

THE LIMITS OF EUROPE¹

Lessons from Post-communist Experience for the Post-Brexit Union

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Abstract: Fifteen years ago it counted as received wisdom that accession to the European Union implies arrival to a safe haven concluding the ups and downs of post-communist transformation. Quantitative assessment³ indicates a considerable degree of convergence. *Despite improved performance, in Hungary, Poland and the Czech Republic Euro-skepticism has been elevated to the level of governmental policies for a decade by now.* We ask why and scrutinize a single case: that of the former frontrunner of transition, Hungary. We offer four plus one theses for reflection on the relevance of economics versus politics in a broader comparative perspective.

From Pro-EU Over-zeal to Freedom Fight

1. Joining the European Union has never been a matter of cost-benefit analysis for Hungary. Already from the late 80s but all across the first three democratically elected governments in 1990 to 2002 Euro-Atlantic integration has been a focal issue, a strategic consideration. Joining NATO enjoyed priority, as it was rightly understood that without any formal prescription, it has been a de facto security policy pre-condition for the EU entry for post-communist states.⁴ This was due to Western fears of the revival of the ethnic conflicts of the 30s and 40s that could well have been carried over to the Union, should not formal and treaty-based reconciliation not have preceded enlargement. But also protection against open and covert Russian influence justified this circumstance. The parlance of the first 15 years on joining Euro-Atlantic structures rather than just the EU reflected this geopolitical reality.

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³ PAPI.L.- STAVREV,E. – TULIN,V../2018/: Central, Eastern and Southeast -European countries' convergence:a look at the past and considerations for the future. *Comparative Economic Studies*, vol.60.no.2.,pp 271-290.

⁴ The Baltic States joined in parallel, i.e in March 2004, two months ahead of accession to the EU, Croatia in 2009, Hungary, Poland and the Czech Republic in 1999, at the height of NATO intervention in Serbia-Montenegro.Finally in 2004 four more more countries- Bulgaria, Slovakia, and Romania joined, whereas Albania acceded in tandem with Croatia. We still do not have any postcommunist member with a neutral status in the EU.

In the case of Hungary the strategy of Western orientation enjoyed consensus across all parties that could come close to governing positions. True style and justification differed, but commitment to the 'return to Europe' had been axiomatic, by and large until 2013⁵. This unusual consensus has been built on the historic consciousness and traditions, which implied- both for academe and the broader public opinion- that revival of the Central European identity – and cooperation in the form of CEFTA and Visegrád Four – has never meant to be a “third way” alternative between socialism and capitalism, or an alternative to Western orientation. On the contrary: this was a highlight of the cultural and historic, institutional and legal anchoring of the region in West European/Western Christian traditions, rather than accepting four decades of Communism as a formative element of the historical and institutional heritage.⁶ The above mentioned interstate forms of co-operation embodied an old-new brand name used to dissociate participants from countries and not least of bloody conflicts and ethnic cleansings of the Balkans and “the East”, meaning the New Independent States, with no less complex/though less bloody/clashes and rearrangements.

It is worth mentioning that the new label reflected accomplished realities. Reorientation of trade from Comecon to western markets took place already during the 1980s, largely out of pressure exerted by growing energy and consumer goods shortages in the Soviet Union coupled with the approaching Soviet insolvency, which turned this option imperative.⁷ This fundamental change in terms had only in part been an outcome of any policies of Communist reformers of the day. To a larger degree it resulted from the initiatives of large socialist firms. The latter used CMEA markets as a base where fixed costs and various outlays could be safely earned. Meanwhile innovation of products, obtaining new technologies, upgrading of products in terms of the value chains were and learning new forms of organization and sales all were oriented on western markets, evolved through co-operation with western strategic partners.

⁵ For contemporary accounts cf BALÁZS,P./2001/: *The EU's Enlargement and Mediterranean Strategies: a Comparative Analysis*. London: Palgrave and PALÁNKAI,T./2004/: *Economics of Enlarging European Union*. Budapest: Akadémiai Kiadó.

⁶ HALECKI,O./1952/2000/: *Borderlands of Western Civilization: A History of East-Central Europe-2d edition*. Safety Harbor/FL, Simon Publications, and SZÚCS,J./1983/: The Three Historical Regions of Europe – an outline. *Acta Historica*, vol.29nos/1-2/,pp131-184.

⁷ For a contemporary account cf CSABA,L./1990/: *Eastern Europe in the World Economy*. Cambridge-New York: Cambridge University Press,, chapters five, eight and eleven and the literature quoted therein.

The latter could be managed via the then popular East-West joint ventures, legalized by special legislation already in 1972, and by the much more lavish 1988 law on foreign investment. The latter – adopted in the framework of the three year liberalization program of the last two Communist governments -allowed 100 per cent foreign ownership/an issue which is still an anathema to the regulators in the People’s Republic of China/.

Thus we may formulate with just a little overstatement that the re-integration of Hungary to Western trading and financial circulation has preceded to a considerable degree political transition to parliamentary democracy in 1990. Unlike in the Czech Republic or Russia *it was a preliminary to, not a consequence of systemic change*. In a way, trade re-orientation was a trigger, not a by-product of tectonic change.

The Hungarian economy and society has therefore not been “thrown into ice-cold waters of capitalism”, as some ideologues and representatives of vested interest have never ceased to assert in the past three decades. Rather Hungary has left the byway imposed upon it by 45 years of Soviet conquest and returned to its natural path an environment.⁸ In short, many arrangements- from multi-party democracy to running firms in private hands, or applying legal standards, which happened to be oftentimes carbon copies of existing German stipulations to the point of the Constitutional Court⁹, were already made readily available. Those operating them could rely on considerable expertise of both persons surviving from the pre-Communist times and newcomers who studied abroad or just implemented arrangements like the law on bankruptcy or mortgage lending. The system of commercial banks and the competition agency, both established

⁸ It is a different story- and has become a subject of recurring heated debates – that the ‘natural environment’ of West European capitalism has undergone perhaps its most fundamental change in the half century between 1940 and 1990 as explained in: STONE,D./2015/: *The Oxford Handbook of Postwar European History*.Oxford and New York: Oxford University Press.Thus there were no shortcut solutions, as the sad story of restitution illustrated to all those, who doubted it.

⁹ This arrangement is not known in the United States or the UK. It is the supreme guardian of the principles and practice of the rule of law. The Court, originally composed of highly esteemed independent law professors, could overrule governmental and even legislative decrees which it deemed to be contrary to the spirit of the Constitution. The function of the Court has dramatically changed in part by the adoption of the new, highly politicized Basic Law of 2011, as well as by the appointment of Party loyalists to the Court in 2012-19.Cf SÓLYOM,L./2015/: The rise and decline of constitutional culture in Hungary. IN: BOGDANDY,A.v. – SONNENVELD,P.eds: *Constitutional Crisis in the European Constitutional Area: Theory, Law and Politics in Hungary and Romania*. Oxford/UK: Hart Publishing, pp 5-31.

in 1987-88 may serve as cases in point. Unlike in most other transition countries¹⁰ legal and often political change simply formalized what has already, to a large degree, been happening on the ground.

It has been a hotly contested issue if the 'unilateral turn to the West' has inflicted more wounds than it was really necessary or unavoidable, and if softer and better managed transitory options, including a clearing system, market protection and wage subsidies could have mitigated the pains of radical change.¹¹

Accepting the validity-academic plausibility – of these suggestions, we have to disagree also in hindsight. First: it is hard to deny that the core EU followed its self-interest in opening up its markets, as cost and other comparative advantages, especially in the wage intensive sectors, are in the new EU members. Thus *re-locating activities has been welfare enhancing*. Second: by stabilizing Central Europe via economic ties it has also served its own security interest, with East-West migration kept at bay. Third, in strategic and political terms, the EU had not much successful cases other than post-communist change where the exportation of democracy would have worked, at least for quarter of a century. Last but not at all least, assisting transition to the market was a win-win option for all sides. The upgrading of Central Europeans and the convergence cited at the outset has been impressive. Imaging the counter-factual requires strong assumptions, especially on the benign aspects of Russian politics, which is hard to entertain even *in abstractu* following the annexation of the Crimea in 2014. But also wherever we could observe slower, less radical change – say in Croatia or Ukraine – we do not see the superior outcomes. Once again: swiftness was basically triggered by history, not conscious calculation by the players.

Being an extremely open economy, with exports and imports each reaching the value of GDP in the current millennium, Hungary has obviously benefitted considerably from open EU markets. Furthermore the country profited from the familiarity and additional credibility provided by the institutional transfer. Given that Hungary had to adopt the *acquis communautaire* in full, with derogations excluded already by the Amsterdam Treaty of 1997, this institutional upgrading has

¹⁰ The counter cases include Poland, successor states of Yugoslavia, Vietnam and China. Germany and the Czech Republic are the standard for theory of transition.

¹¹ For the most sophisticated account of the whole library of potential arguments against the radical opening that happened are presented in the bulky volume of our late colleague: van BRABANT, J.M./1998/: *The Political Economy of Transition: Coming to Grips with History and Methodology*. London and New York: Routledge.

produced a better quality regulatory environment than the one autoctonous development could have produced. Being a participant in creating new legislation is not quantifiable, still it has been an unquestionable plus for a country which usually is forced to adjust in a unilateral manner.

The above assessment is by and large a lump sum, which may or may not cover individual misdeeds or mistakes. No question the over-enthusiasm of the first phase has given ground to a backward move of the shuttle, culminating in the “freedom fight” of the Hungarian government of the post-2010 period¹². In the latter, especially in 2014-19 antagonism to whatever the EU and its Commission does has become a red flag for the Hungarian government. The elections of 2018 were also won on a harsh anti-EU platform, a circumstance that could have been inconceivable, similarly to the poster campaign against Jean-Claude Juncker, coming from the same party family as the Hungarian ruling party, Fidesz.

Similarly, it would be difficult to deny, that *a go-slow strategy has not proven fruitful in any way one cares to mention*. The fact that Croatia joined the EU a decade later than the Ten, has not allowed the country to become better prepared for membership, or to run policies that would have yielded higher growth rates, as the argumentation by Jozef van Brabant cited above would have suggested. Eastward enlargement has been made in a snail’s pace if one considers any other accession, especially of the Nordic enlargement, which lasted exactly one third of the eastern counterpart. All in all, the major consideration has to be if a country is within the *limes* or not, as being outside has not offered a superior alternative in any walk of life. Backsliding in Turkey and also in Ukraine in terms of democratic values, stagnation of the market reform agenda in both cases is hard not to relate to the weakening, if not loss, of the European perspective that helped overcome partisan competition in Hungary, the Czech Republic or Slovakia.

But..What Did the Romans Give to Us?

This quibble comes from the classical satirical film ‘*The Life of Bryan*’ mocking i.a narrow-minded behavior through the lenses of a story from Antiquity. Participant of the uprising in Judea are absorbed in fighting one another rather than the colonizers, but are good at lashing out against

¹² On the ups and downs of how and why this emerged in an interplay of largely unintended actions, which may be termed ‘a comedy of errors’ cf CSABA,L./2013/: Growth, crisis mangement and the EU: the Hungarian trilemma. *Südosteuropa Mitteilungen*, vol.53.nos/3-4/,pp 153-168.

anything the Romans do. In their debate they do have to give in to the fact, that money, water pipes, roads etc were all constructed by the oppressors. Likewise despite the achievements listed by us above, the overall feeling in much of the public in Hungary is that of being dominated by a mighty external power. This holds despite the fact that Hungary continues to be one of the largest beneficiaries of EU transfers in per capita terms, preceded only by Lithuania.

However, it would be 'poor economics' to borrow the expression by a book by this year's Nobel winners in economics, to claim that advantages can or should be measured on the net balances of official transfers.¹³ What the MIT professors propose is to give up ideas that are wide-spread rather than testable on the ground. To apply their method to our subject: do we not have the experience of the *Mezzogiorno* in Italy, where 150 years of unilateral transfers failed to produce prosperity? Or could not we observe the replication of this bad example in the eastern German provinces, including the capital city and surrounding Brandenburg, faring quite poorly in the competition across the German *Laendern*, even after three decades of nurturing? If we invoke the familiar infant industry argument, 30 years is quite respectable an age for any infant.

In any empirically substantiated analysis one may have to set out from the fact, that EU transfers are macro-economically negligible magnitudes, unable to trigger major changes for the better. Were they properly used to bridge supply and institutional bottlenecks, these could indeed be helpful, via the well-known multiplier and accelerator effects.

Regretfully this is seldom the case. Recent overviews of the use of structural funds by EIB experts¹⁴ have indicated rather regular and recurring mismatches in this respect. That means that the theoretically conceivable growth plus is unlikely to be significant in reality. Experts speaking on a recent conference on Hungary's experience between 2004 and 18 have found further difficulties¹⁵. These included corruption, lack of transparency, lack of competition and ensuing poor quality, 'leakage' to private pockets/not peculiar, but quite visible in Hungary/, over-

¹³ BANERJEE,A.- DUFLO,E./2011/: *Poor Economics: a Radical Rethinking of the Way to Fight Global Poverty*. London: Penguin Books.

¹⁴ SLACIK,T./2019/: Mind the gap: how does the flow of EU funds match investment gaps in CESEE? IN: NOWOTNY,E.et al eds: *How to Finance Cohesion in Europe?* Cheltenham/UK: E.Elgar, pp 135-160.

¹⁵ WEINHART,A./2018/: Ránk ömlött a sok EU pénz, de hova szivárgott el?/Lots of EU money flew on us, but where has it been leaking?/*portfolio*/onlÉine finance daily/, 14 Oct.,2018, last retrieved on 20 Nov.,2019.

bureaucratized public procurements and nepotism in deciding over the winners. This translates into lacking productivity improvements in the EU funded projects, especially at SMEs. If only a part of the above listed claims hold- and it has never been dispelled by the authorities- than the fact, that Hungary received over a decade more transfers than *ceteris paribus* the Marshall Plan injected to Western Europe, namely 1-2pc in the latter and 4 to 5 per cent for Hungary in the past decade, it gives an entirely misleading overall impression. Then how has EU membership help Hungary in improving her locational advantages?

a/ The EU has assisted – already in the pre-accession period- improve Hungarian regulation and particularly institution-building. While individual options and compromises are always liable to criticism, what seems overwhelming is that in sum, *a regulatory environment which is compatible to EU standards evolved, and it is testified by recurring Union level controls, thus it is credible*. The EU had set it as an entry criterion and meticulously controlled implementation on the ground, especially during the *acquis screening* phase of 1998-2003. Several Community organs, the Commission, the Eurostat, the Parliament, the European Audit Office, Olaf, the anti-corruption watchdog and not least the European Court of Justice continuously monitors developments. The procedure launched by the Sargentini Report in 2018 on the state of the rule of law is but one of the examples that the EU is not a toothless lion. Owing to the regular co-operation of sectoral organs, including courts and independent agencies, following the logic of the single market, *an increasingly uniform application of regulations and laws ensues*.

This holds to a great array of affairs, from trade policy to environmental issues. This has elevated the Hungarian institutional infrastructure to be qualitatively similar to the EU average, which is not world class in all areas, but improvement over past deeds. For any investor, be he from China, South Africa or Argentina, it is clear and calculable, what kind of regulatory environment he may face, if advances larger sums. And the nature of competition for investments among localities is such, that investors rarely bother themselves about the peculiarities of local arrangements. Rather they follow rules of thumb, thus *being part of EU-27 is by definition superior to be one of the 218 members of the World Bank*.

b/ Both economic and legal analyses tend to under-rate the relevance of *social learning*. From our perspective it means that an economic or legal arrangement becomes operational and effective

not upon its' being promulgated. Rather what decides if it bites or not if and how it is being implemented on the ground. Transition has been an excellent laboratory on how societies learned and un-learned new and old rules. For instance it took time to realize that if somebody is bankrupted, it means – in most cases – exactly the opposite to the every-day meaning of this expression. The person in question is unlikely to have lost his property. What is more probably that he managed to secure it against his creditors.

Travelling on discount airlines may confront us with the fact that the law of one price, a fundamental insight in micro-economics, may not hold in practice. Six of us sitting in the same row are likely to have paid six different compensation for the very same service we enjoy, depending on when and where we had bought our ticket. Without multiplying the examples we may advance the claim that the EU has provided a good service to its new member-states if and when it enforced its rule on transparency and of civilized market behavior in general. Enforcing these rules has remained a task for Community organs to the present day.

Generalizing this insight we may even suggest, that especially in public administration, in municipalities, in law enforcement and environmental protection that is particularly in the non-tradable sectors one of the *fundamental benefits of EU membership has been the type of learning we indicated above*. Procedures and arrangements familiarized during applying for EU funds generate knowledge that improve performance in public procurements on the local markets as well.

c/ In the past decade Hungarian economic policy-makers elevated discretionary, interventionist policies to the level of economic theory.¹⁶ This revival of the line of the 1970s considers re-distribution concerns to be the prime concern of policy-making against the established norms of the mainstream economic policy toolkit, which focuses on wealth creation and equal treatment of players, or rule of law.

This approach, while reflecting the trend of illiberalism gathering momentum in many corners of the globe, is neither new nor is widely shared by major investors, who tend to appreciate

¹⁶ GYÖRGY, L./2019/: *Creating Balance –the Mission of Economic Policy*. Budapest: Századvég.

calculability, transparency and other conservative values. Providing market protection or subsidies on case by case assessment is though observable in many places, however there are good grounds of theory and public finance practice to be skeptical on them. One of the strongest policies that exist at the Community level is precisely competition policy, covering state aid/which is not the case in the US and Japan/.

If the above insights hold, supranationalism observable in EU legislation in this very area is not a drawback, but *a factor enhancing competitiveness of the locality of new member-states*. Investors acting under familiar rules and in a calculable environment are more likely to advance big sums even in areas where recoupment may be slow, as in the pharmaceutical or automobile industry.

The more EU helps sustaining a rules-based policy environment, the more immediate has been its contribution to enhancing the quality of regulatory environment and in helping to lure good quality- rather than just a lot of – new investment in the new member-states/NMS. Good quality investors are known to look for calculable environment, rather than individual favors/true they may not reject the latter/. The more a country like the ones in Central Europe aim at and actually attain a climbing up on the ladder of value chains, the bigger is the advantage provided by the Community level law enforcement in case of disputes with the authorities. And by contrast: the more sophisticated is the product or service, the riskier it may be to enter a market with regulatory arbitrariness – a feature proudly promulgated by policy-makers cited above.

We do not make the absurd proposition as if EU membership on its own could guarantee any outcome. Experience with countries of the Balkans, from Greece to Romania, has shown that it does not ensure high levels of inward foreign investment, or compliance with solid economic policy line, let alone overcoming the intertwining with mafia structures or overcoming systemic corruption. As a matter of fact one of the reasons for the large-scale innovations in EU policy surveillance in the post-2009 decade¹⁷ has been triggered by the experience of limited to non-compliance especially in cases where it would have been most required to avoid self-propelling crises. And if adherence to rules could not be attained even at the level of macroeconomic targets,

¹⁷ This includes the European Stability Mechanism, the Single Supervisory Mechanism, the arsenal of the Fiscal and Banking Union of 2012 and not least the unlimited provision of liquidity by the European Central Bank, turing it into a true lender of last resort.

even less could be realistically attained in changing state-business relationships and many other deeper going features of socio-economic systems.

On the other hand we do sustain the claim, that being within the *limes* allows for an investment climate which is friendly to good quality inward FDI and improving the quality of economic activity in general. From the core EU we may cite the cases of Ireland, Spain and Finland, all traditionally counting as periphery of the EU. From among the NMS Estonia, Slovakia and Poland have definitely made good use of these new opportunities and also managed to climb up on the relative level of development.

2. *The real dividing line – the Rubicon – within the EU is membership in the EMU or lack of it.* As the UK has experienced, even being a nuclear and maritime power is of little avail if you do not sit around the table when new rules and regulations are being hammered out, or when new initiatives are adopted, usually first in an informal fashion. Staying out – voluntarily or willy-nilly, alike- implies no more and no less than *second class membership* for any practical purposes. It is a world of difference to be formative to a new agenda or just being informed about the compromises struck by others. In theory one may imagine a situation when non-EMU members initiate and get their ideas through the rest, but we are unaware of such cases. The Council, in theory, could superimpose its will on bureaucracies.

However it is not realistic to expect discussion of detail to take place at the policy-making level, i.e. in the Council. Thus what remains is 'freedom fight', vetoing majoritarian propositions as it has become quite frequent in justice and home affairs and in common foreign and security policy. However, *these are not the fields where the EU would speak, as a rule, with a single voice, rather than opting for the open method of coordination.* In issues of substance the rule, long established in the sociology of decisions, is to set up an inner circle of four to five who decide over agenda-setting and formulations. Thus, as we all know, the devil is in the detail, and the power is in the hand of the civil servant formulating the proposition, not in that of the President signing the final protocol. The more technical the issues are, as in finance and law, the more so. From among the thousands of pages four or five can only be decided at the top, but selection, screening and substantive elements of formulation remains in the hands of civil service.

Thus it is entirely unsurprising to observe that EU, for decades, have been evolving around the Franco-German axis, joined on occasion by the Italians, the Spaniards and until Brexit the UK/on matters of defense and foreign policy/. As the Brits have abstained from the most important deliberative club, the Euro-group, *they tended to be notified of rather than involved in hammering out joint decisions*. The practice of the European Court of Justice, with its rulings becoming increasingly of immediate effect in national legislation and even in court practice, has remained completely alien to British traditions and practices. This has become a formative force in bringing about Brexit in the outcome of a series of decisions leading to largely unintended consequences¹⁸.

Joining in or not to EMU has thus never been a simple cost-benefit calculation, but a matter of strategic choice. Even for core members, like France, Italy and Germany EMU is more than a bit of symbolism on the head of a fixed exchange rate regime. By contrast, the famous five points of Gordon Brown of 2003 had already indicated: one of the global centers of capital transaction is neither in the need nor is willing to merge its concerns with a supra-national player, the ECB in Frankfurt.

Therefore it does not come as a surprise that at the time Hungary has matured for entry in the EMU, the think-tank for economic unorthodoxy, the National Bank has published a position paper warning against too early and too speedy accession, and re-stating basically similar conditions as the former Chancellor of the Exchequer.¹⁹ Like the latter, Hungarian bank managers do not consider joining EMU a political priority, expressing broader considerations and commitments to certain rules of behavior, but as a cost-benefit deal. For the latter they consider a weak currency and letting all options open in exchange rate management superior to the pegging needed to pre-qualify for EMU. If one turns the inherent logic of EMU to its head, one may claim: once real convergence/of per capita GDP/materializes, nominal convergence and common currency may follow suit. This is exactly their suggestion.

One may easily subscribe to the above cited view: EMU, on its own, lacking other policy components, is by no means a panacea for accelerating rates of growth. The original claim has never been this. Rather it was suggested that 'one money, one market' enhances *consumer welfare* at the micro level. Quite apart from the extensive debate on the uses and meaning of GDP it is quite clear: if we have

¹⁸ BELLAMY,R. – CASTIGLIONE,D.eds/2019/: *From Maastricht to Brexit*. London: ECP Press discusses those processes in detail.

¹⁹ NAGY,M- VIRÁG,B./2017/: Felzárkózás az eurózónában- csakis megfelelő felkészültséggel teljesíthető/ Catching up in the EMU-only if properly prepared/. *Portfolio.hu*.26 Oct/a financial online daily/., last retrieved on 14 June, 2019.

four pairs of flights between Berlin and Budapest instead of the traditional one, and the price is about a third of what state monopolies used to charge 15 to 20 years ago, this is unlikely to enhance GDP, but will definitely improve well-being. Thus we are probably on a wrong track if we buy into the results of econometric analyses putting incremental growth at a mere 0.1 to 0.15 pc of GDP, that is due to EMU. Furthermore, as we elaborated elsewhere²⁰, EMU nowadays is no longer about Maastricht, but about Banking and Fiscal Union and joint crisis management arsenal. Staying out implies additional vulnerability to an already extremely open and small economy without financial buffers of her own.

3. Herewith we have come to a point which counts among the received wisdom in international finance. Keeping an independent currency is not just costly and renders the economy vulnerable. But in short: *it is a true luxury for anyone not being a global financial center or major commodity exporter* facing inelastic demand. If capital account convertibility holds, there is no way to stop owners of big sums from transferring their wealth by a push of a button via internet. This has become a reality already in 2007 to 2009 in many countries.

The dominant view in international finance is bipolar. Thus only extreme solutions, either pegging or free float are considered to be sustainable. Therefore the urge to join in currency blocs has only been strengthened by the experiences of the financial crisis. By contrast, the conventional view of the 70s and 80s which saw a weak currency as a good instrument for export promotion is no longer valid. The farther a country's export is from prime commodities, the less so. What worked for East Asia in the 60s and 70s no longer works for diversified EU member-economies.

One of the major troubles with the arguments of the central bankers cited above is that EMU has changed a lot. While annual EU spending is unlikely to be above the current levels of 130 to 135 bn Euros per year, roughly 1 pc of GNI, the unlimited supply of liquidity as well as targeted purchases of stocks and bonds by the ECB have changed fundamentally of what EMU is all about. By now it is primarily a huge counter-insurance structure against external shocks – but only for those being inside the Euro-zone.

²⁰ CSABA, L./2016/: Fiscal and Banking Union: a solution or a trap? IN: ATKINSON, A.B et al eds: *Nationalstaat und Europäische Union: Eine Bestandaufnahme*. Baden-Baden: Nomos Verlag, pp 109-122.

Capital markets are known to operate according to sharks' rules. In short, one who may mobilize staggering sums, like ECB or Bank of England, is unlikely to experience a speculative attack. By contrast, weak economies can experience drying out of markets even if their fundamentals do not justify it, only because they are unlikely to be able to protect themselves. During the EMU crisis Spain, Portugal, Romania, Hungary and the Baltics were cases in point²¹. This was a well-known potential already in the previous crisis, baptized by three eminent analysts as sudden stops in a not very frequently cited, but highly relevant and insightful paper in 2003²². The claim is that one does not need weak fundamentals to become vulnerable. Sudden stops imply drying up of financial flows without any good reason, basically on grounds of perceived rather than experienced difficulties. The above cited paper has become a classic in its brand, showing the inherent limitations in our formalized models in terms of forecasting actual traumas. It may well be that a country with excellent fundamentals is shaken, as South Korea in 1998, or conversely, even dismal indicators may not translate into imminent troubles, as in Italy between 2009 and 2012/though much of the profession did expect that/.

This sketchy overview may illustrate our point. If a small open economy retains its national currency in order to 'keep all options open', and particularly that of devaluations and policy improvisations, this choice is a momentous one. In a conceivable new storm the arrangement as such is an invitation to speculate against the currency, or pushing its rate of exchange to the doldrums, with costs born not only by those spending their holidays abroad.²³ Certainly, an economy may withstand external financial shocks also without the buffer provided by the EMU, especially by the unlimited liquidity provision by the ECB, but..isn't it safer to prepare for the worst?

Under this angle the Hungarian central bank and government²⁴ strategy of postponing EMU accession endlessly seems to be positively adventuresome. Given EU and OECD membership,

²¹ GYÓRFFY,D./2018/: *Trust and Crisis-management in the European Union*.London: Palgrave,pp79-146.

²² REINHART,C.- ROGOFF,K.- SEVASTIANO,M./2003/: Debt intolerance. *Brookings Papers on Economic Activity*, no.1.pp-62, last retrieved on 14 June,2019.

²³ SOÓS,K.A./2019/: Önellenzés/Self-check/. *Külgazdaság*, vol.63.nos/9-10/,p122 rightly draws attention to this eventuality,which happened in peacetime, without being confronted with crisis phenomena. The lasting decline of the Forint exchange rate is usually being de-emphasized by the triumphant official accounts of the past few years.

²⁴ Magyar euró: új dátumot hozott nyilvánosságra a kormány./Yet another new deadline of EMU accession set by the government/. *Portfolio.hu.*, 31 May, 2019, last retrieved on: 18 June, 2019.

capital controls cannot be re-instituted, thus accepting even more volatility of the exchange rate would run counter to the interest of the vast majority of economic agents, investors and the general public alike. By contrast, EU accession would be a safer bet, and not least meeting a legal obligation taken upon us 15 years ago, when the accession protocol was taking effect.

4. Herewith we have come to the basic issue of peculiar national ways/*Sonderweg*. The American literature terms jokingly as Sinatra's Law the practice of opting for special arrangements even if standard options would do. As a matter of fact no informed analyst would these days suggest to country A to implement a carbon copy of arrangements in country B, only because these have worked in the original context. This 'new thinking' has already infected even the international financial institutions and the policy advice provided by them, as Ilse Grabel documented in a critical monograph.²⁵ This notwithstanding it is perhaps a platitude to claim after Brexit that the EU in general and EMU in particular has yielded a set of institutions, rules and procedures way beyond the free trade area plus a bit of declarative diplomacy approach cultivated by the United Kingdom. Since it is not primarily about the common spending items- farming, cohesion or border protection – which are formative. Rather it is Schengen and what is called Fiscal and Banking Union and the new role of the ECB as a lender of last resort and an operator of the single supervisory mechanism that embody the new supranationalism – mostly outside the Treaty frameworks.

a/ Far the most important issue for assessing the Hungarian ways if we consider chances of a new and major financial crisis realistic or not. The majority view in the literature on the EU – much less shared in broader global finance – is that the toolkit that was developed in the fire-fighting years of 2009 to 2014 is by and large sufficient to ward off any major external shock. But this claim holds only for those who live up to –and pay not only lip service to- rules of prudent behavior in peacetime. Hungary was reminded more than once by her peers in Ecofin that her fiscal stance is quite a long way from the trajectory that would follow from the jointly agreed path for the sunny years.

²⁵ GRABEL, I./2017/: *When Things Don't Fall Apart*. Cambridge/Mass.- London: The MIT Press.

Since fiscal correction was repeatedly rejected, the elbow room for counter-cyclical measures is likely to be narrow to nil. Negative real rates of interest do not allow room for maneuver in monetary policy, and options for quantitative easing were already used up in the previous good years by the National Bank. True, commercial banks do not need to be recapitalized, but their relative stability must have changed during the boom years of 2013-19, not least owing to the government supported preferential credit programs. As the Budapest stock exchange is still dominated by four papers only, it is *the benefit of backwardness* which protects financial intermediation. But it is not a bulwark against a sudden stop, with the Forint being the few currencies left to speculate against, as the central bank does not care²⁶.

b/ It would certainly diminish the dampening effect of Euro-sclerosis on the Hungarian growth rate should the country be able to realize its *strategy of opening to the East and opening to the South*, as promulgated in the years 2013 to 2016. Looking at the basic trends in the country's foreign trade data can convince those in doubt that the attempt collapsed, for a variety of reasons. This includes lack of logistics, lack of organizational and financial power, lack of command of local languages/Russian and Portuguese, let alone Arabic/ as well as a series of corruption-prone developments, civil servants working for private wealth.²⁷

Oriental markets and policies are known to represent a special mixture of tales and realities. For instance at the height of the financial crisis in January 2012 the Hungarian government reported a billion dollar quotation of state bonds on the Chinese market, which was declared a mere declaration of intent by the Asian partner. Projects on updating the Budapest-Belgrade railway line are being aired for over four years, with the planning stage allegedly starting in the last weeks

²⁶ It is telling to find that the entire professional leadership of the national bank came out in a joint article explaining that it is the way inflation is calculated which is at the root of continued weakness of the Hungarian currency, which is none of their concerns/technically right, substantively wrong/. Cf MATOLCSY,Gy.- NAGY,M.- PALOTAI,D.- VIRÁG,B./2019/: Az infláció mibenléte- ideje a mérőrendszereinket újragondolni/On the nature of inflation-time to rethink measurement/. *Növekedés.hu*/online business daily/, 11 November. For a critical assessment of the instrumental nature of this argument cf FARKAS,Z./2019/: Nő az infláció. Matolcsyék máris másképp mérnék.De igazuk van?/Inflation accelerates. Matolcsy wishes to measure it differently.Is he right?/ *Hvg.hu.360/a* supplement to the online economic daily/, 9 December, both accessed the same day.

²⁷ These are documented and elaborated in: RÁCZ,A./2019/: Füstbe ment terv: a magyar keleti nyitás külpolitikája/A collapsing plan: Hungary's opening to the East/. IN: GYURGYÁK,J.ed: *Magyarország az Európai Unióban/Hungary in the EU*/. Budapest: Osiris Kiadó, pp69-78.

of 2019. Reconstruction of the nuclear power plant of Paks is about to be launched, while projects are being discussed at top level since 2007 and beginning may start in 2020 at best.

In short markets in Central and Eastern Asia as well as in Africa tend to be anything but free and easy to conquer. Knowing the financial and logistic limitations of corporations working in Hungary and the strategies of multinationals aiming at EU markets, one may not be optimistic on this initiative. Divesting trading houses and learning to live with the traditional geographical pattern of trade comes hardly as a surprise.

c/ One may obviously list a few countries who are highly successful in global competition who do not figure among the member-states of the EU. We may note Singapore, Chile and Israel, or from among the European economies Norway and Switzerland. We have no time and space to expand the well-known observation: each of these nations have undergone a peculiar, non-replicable path of development in the past 50 to 70 years. If there is anything common across the varying national ways, this is a *commitment to a by and large orthodox set of policies*, including commitment to fiscal solidity and market orientation. None of them follows the unorthodox line advocated, and in part practiced, by the Hungarian government in the post-2010 period, expounded by the secretary of state cited above under footnote 15. For instance: in Chile public transport is run on a fully market base, and in Norway windfall from oil revenue is being invested in a fund to cover future pension outlays. This differs from the populist practices of the United States or Japan, but in quite different ways from the Hungarian option.

d/ It is worth raising the question: what follows if the geographical pattern of Hungary must be taken as a given for the decade to come and longer. EU is much more than an area of relatively slow growth. It is an area where Hungary is integrated in cultural, historical, political sense and also via family relations and increasingly also via labor market contacts, education, tourism and set of values, not only at the elite level. Does this chain of interwoven factors allow for a realistic alternative to what used to be the mainstream of thinking in Hungary, in economics, political science, sociology and law, even in the natural sciences? If not, the conclusion is that *Hungary's economic interest is not a retrogression of the European Union into a free trade zone, but the successful implementation of the Fiscal and Banking Union, complemented with the emerging Capital Market Union*. In this line the Hungarian government should be supportive of the

initiatives/inter alia of the Finnish Presidency/ for regrouping EU expenditures to areas where Community gains are trivial, as border protection, management of migration, environmental protection and of course research and development. Initiatives to re-define expenditures along those lines and at the detriment of traditional priorities like farming and cohesion should therefore enjoy priority.

Conclusions: It Is Not the Economy, Stupid!

In various sections of this chapter we argued that Hungarian and European interests tend to overlap. The closer we get to business and economic policy, the material sphere, the more so. We argued about the past and potential future uses of being within the fences, even if those fences are not necessarily waterproof, and even if one can always advance arguments for better quality Community regulations in many areas. Still, as a rule, common rules and procedures yielded more transparent, more efficient arrangements than the purely local ones, in all walks of life, from monetary policy to environmental protection. Most community policies tend to be more forward-looking and more evidence-based than local ones lacking this point of orientation.

We have *advanced in this overview four theses*. No1 about social learning being more important, than balances of financial transfers, usually in focus. No2 was the vital role of being part of EMU, for policy and economic reasons. No3 was the unchanged relevance of policy orthodoxy, particularly rule of law considerations.No4 was on deepening of integration serving the national interest of a small open economy. And no5, to be expanded below is on *the primacy of domestic considerations over Europeanization*, now and in the future.

What explains then the freedom fight conducted by the Hungarian government in the entire past decade since 2010, with a large degree of coherence and consistency? We may not enter into, but invoke, the broad and largely novel insights from political science which operationalized the original claim: 2010 was a watershed, more than a simple change of the government²⁸. The new pattern of legitimacy²⁹, of organizing support to a régime operated by a single leader positively

²⁸ 'Több, mint kormányváltás, kevesebb, mint rendszerváltás' as the contemporary slogan went/meaning: more than a simple change in government, though less than a wholesale systemic change/.

²⁹ ILLÉS,G.- KÖRÖSÉNYI,A.- METZ,R./2019/: Broadening the limits of reconstructive leadership:Constructivist elements in Viktor Orbán's régime-building politics.*British Journal of Politics and International Relations*,

required ongoing antagonism against what is perceived as the bulwark of the liberal and multinational *ancient régime*, that is the EU.

While pragmatic considerations of the economy, law, institution-building and efficiency would have called for more co-operative behavior, *the 'primacy of politics' as Lenin once used to term it, required exactly the opposite*. Staying within the realm of economics it is hard to marshal evidence to support a claim that an antagonistic line, playing in the coalition of the nasty, that is those opposing any deepening and any transparency, would be in the interest of the nation. Hereby we come to the old insight: there is no axiomatically given 'interest' without the intellectual and interpretative framework of understanding reality. A *jihadist* is usually convinced of the value of his deeds as good and even superior to the norms of the godless. Likewise populist policies, based on the dichotomy of 'us' and 'them' require an enemy to fight.

Thus the debate on Hungary's conflict with the EU organs is, to a large degree, remain the dialogue of the deaf. While any international agency is bound to follow ideological neutrality and thus advance technocratic arguments even if it is to pursue ideational causes – as in human rights or environmental protection - these arguments are likely to fall on deaf ears if the commonality of visions between both parties is no longer given.

While in the first two decades between 1989-2009 the common vision and shared perspectives were by and large given, this has ceased by 2010. In the post-2010 period, first burdened by imminent crisis management, later by adjusting to the new realities of Fiscal and Banking Union and the turning of the ECB into a lender of last resort and a provider of unlimited amounts of liquidity. Those modifications implied vastly enhanced redistribution effects over and above the joint Multiannual Financial Framework. Thus reflection about the nature of EMU has become a major component in defining and re-defining national interest. It has become *formative for national politics in several EU member-states*, Germany and France included³⁰.

vol.20.no.4.pp 790-808; KÖRÖSÉNYI,A./2019/: The theory and practice of plebiscitary leadership: Weber and the Orbán régime. *East European Politics and Societies*, vol.33.no.2.,pp. 280-301.; BOZÓKI,A.- HEGEDŰS,D./2018/: An externally constrained hybrid regime: Hungary in the European Union. *Democratization*, vol.25.no.7.,pp1173-89.

³⁰ The unprecedented electoral support of anti-EU parties, like *Alternative für Deutschland* in Germany and *Rassemblement Nationale* in France are cases in point. It is a different story, if and to what degree electoral systems give way to representing those ideas, but in both countries 13 per cent of voters supported them last time.

Hungarian leadership has used this window of opportunity to construct something brand new in terms of a political regime, a strongly majoritarian system replacing one previously dominated by a variety of party-coalitions. Economic arguments thus have turned completely instrumental in bringing about this novel reality. Only time will tell, how far the country may go, and if and when the economic and social consequences are to become superior to more traditional options.

Brexit has proven to be a single event. Contrary to wide-spread speculation, primarily, though by no means exclusively, in the media, it has not been followed by Frexit, Grexit or Huxit. Commitment to and interest in the continuation and deepening of European integration prevailed over Euro-skepticism and populist criticism. Thus what we observe in Hungary is likely to be a case to be generalized: more rather than less skepticism, but all that within the fences.

No question: Hungary's conflicts and relapses *are part and parcel of global processes that have unmasked the clear limits of EU's normative power* that are much more definitive than many of us tended to think about.³¹ While EU organs, especially Commission and the Parliament tended to stretch their mandates to the limits to reverse or at least slow down the above sketched change, outcomes were meagre if any. The government has observed some basics of macro-economics and was stepping back from some extreme measures. But on balance, *the limits to a largely inter-governmentalist EU have become palpable. A lesson pointing well beyond the single case we presented here.*

³¹ Explained in great lucidity in a paper by two Turkish authors: ÖNIS,Z—KUTLAY,M./2017/: Global shifts and the limits of EU's transformative power in the periphery: perspectives from Hungary and Turkey. *Government and Opposition*, vol.53.no.3.pp 1-28.