

## HUNGARY IN THE EU: CHALLENGES AND PROSPECTS

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**ABSTRACT:** This study offers a broad overview of major issues of joining in the European Union with the benefit of hindsight. The case of Hungary is being analyzed in order to specify the reasons for the growing disenchantment with a basically successful enlargement project. Lack of reforms within the Union and policy lapses in the new members are equally to blame for an outcome, which is better than its name.

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Assessing the membership in the European Union is a next to insurmountable challenge. Looking from the historic angle, it can but be qualified as an unprecedented success.<sup>2</sup> From a geopolitical perspective the new members ceased to be on the borderline of empires and re-joined the community of western nations in political, economic and social planes. From the point of view of regulatory environment central European nations joined the pre-existent European fora, thereby improving their position in terms of locational competition. Last but not at all least the new members joined the process of policy co-ordination in all walks of life. This has also contributed to the improvement of the quality of policies, especially in the environmental and social planes, where sufficiently long horizons are needed to succeed. By contrast the logic of political infights tend to crowd out these longer term considerations from the public agenda in favor of day-to-day and entertaining issues. While most of the retrospective assessments are devoted to the evolution of the balance of net transfers, which is macroeconomically insignificant in each of the cases, the major improvements tend to be forgotten. Foreign direct investment e.g in 2004-2007 has been around 4-8 per cent of GDP in the central European countries, which is remarkable in international standards, even if the dynamics is decelerating, rather than accelerating/as one could have expected on the base of integration theories.<sup>3</sup>

### *Muddling Through Instead of Radical Reforms*

As it can be shown with detailed analysis/Csaba,2007,chapter 2/ the inflow of FDI and its dynamics is perhaps one of the best indicator of the progress of systemic change in any country, especially in the post-Communist world. For this reason the deceleration of FDI must be seen as a warning sign despite the satisfactory, at times good macroeconomic indicators of the region.

It remains to some extent an unresolved puzzle, why, contrary to many expectations, joining the EU has not triggered a series of decentralizing reforms, of improved discipline in terms of public finance, or generally more professionalism in terms of public debate. This expectation has been built on the experience of previous enlargements as well as on the contractual obligation of the country to introduce the single currency within reasonable periods of time. Also the Lisbon Strategy, both in its original and in its revised 2005 version, would have called for sweeping reforms across the board in

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<sup>2</sup> This is much in line with what the doyen of transition research/Kornai,2006/ explains in terms of the broader issue of systemic change.

<sup>3</sup> For current data, including the ones cited of UniCredit Group: *CEE Quarterly*. Vienna, no. 1/2007.

order to create „more and better jobs“ and to contribute to the EU aspiration to become „the most competitive community of the globe“. But the growth perspective of the new members has not been that impressive either. The Czech growth rate of 3.6 per cent per annum in the average for the 2001-2005 years, the Polish 3.0 per cent for the same period, the Hungarian 4.0 or the Slovak 4.6 are not showing any miraculous trend against the Irish/5.2 per cent/or the Greek/4.4 per cent/medium term numbers/source: ECB: *Statistics Pocket Book*, Frankfurt, April, 2007, p.37/.

For the time being we can only hypothesize about, rather than firmly answer, the question about the reasons for this relapse into populism. Let us list a few among the competing explanations.

- a/ Transition has though solved some of the economic issues, however it has transformed economic disequilibria into social ones.
- b/Core EU countries have been flouting many of the rules of the game, primarily, though by no means exclusively, the Stability and Growth Pact. They tended to relegate the targets of the Lisbon Agenda to the background. They have proven unable to reach a reasonable compromise on reforming EU policies and institutions prior to enlargement. Finally the drift over all major issues of common foreign and security policy, from western Balkans to Iraq has made the impression that playing by the rules is not so important, sanctions never follow transgression.
- c/ Major political forces that used to bear the major burden of managing social change, both on the left and the right, tended to disintegrate. New political forces often were formed either as protest movements, or sheer interest representations. Ad hoc coalitions rather than rule by any principle has become the name of the game in the new member states.
- d/ Economic growth in the new members, as we have seen before, tended to be robust, outpacing that in the core EU by a considerable margin. However, warning signs also emerged. For instance Polish growth decelerated from 5.4 to 3.0 pc from 1996-2000 to 2001-2005, Czech growth though improved from 1.8 to 3.0 pc, but remained rather low, Slovenian growth decelerated from 4.7 to 3.4 p.c in the same quinquennium, while Hungary slightly improved from 4.0 per cent to 4.3 and Slovakia from 0.4 to 3.7 pc/ECB: op.cit/. In a way this has allowed the local leaderships to fall victim to their own success, as long as everything seems fine, the lure to do nothing/and postpone unpopular reforms/ is more than given.
- e/ If the overall level of trust among various agents of political life, not only among parties, but also between the rulers and the ruled, is generally low, the incentive to be myopic is the most likely outcome. Under these circumstances it is only material promises that count, and those in the short run. For this reason the likelihood to be involved in mutual snowball of promises is rather high more on that in Gyórfy, 2007/.
- f/ The understanding of economic matters is rather limited and partial. Such insights, as the need for price stability, or the uses of balanced budgets, commonly understood in many western countries, can not be taken as given. The idea that fiscal consolidations do not necessarily cause losses in output and employment are poorly understood if at all. Thus the fear from doing the obvious is bigger than inevitable.

The latter insight could have been particularly relevant at the time when decisions over introducing or non-introducing the euro was to be taken. In short, the single currency implies a political economy game, where social arrangements allowing for sustainable fiscal consolidations can be managed and implemented.<sup>4</sup> While conventional wisdom, following the Keynesian focus on short term processes tend to identify any austerity with a fall of output and employment, experience with flexible labor markets and open capital markets have proven to be different. The probability of expansionary fiscal consolidations, i.e. of budgetary tightening leading to even improved activity and employment indicators has first been observed in Denmark in 1984, later in Ireland, New Zealand, Canada and elsewhere. And although the issue if and to what degree these mechanisms work in imperfect markets is open/Benczes,2007/, quantitative analyses for Hungary have shown that the contractionary effect can not be taken as granted, while the chances of an expansionary fiscal adjustment are also not trivially good/Horváth,Á et al, 2006/.

### *The Crisis in the Safe Haven*

The European Union has found itself in an institutional and policy crisis at the time of enlargement. At one level of argumentation success on the external front may be seen as an obvious compensation for failures in the domestic front. However, enlargement without major reforms has itself contributed to the aggravation of the crisis. Decision-making in a „narrow“ circle of 75/taking heads of states, ministers of foreign affairs and one interpreter each/ borders with absurdity. Spending over 80 per cent of common funds for activities that contribute only marginally to GDP and solving issues of truly *common* concern, such as fighting terrorism or illegal migration, and that at the internet age, is anything but forward looking. In short, the deepening plus widening project of the Delors-Mitterrand-Kohl era has come to an end without any similar vision taking its place for the first decades in the new millennium.

The new members have become much too good pupils in terms of emulating practices of the old ones, even if these were anything but best practices. The horse-trading around the Financial perspective for the 2007-2013 period, the inability to agree upon opening up the services market as proposed by then Commissioner Bolkestein<sup>5</sup> were clear signs of the flattening out of integrational dynamism. Fierce resistance of the new members to the overdue reforms of some of the farming regimes, in the interest of poorest countries of the globe, is yet another sign of adopting the narrow angle of the old ones, following the old-style interest-based logic only.

It is not entirely due to the new members, though it is clearly their focal interest, that the new Neighborhood policies of the EU have remained mostly in the realm of declarative diplomacy. The very fact that the EU has merged the tasks of dealing with countries with no membership perspective, such as the Maghreb countries, with those with unclear membership perspectives, such as Ukraine and Moldova, acts as a limiting factor. The new members seem to have joined the old ones much too quickly in calling for consolidating achievements before *any* further enlargement- such as the ones with Croatia

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<sup>4</sup> This is why the ECB and the Commission rejected the otherwise logical suggestion on unilateral euroization of the new members, as suggested first by Bratkowski and Rostowski/2000/.

<sup>5</sup> The version adopted by the European Parliament in the spring of 2006 actually reverts the idea of the single market, with its longish lists of prohibitions/exemptions, and rendering free market entry an exception rather than a rule.

and Turkey - can even be considered. This stance is complemented by a strange mixture of the old members, composed of bold but inoperative enlargement designs, and a neglect for the financial consequences of such options<sup>6</sup>.

### *Do I Want My Money Back?*

Ever since the famous exclamation of the then British prime Minister Margaret Thatcher in the 1984 Council, that has led to the institution of the British rebate from down payments to common coffers until as long as 2013 the issue of the balance of official transfers has been figuring high on the European agenda. Unless we wish to regress into a shallow *post hoc, ergo propter hoc* type of argumentation, it is rather straightforward to state, that this indicator does not carry any economic meaning. In short, the macroeconomic contribution of EU membership/or indeed, WTO or IMF membership, or even UEFA membership/ can not be and should not be measured by the net balance of in- and outflows of official transfers. Some countries as net contributors to public budgets may find their broader policy priorities, or even net economic welfare better served by being within the fences of a club, rather than being outside. Improved regulatory quality for instance is seen by many trade and investment theories as a major lure in the process of locational competition/Siebert,2006/. Being a member of a club may enhance the bargaining power of a small country, for which it might be more than willing to pay a price, as evidenced eg by the case of Luxemburg.

The role of official EU transfers tended to be politically manipulated and put in a false dimension. First and foremost the potential impact of *net* official transfers, which accounted less than 0.5 pc of local GDP in the 2004-2007 period tended to be overstated. The „New Hungary Development Plan” for the 2006-2010 period<sup>7</sup> for instance envisages major investments with far reaching developmental consequences for nearly all walks of life. While being ambitious is of course commendable, it gives grounds for concern to consider, eg that the planned involvement of the EU funds for funding the fourth underground line in Budapest alone would absorb about 70-75 per cent of prospective structural funds. In short, the mis-match between ambitions and funding is rather substantial. This state of affairs may explain a certain disenchantment among the population. Men in the street have difficulty of seeing the benefits of EU membership if problems of his concern, such as unemployment is not being addressed. For instance in Hungary the average rate of unemployment of 6.1 pc in 2001-2005 increased to 7.9 pc by February 2007/ECB: op.cit.p42/, or in case of Slovakia it improved though, from 18 pc in the 2001-2005 period to 13.3 pc, which is still substantially above the EU average of 7.9 pc. The expectation for immediate better life have been unfounded though, still the sobering is perhaps stronger due to the political overemphasis of prospective gains in the pre-accession period. Although there can be no doubt, that the EU does not have competences over labor markets, nor about regulations pertaining to those. Still, as surveyed among the naysayers on the Constitutional Treaty in both France and the Netherlands have indicated, it was the concern about- potentially worsening – unemployment that has rendered both the idea of political integration and the prospect of future enlargements extremely unpopular across the whole spectrum of voters.

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<sup>6</sup> Cf more recently the materials of the joint conference of the CEU Center for EU Enlargement and Friedrich Ebert Stiftung entitled *An Ever Expanding Union?* Budapest, 26-27 February, available online at: [www.ceu.hu/euen](http://www.ceu.hu/euen).

<sup>7</sup> This, as any other government document, is available on the website of the Office of the Prime Minister, [www.magyarorszag.hu](http://www.magyarorszag.hu), unfortunately only in Hungarian.

Interestingly the latter do not form a cohesive group, rather a loose ad-hoc coalition of various groups with competing rather than a overlapping, let alone a uniform, policy agenda.

The political instrumentalization of EU membership has perhaps been the strongest in the field of farming. The emotional debate over direct income supports has overshadowed the unquestionable fact, that the EU is in no position to compensate for decades of lack of investment in the rural areas in many new member states. In the case of Hungary the contribution of farming is below 4 per cent to GDP, thus focusing on this sector has been disproportionate. A recurring problem has been the inability and unwillingness of Hungarian authorities to cope with the ongoing refocusing of EU support schemes from direct supports to producers to rural development and environmental projects.

There can be no doubt that enlargement has posed a new challenge for the common agricultural policy, which has been less than fully reformed, by the time eastward enlargement has actually materialized. As could be forecast in advance/Swinbank-Daubjerg,2004/ reforms, that were overdue for the EU-15 in the context of world trade talks in general and the transatlantic trade conflict in particular, have proven to be too radical for the acceding countries of central and even more of southeastern Europe.

In short, since agriculture contributes only 1.9 per cent to EU-27 GDP/according to ECB: op.cit,p38/it is ironic to spend over 43 per cent for this area during the internet age. All the more so, since the public choices about rural development, about sustaining the landscape, or about the role of rural communities in sustaining the national backbone are typically being made nationally. Since this is a matter of tradition and culture, there is no theoretical/abstract reason to resist the decades-old tendency to renationalization of spending.

On the other hand it might be argued, with a degree of conviction, that new member-states have joined the EU with a delay not because of their own half-heartedness but owing to geopolitical constraints/until1990/ and the more than restrained attitude of core EU countries/in the 1990-2002 period/. They do have specific structures and interests, which may include, at least in some interpretation of the national interest, in trying to make use of the existing arrangements. This would imply, at least in the short and medium term, a sizable cash transfer to a largely undercapitalized area, help sustain the ability of rural areas to retain people, especially the young and the qualified. In this line of thinking central Europeans follow their well defined interest in sticking to that slow pace of reforms that resulted from the bargains among the old EU-15.

This latter line of thinking would also imply a more independent EU line on global trade talks, that may be seen as adopting a more assertive stance against US demands for radical liberalization of international farm trade/Martonyi,2005/. On the other hand, two further considerations may be weighted. First, re-focusing economic activities from farm related production to basically any other rural activity, from tourism to internet trade, may well be in the best interest of the new members, inter alia due to the structural overproduction in farm produce derived from low cost suppliers from developing countries. Second, if any of the current CAP is to be saved, it is likely to be in the context of refocusing on „green box“ and „blue box“

supports<sup>8</sup>, that is to continue the line of gradual reforms that are already well underway in the core EU. In the latter case a more flexible, pro-reform stance might equally be seen to lay in the best interest of the new members.

The big debate, triggered by the British attempt to radical reform in the middle of 2005 has failed to bring about the broader approach as described above. The opportunity of posturing, basically for the domestic audience, and irrespective of the macroeconomic significance of the issue, has prevailed over more technocratic or simply forward looking considerations. Hungary immediately joined in the coalition of the conservatives around France and Poland to avoid any major trimming of the farm budget. The PM declared „fully unacceptable” the British proposals, which in fact made major concessions on areas of vital interest for the new members, i.e. in terms of diminishing the co-funding requirements from 50 to 15 per cent. Also in terms of farming most of the benefits would have remained. Instead, the agenda of the political debate was refocused on the rather abstract issue of how much maximum spending limits might be<sup>9</sup>. The Hungarian PM, for his part, considered as a „major breakthrough” the fact, that instead of the British proposal of 1.03 finally the Brussels compromise allows for 1.045 per cent of common GNI to be spent on common grounds. This is an increase of 0.015 per cent of GNI spread across seven consecutive years, or in a best case scenario/drawing all these funds/ an additional 0.02 /sic!/ per cent of GNI...A lot for any private person, but negligible on the macroeconomic scale. Moreover the actual numbers for 2005 and 2006 was no more than 0.94 per cent, with certain sums being returned to the national budgets in both years, but the show was already over...

### *Europe of Regions?*

One of the big challenges of enlargement for the central and southeast European countries has been the issue of regionalism. While most of these countries have evolved, due to historic reasons, and in the context of nation building, as unitary centralized states, the EU has growingly adopted the ideology of „Europe of Regions”. This would grant an ever growing independence to meso-level actors as masters of their own businesses, in a complete break with the centralizing traditions in the new members/Horváth,Gy,2004/.

EU policies, as always, have been a mix of normative and financial aspects, which tended to find compromises with the status quo. In short, regionalism has indeed been on the increase over the past two decades in Europe, albeit greatly irrespective of what has or has not happened in Brussels. The political restructuring in favor of decentralization, that has penetrated such traditionally highly centralized and united states as Spain, Italy and even Great Britain, has indeed created the leeway where the per se limited idea of enhancing the role of meso-level organs could be filled with life. Therefore practices of the EU Commission in the disbursement of funds have indeed followed increasingly the promulgated ideology of more rights to the regions. In fact, the procedures of

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<sup>8</sup> In global trade policy parlance the first group implies various environment-related supports, while the second a bulk of region-specific and employment-related schemes that are applicable also under the new, stiffer WTO disciplines.

<sup>9</sup> This is a rather theoretical issue insofar as the actual spending numbers need to be agreed upon by the member governments each year, and approved, both ex ante and ex post, by the European Parliament, which also may institute changes. Thus the size of the potential maximum is hardly of operational or business relevance.

how EU funds might be drawn are increasingly influenced by considerations of involving directly the meso-level organs and diminishing the so-called gatekeeper functions of the central state organs.

Whatever we think about the merits or de-merits of such an approach it goes without saying that the sums earmarked for regional development in the structural and cohesion funds have proven to be large enough to mobilize the way of thinking of decision-makers in the new member countries. Some influential analysts/Ágh,ed,2005/ have portrayed it as a window of opportunity to restructure territorial administration of the state, which they considered to be overdue anyway.

Unfortunately the debate has not been entirely transparent or sincere. On the one hand it is less than trivial, what way the proposed new territorial administration would outperform the old one, and in what respect and under what timeline. In Hungary current counties are amalgamations of historic regions merged in 1921 and 1950. Under the given level of transport infrastructure and density of population, locality pattern and the like, these are by no means small. Political structures, such as electoral districts, as created in 1989/90 follow these lines and so does financing and administrative capacities.

The idea of major territorial overhaul originated in 1996, when the big project was launched and the new administrative- NUTS-2- regions were set up. The conservative government has halted the process, but it was relaunched in 2002, although via a number of incomplete and contradictory components and full of inconsistencies of various sorts/more on that in Pál-Kovács,2005/. The new units tended to be entirely artificial ones, disregarding economic considerations/such as Lake Balaton/ or transport access/to get from one end of the East Plain region to the other by passenger car might take more than 4 hours, having neither railway nor highway connections/ and the examples may abound at will. Local municipalities, at the level of towns or villages, do not seem to have been convinced about the pluses of a merger. Furthermore, owing to the reliance on competitive bidding, EU funds might not be in practice available, especially not for poorer regions<sup>10</sup>.

The reconstructed and reelected left wing government of 2006 has made administrative restructuring as one of its key priorities. However given the lack of professional and political preparatory work, the initiative for change has immediately been thwarted in the legislation already in July 2006. When the government attempted to impose its will via financial means and other covert forms, it has triggered renewed opposition. At the time of writing it is unclear, that, save for EU funds, that are uncertain by their nature, what is the exact rationale and palpable benefit from such a haphazard reorganization. Given that the county structure has been seen by many as the basic structure for resistance, both in the Habsburg and the Soviet period, underestimating the emotional component of the issue might have proven rather serious an omission for those still believing in the urgency of regional restructuring. As we have indicated above, in the EU-15 regionalism has never been superimposed on any member by a „superstate“, which does not exist in the EU<sup>11</sup>. On the contrary, the reverse

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<sup>10</sup> As the editorial of the center-right daily/Kincstári..2007/ rightly notes, governmental personalities talk/ed/ about distribution of EU projects at a time when not even the operational programs of the country has been approved by the Commission, let alone concrete individual projects. While this line of communication might be understandable, it is also likely to contribute to disenchantments in a later day.

<sup>11</sup> The two basic features of any state is the monopoly on the use of force and the ability to tax. None of those exists in the EU and will come about in the foreseeable future, as could be observed through the debates in and around the Constitutional Convention in 2001-2003.

order emerged: national reforms allowed for the concept to make sense in the European space.

### *Europeanization of Public Administration?*

The switchover from candidate to full member status, in terms of administration and policy formulation, has remained rather fragmentary and inefficient. In the accession period the conduct of negotiations was centered in the Office of the Prime Minister, and in terms of coordination in the Ministry of Foreign Affairs. Membership should have changed this, insofar as EU affairs are no longer extraneous to any member state. In reality, the first office integrating external and internal aspects of EU matters, that existed in the de facto Ministry of EU Affairs under Etele Baráth in 2003-2006, has been disbanded due to personnel considerations. Also from within the Ministry of Foreign Affairs several highly qualified persons with intimate knowledge of the field were dismissed and replaced with either their second ranks, or with freshmen, including the minister herself/a trained psychiatrist/. Even in the Ministry of Finance the EU matters remained in the hands of a small specialized team of experts and the minister himself. This in turn does not allow to formulate a coherent and long term strategy over and above forging tactical alliances and ad hoc coalitions.

Perhaps the most perplexing outcome of this state of affairs has been the indefinite delaying of the introduction of the single currency in a small open economy.<sup>12</sup> On the one hand, it is anything but trivial what economic arguments may be advanced against the swift introduction of the euro in a country, where exports and imports together accounted for over 140 pc of GDP in 2006. All the more so, since balance of payments disequilibria have triggered stop-go cycles in the entire postwar economic history of Hungary, while joining a currency union would have saved the economy from this. On the other hand, once the political and administrative uncertainties described above are taken as given, currency market analysts might be quite right in not seeing any realistic/credible commitment device in the hand of authorities. If the latter is the case any pre-announced target date can only backfire, since the coherent strategy, against which the euro strategy can be operationalized, does not seem to be feasible. This is bad news inasmuch as the growth generating qualities of European integration rest with the single currency, at least with small, open and thus vulnerable economies such as Hungary.

At the time of writing the EU Commission has approved the third version of the Convergence Program of Hungary for the 2007-2009 period.<sup>13</sup> This has its merits and problems in terms of reflecting Europeanization, i.e the interaction of local and EU level policies. Among the pluses we may pinpoint the determination of the government to discontinue the disastrous fiscal policies of the 2002-2006 period which has led to the explosion of public debt. This process is unlikely to be reverted any time soon. The last edition of the Convergence program available on the website of the Ministry of Finance at the time of writing forecasts 70.1 pc for 2007 and 71.3 pc for 2008 despite the rather radical consolidation measures

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<sup>12</sup> According to the pronouncement of the Prime Minister in the Upper House of the Hungarian Parliament on 19 April 2007 the deadline for introducing the euro must be set between the years 2010 and 2014/actually both being election years/. This is obviously too long a period to be able to coordinate expectations of market agents in any palpable manner. For a report on this public finance conference of the website of the Ministry of Finance: [www.pm.gov.hu](http://www.pm.gov.hu) which contains some English pages as well.

<sup>13</sup> Various versions available on: [www.pm.gov.hu](http://www.pm.gov.hu)



instituted since August 2006.<sup>14</sup> Also we may praise the program for its abandonment of a number of unfounded or positively harmful elements of previous periods, such as commitments of the five year tax reduction program of 2005. Similarly various attempts to curb the explosion of social transfers, such as the misuse of disability schemes, or previously rather lax implementation of customs and tax laws, with improved collection move in the right direction.

However, it would be difficult to oversee that most of the pluses we praised/in line with most external and domestic observers/ fail to add up into a coherent reform program generating growth and sustainable equilibrium. One-off measures, such as higher inflation and higher taxes dominate, and structural reforms of expenditures in a broad scale is yet to take place.<sup>15</sup> Without simplifying taxation, making the system of public dues more neutral, and relieving some of the burden on employment it will be impossible to create employment in a country whose activity rate on the labor market is one of the lowest in the OECD region, i.e 56 per cent in 2006. Similarly the continuous improvement of both financial equilibrium and growth is unlikely to be attained in the lack of coordinated measures. Therefore giving up the entry date to the eurozone is not as innocent a lapse as financial market analysts and journalists tend to see it. Elements of bargaining might only increase if top politicians go out of their ways in explaining why no further consolidation measures are needed.

Is there any broader *lesson* to be drawn from the above sketched rather complex set of processes? Perhaps the most overarching insight might sound somewhat trivial, namely that in the process of Europeanization the delineation of short and long term tasks can only be artificial at best. The oft- and usually mistakenly – invoked quibble of Keynes, „in the long run all of us are dead“ does not seem to have provided policy makers with a point of orientation<sup>16</sup>. What we could observe over the past decade in the EU in general and in Hungary, in particular since 2002, has been the rather tedious business of *muddling through without a clear cut strategy*. At one level the EU-15 could not agree upon the precise meaning of the enlarged Europe, thus it had no idea about how to cope with increased diversity. On their part newcomers in general and Hungary in particular, had no clear strategy over and above the wish to be within the fences. No such strategy has evolved ever since that would have gone beyond generalities, such as defending the national interest or fearing of being left out of decisions. Becoming the „coalition of the nasty“ has become a real danger, i.e of obstructing any innovation without offering constructive and feasible alternative solutions to the issues. Thereby enlargement has failed to contribute to a better articulated forward looking EU strategy in both the traditional and the new issue areas.

The last important issue is probably what remains of the Visegrád Cooperation of central European states? The economic leg of this forum, CEFTA has been dissolved, with the four founders having acceded to the EU in May 2004. But the question of an eastern Benelux, i.e. closer cooperation without endangering the broader European project remains. Also „new Europe“ seems to have been centered around this country group.

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<sup>14</sup> These numbers are not comparable to the ones used by other sources, including ECB/op cit/, since the numbers in the main text, the real ones, no longer entail elements of creative accounting of the previous years, which the other statistics have yet to filter out.

<sup>15</sup> This was the finding of the most recent article 4 consultation of the IMF mission to Hungary, whose text was released on 7 May 2007 on the website of the central bank: [www.mnb.hu](http://www.mnb.hu)

<sup>16</sup> This was precisely the original meaning of Lord Keynes, who meant by the quibble the following: while in the long run markets do equilibrate, action may be needed in the short run to avoid excessive costs in terms of output and employment. Thus the morale was to urge action, rather than inaction, and that in a forward looking, strategic fashion.

As far as can be established from the first years in the EU central Europeans have not made much use of the existing brand name. While in cultural terms, but also in terms of transport infrastructure, tourism and many other fields the option is given, in policy terms divergences tended to dominate over common ground. Czech euroskepticism, coupled with their fear from anything institutional, has perhaps been one aspect. The very divergent political dynamics in Poland and Hungary was perhaps another destabilizing factor. And the strange bedfellows of the subsequent Slovak governments might have also have had their share in producing regular discord. In short, the opportunity to create something comparable to the Nordic or the Mediterranean dimension of the European Union has been missed, perhaps on such vague grounds that players themselves would be unable to specify, especially from the perspective of three-four years.

Under this angle the Visegrád countries are unlikely to act as advocates for those left out in the cold. Not even their preparedness for meeting the challenge of Bulgarian and Romanian enlargement seems to have been clearly given. The imposition of quotas on the inflow of labor from both countries- an economically nonsensical and politically short-sighted, on occasion shameful act<sup>17</sup>- is not a very promising sign for more enlightened policies in the future. The dominance of immediate domestic policy consideration and the exclusive focus on media efficiency, as exemplified by our story on farming, regional reform and the introduction of the single currency alike, is unlikely to bode well for anything that deserves the name of a longer term economic strategy in general and a contribution to the slowly but steadily emerging new European agenda in particular. The latter already includes energy policy, as launched by the Green Paper of March, 2006, the European Parliament debate on new budgetary focus from 2009, the new accents in Neighborhood policy, or the implementation of the Lisbon Strategy.

### *Summary and Perspectives*

Hungary could serve perhaps as a good example to identify the difficulties as well as the gains from EU membership with a benefit of hindsight. What could be observed has been indicative of broader considerations, that have been modified by the *couleur locale*. On the one hand we may identify the loss of both sticks and carrots, by which the EU could exert substantial leverage over institutional and policy reforms in the entire period leading to accession/Csaba, 2004/. This state of affairs, combined with the bad example of core states, having flouted most of those rules of the game they invented for their own purposes, has created the false impression, that transgressions are in vogue. Moreover anything goes, and that without a price. The low cost of international borrowing until 2005 has also allowed for the lazy implementation.

However, as we have tried to show, there is no clear delineation between now and the future, the latter- as the business slogan goes- has already started. The policies based on the silence of an over-disciplined pupil, not interrupting his master even when he commits an obvious mistake, has perhaps outlived itself. The country is in need of a long term business strategy. Any such strategy should be preceded by a feasibility study, followed by a sound plan for financing, since producing projects for their own sake has never been in short supply in the EU. The latter is highly unlikely to make sense if a small and extremely open economy, like Hungary, does not focus on reducing her vulnerability at the

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<sup>17</sup> Subsequent Hungarian governments went out their ways in demonstrating their commitment to help the lot of Hungarian minorities in neighboring countries. Providing work is perhaps a self-interested still efficient way of acting rather than preaching and bemoaning difficulties.

earliest possible date. The latter implies a relatively quick adoption of the single currency, despite some costs triggered by fiscal adjustment.

If there is a single major lesson to be inferred, it is about the limited nature of the European project. The EU, as it stands today, in its institutional, policy and institutional crisis, is no longer in a position to be a triggerer of major structural reforms, as it has been the case in the past two decades. Europeanization in any of the major areas, such as regional policy, rural development, innovation, labor markets, generation of growth or deepening financial intermediation, is unlikely to replace national initiatives. True, it can and indeed should complement these, and create a broader forum for formulating and testing national initiatives, learn cooperative policies, and contribute to the better representation of national interest via the EU. Therefore it is high time to revert the old question, „what does the EU provide for us”. The new question may sound: what way are we able to contribute to a new and more competitive Europe, that may become the natural environment for attaining our national interests, economic and broader alike.

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