majority once again, i.e. the locus of authority did not change. This period was qualitatively different from the previous four years, given the economic setting. Hungary was released from the EDP in 2013. Sustainable and relatively fast economic growth returned from 2013 onwards both in Hungary and in the Euro-area. The window of opportunity in the form of economic crises has disappeared. As far as the tax policy is concerned, this period brought about mixed results. The tax base was (minimally) narrowed certain product groups (i.e. meat and milk) were reclassified from the normal 27% VAT bracket to lower ones. However, at the same time, both corporate and personal income taxes were further cut, and the cost of labour (the social security tax paid by the employer) has been decided to get reduced in a multiyear program through cutting social security tax – it is still ongoing. Employers' paid social security tax on gross wages was 27% in 2016, when a multiyear program was decided to cut it – in line with international institutions' recommendation to cut tax burden on labour – and therefore to gain competitive advantage in globalization. Social security tax on gross wages was lowered in 2017, 2018 and in 2019 (currently it is 17.5%) while further cuts are scheduled with the target of reaching 11.5% in 2022. The impact on tax revenues is rather neutral so far, given the fast wage an employment growth in 2017-2018 so far.

As it is exhibited in Table 5., the large policy shifts were the characteristics of the Bajnai and the Orbán I. governments (cutting tax burden on income and increase the tax burden on consumption – i.e. a policy shift defined as fiscal devaluation by the scholarly literature – see Puglisi, 2014).

Table 5. The change of the tax types in total tax revenues*

	Gyurcsány	Bajnai	Orbán I.	Orbán II.
Taxes on income, profits and capital gains	1,4%	-2,9%	-4,9%	0,3%
Social security contributions (SSC)	0,7%	-1,6%	1,5%	-0,8%
Taxes on payroll and workforce	-0,1%	0,2%	0,3%	0,1%
Taxes on property	-0,2%	0,5%	0,6%	0,2%
Taxes on goods and services	-1,6%	3,9%	2,6%	0,1%
Other taxes	-0,2%	0,0%	-0,1%	0,1%

Source: OECD Database / Author; *measured in consecutive periods (before and after the tax changes)

CONCLUSION

The paper was looking for the answer to question: What combination of independent factors was necessary in the causal mechanisms leading to the reform of the Hungarian tax system in the 2009-2018 period? The hypothesis was that the co-existence of the three factors stipulated by policy change theories, i.e. domestic cleavage structures allowing high level of reform ownership, the window of opportunity in the form of economic crises and the influence of international agents in the form of policy transfer played indispensable role in the causal mechanisms leading to the reform of the Hungarian tax system in the 2009-2018 period. This hypothesis was proved - as Table 6 exhibited. Eventually, the expenditure level is being determined simultaneously with the structure of taxation (Hettich and Winer, 1999).

Table 6. Unfolding the case - independent factors facilitating tax policy change Hungary 2004-2018

	2004-2008	**2008-2010**	**2010-2014**	**2014-2018**
economic crisis	**not present** *favourable economic and financial conditions*	**present** *major financial and real economy crisis*	**present** *protracted financial and real economy crisis*	**not present** *favourable economic and financial conditions*
international influence	**weak** *in the form of pre-crisis EDP*	**strong** *coercive policy transfer (IMF SBA)*	**strong** *in the form voluntary policy learning and post-crisis EDP*	**weak** *in the form of globalization*
reform ownership	**weak** *weak government thriving for political survival advocacy coalition not supporting tax reform*	**strong** *locus of authority shifted to IMF advocacy coalition supporting tax reform*	**strong** *new single party government, strong mandate advocacy coalition supporting tax reform*	**strong** *single party government, strong mandate advocacy coalition supporting tax reform*
tax policy change	**small**	**large**	**large**	**undecided yet**

source: Author

Policy change is truly difficult to happen and only does when the "proper conditions" are available (Birkland). We argued to have a more refined knowledge on the factors facilitating policy change to happen. The finding of the paper is that the coexistence of all the various identified independent factors were necessary for major policy change or policy reform - that goes beyond day-to-day policy management and involves structural changes. It is that the theories of path dependency, punctuated equilibrium, policy learning and advocacy coalition framework have already developed individually the elements of the big puzzle of policy change. The paper proposes to bring on a common platform of the existing streams of thoughts to develop the framework for a policy reform theory. In order to facilitate such an enterprise, the paper suggests continuing to study the causal mechanism of large scale policy shifts in other cases.

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Appendix: List of interviews:

(1) Interviews with National Bank of Hungary experts, 20 October 2015; 24 May 2016; 4 July 2016 (Budapest, Hungary)

(2) Interview with a former National Bank of Hungary executive director, 8 August 2016 (Balatonfüred, Hungary)

(3) Interview with a former representative of the Fiscal Council, 18 December 2015, (Budapest, Hungary)

(4) Interview with a former member of the Fiscal Council, 12 November 2015 (Budapest, Hungary)

(5) Interview with a former employee of the IMF Resident Representative Office, 14 June 2016 (Budapest, Hungary)

(6) Interview with a former official at the Ministry of Finance, 23 August 2016 (Budapest, Hungary)

(7) Interview with a former high level decision maker at Ministry of National Economy, 12 September 2016 (Budapest, Hungary)

(8) Interview with Directorate General for Economic and Financial Affairs expert, 13 July 2016 (Brussels, Belgium)

(9) Interview with an analyst at the European Commission Directorate-General for Communication, Representation in Hungary, 24 February 2017 (Budapest, Hungary)

(10)Interview with a high level political representative of Hungary in the European Commission, 20 September 2016 (Szentendre, Hungary)

Notes:

[1] The paper uses the notions of "policy reform" and "large-scale policy change" interchangeable, as no clear difference is provided in their definitions by the relevant literature (Cerna, 2013).

[2] OECD countries' average tax burden was 30-34% of GDP in the past four decades (i.e. 1978-2017), whereas Scandinavian countries' had 43.3%; Non-EU members OECD countries' average was 25.9% (OECD Database https://data.oecd.org/tax/tax-revenue.htm#indicator-chart)

[3] The highest was in France (48.4%), the lowest in Ireland (23.5%) – in Hungary the ratio was slightly below average (38.4%) – Eurostat database

[4] The original sentence of Marcus Tullius Cicero was "Endless money forms the sinews of war." This sentence was adjusted by modern scholars to "Taxes are the sinews of State" (see Hettich and Winer, 1999)

[5] See "A quiet tax revolution in Hungary?" (Pesuth, 2015).

[6] OECD stands for Organization for Economic Co-operation and Development – grouping together 36 industrialized countries.

[7] Apart from some MNB working papers, there are references to it in various regular OECD and European Commission publications.

[8] The share of income tax in total tax revenues dropped from 26% to 18% while the share of taxes on goods and services increased from 37% to 44% - OECD database: https://stats.oecd.org/OECDStat_Metadata/ShowMetadata.ashx

[9] I am the Head of Research of Raiffeisen Bank Hungary from 1997 on – the primary coverage of the macroeconomic developments, including public finances is my job.

[10] Interviews were conducted between 2015 and 2017 with representatives of National Bank of Hungary, the Fiscal Council, the IMF Resident Representative Office, Ministry of Finance, Ministry of National Economy, European Commission.

[11] "Swing voters" are likely to change their votes in response to a reform that is beneficial for them (Profeta, 2003).

[12] I.e. Report of the Royal Commission on Taxation (1966) that proposed extensive revisions in the tax system of Canada; U.S. Department of the Treasury's Blueprints for Basic Tax Reform (1977) and Tax Reform for Fairness, Simplicity and Economic Growth (1984). The latter report led to the Tax Reform Act of 1986.

[13] Modern welfare economics interprets sacrifice as loss of utility that need to be minimized in the aggregate level. Taxation is viewed as contributing to the loss of utility, and the theory defines sacrifice as a reduction of social welfare.

[14] The size of the deadweight loss is related to the elasticities of demand and supply for the item subject to being taxed (i.e. the extent to which demand and supply respond to changes in price). The more elastic is the demand for a product with respect to its price, the more a given tax increase will reduce demand for it. High elasticities equal to higher deadweight losses (Mirrlees, 2010).

[15] The top marginal income tax rate has fallen in nearly every OECD country over the past decades, in many cases quite substantially: i.e. the marginal tax rate on the highest income in the U.S. was reduced from 70 percent (in the early 1970's) to below 30 percent (by late 1980's).

[16] Source: OECD tax database - https://data.oecd.org/tax

[17] The principle is that the tax base should be broad and marginal tax rates should be moderate formed the basis of the 1986 reform of the US income tax reform (Williamson 1990).

[18] I.e. the liberalization and integration of markets that made capital internationally mobile and increased cross-border ownership of business.

[19] This classification of taxes is used by the Worldbank, the IMF, and the OECD.

[20] The EDP is an action initiated by the European Commission (EC) against those member states whose public budget deficit runs above 3% of GDP (the rule was changed in the aftermath of the severe 2009 crisis).

[21] Prime Minister Medgyessy resigned in August 2004 – Gyurcsány (former Minister of Youth Affairs and Sports) became prime minister in September 2004. Early elections were not held; the coalition government continued.

[22] Interview with former official at the Ministry of Finance, 23 August 2016 (Budapest, Hungary).

[23] Interview with analyst at the European Commission Directorate-General for Communication, Representation in Hungary, 24 February 2017 (Budapest, Hungary); Interview with former high level political representative of Hungary in the European Commission, 20 September 2016 (Szentendre, Hungary).

[24] Interview with former official at the Ministry of Finance, 23 August 2016 (Budapest, Hungary).

[25] A tripartite council dealing with labour market and general economic policy issues involving the government, the trade unions, and the various employer groups.

[26] Interviews with high ranked government officials and background conversations with top level political decision makers (undisclosed).

[27] East Central European region is understood here as the ex-Communist countries without ex-Sovietunion

[28] I.e. Hungary had excessively high level of short maturity external debt.

[29] The size of the SBA loan was EUR 12.5bn, the EU loan was EUR 6bn, the World Bank loan was EUR 1bn.

[30] According to article 119, before a non-Euro-area member state seeks financial assistance from an outside source, it has to consult with the EC and the Economic and Financial Committee.

[31] Reformszövetség (i.e. Reform-alliance) formally existing between November 2008 and April 2009 was formed by various interest groups (employers' associations, trade unions, business groups and scientists, economists). It proposed an economic program which was largely resembling the IMF prescribed measures focussing on macro-stability and competitiveness, public sector and tax reforms (source: Reformszövetség).

[32] Interviews with former representative of the Fiscal Council, former employee of the IMF Resident Representative Office, former official at the Ministry of Finance, former high level decision maker at Ministry of National Economy.

[33] Introduction of the European Semester, the Six pack and the Two pack, the Macroeconomic Imbalance Procedure and the strengthening the Stability and Growth Pact.

[34] After the government change, it turned out that the public deficit was running above plan; therefore, the measure was implemented in order to fix the fiscal problem quickly.

[35] The officially set end date for the program was October 2010.

[36] Several tax exemptions were abolished, including minimum wage earners'.

[37] The government made thorough analysis of the global taxation regimes and adopted several elements from various countries to the Hungarian circumstances – Interview with a former high level decision maker at Ministry of National Economy

[38] The personal income tax system was transformed from a progressive rate structure to flat tax, while SME's corporate tax rate was cut.