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The Hungarian Eurology - The Road to Perdition?

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The Hungarian Eurology – The Road to Perdition?

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Abstract

The study aims at deciphering the driving forces behind the Hungarian eurolessness from a more complexity-aware perspective. To this end, it applies the concept of runaway phenomena, borrowed from complexity science pervaded by an evolutionary view to the socio-economic innovation ecosystem, in interpreting the runaway Hungarian nationalism. It demonstrates that global runaway phenomena in the world economy have been heavily influencing the Hungarian path. With this approach, it becomes clearer how Hungary turned from eulogy to neutrality, and then has gone even beyond in terms of Europeanisation. The paper also conveys some lessons both for economics theory and economic governance alike.

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Hungary and the Eurozone – From eulogy to neutrality and beyond?

1. Introduction

After the regime change, the Hungarian socio-economic development path was hallmarked by the perceptible commitment to the accession to the European Union (EU) and then, in accordance with the obligations, to the Eurozone when the country's economic condition suits to such historical step. Paradoxically, although Hungary was in a relatively good economic shape by 2010 when the repercussions of the 2008 financial and economic crisis hit in (Kovacs 2014), since then, its political and thus socio-economic development has been, to a large extent, experiencing a specific form of derailment from its original purpose to become a part and parcel member of the Eurozone. The Hungarian governance seems to have made a conscious *U turn* (Kornai 2015) from that aim by *manipulating the consciousness of the wider public* about this derailment. There is no singular reference to Eurozone accession in official documents of 2018-2019 submitted to the EU.[1] The new criteria, introduced by the central bank of the Republic of Hungary, is all the more unequivocally signalling the unwillingness of the government to introduce the euro.[2]

In this study we will decipher the major trends and causes of such Hungarian path with a scent of complexity science by looking at the Hungarian case as a runaway phenomenon embedded into the larger complex global socio-economic innovation ecosystem. Complexity approach conveys not only that our socio-economic system is a complex, adaptive and open living system with many interacting parts (of which system is not equal with the sum of its parts but the sum together with the non-linear interactions among them); but also that one cannot consider individual parts of the system existing alone merely. As a corollary, a wider approach is in order when interpreting the phenomenon of runaway Hungarian nationalism. To this end, *Section 2* introduces runaway phenomenon borrowed from complexity science and applies the concept to demonstrate that runaway phenomena in the global economy has been heavily affecting the Hungarian path. *Section 3* reveals how Hungary turned first from eulogy to neutrality, and then has gone even beyond. *Section 4* concludes by conveying some lessons both for economics theory and economic governance alike.

2. The influential role of global runaway phenomena

A complexity approach requires that the evolution of the socio-economic innovation ecosystem to be incorporated. Interdisciplinarily, the evolution of living systems has always been pervaded by the tendency to the so-called runaway phenomena (Csányi 2003). Runaway phenomena happens when one or several specific features of a living organism is going through an excessive expansion which, at first blush and at the level of intention, is of key importance to reach out some higher level goals, while that change finally turns out to be self-defeating (e.g. peacock grown big and increasingly ornate tail feathers in an effort to raise the attention of peahens by ensuring the conservation of its species, this process was successful at the beginning but peacocks with heavy and very ornate tail feathers making them too slow and striking became easy prey for predators by decreasing the survival rate of its own species).[3] One can identify similar runaways in economics and in economic systems alike.

2.1 Economics departing from reality

Mainstream economics had ceased to be a fanatic of reality long time ago primarily by favouring only quantophrenic approaches (i.e. excessive use of quantification by creating a culture of measurement even in case when qualitative approaches dominates and quantification loses sight of reality), by postulating a system without memory and being in or at least always approaching equilibrium, linearity, clear deterministic causation, the triumph of value-free approaches considering only risks rather than uncertainty, by considering a perfectly informed and fully rational *homo oeconomicus* by neglecting the psychic capital and processes. In this way, mainstream economics has a predilection to imagine the socio-economic system as a fine tunable and repairable machine.

Consequently, such mainstream economics thinking not only omits the chances of crises (i.e. a crisis is incompatible with the postulates expressed) as well as proved to be a convenient way of scientism (i.e. offering the pretence of knowledge in an elegant and consistent way by dealing with not so relevant issues), but it also gives a deceptive impression that there are always clear, understandable, verifiable and measurable answers/solutions to various kinds of problems. But, the plot thickens since there are issues having no single answers.[4] In other words, reality challenges the sacrosanct of mainstream economics because in the age of ever-more integrated hyper-globalised world economy mostly given by the rapid diffusion of information and communication technologies dating back from the 1970s as well as the dismantling of obstacles to globalisation, we face far-from-equilibrium situations pervaded by multiplicity, simultaneity, growing networks interspersed with value-choices and the human factor resulting in non-linear changes, spillovers, positive and negative feedback mechanisms, asymmetrical interdependency, globalization of side-effects, fluctuations[5] on microscale having impacts on macroscale, and cumulative causation. No one is fully in charge, no one can fully scientifically properly overlook *ex ante* the whole system and the effects of the actions imposed because of the complexity. Thus, after one has mastered instruction in so-called microeconomics and macroeconomics, there will remain mysteries, this is exactly the opposite of what one of the most eminent and renowned economist co-authors, Paul A. Samuelson and William D. Nordhaus, promised.[6]

On can therefore detect the runaway phenomena in the course of the mainstream economics having merely a spurious vision of reality which makes it grind to a halt in times of crises.[7] It implies at least two things, *first, economic governance has to a large extent lost its economics-backing in navigating through and enhancing the performance of the socio-economic innovation ecosystem* in terms of quantitative and qualitative growth; and *second, alternative economic theories of reality, being not necessarily close to reality (post-factual), are intensively spurred*.

2.2 Great Moderation and the emergence of critical instabilities

The 2008 financial and economic crisis made the developed world aware of the importance of *not sitting back comfortably in periods of low volatility* (i.e. into the so-called *Great Moderation* in most advanced economies with seemingly managed macroeconomic fundaments such as employment, inflation, consumption, investment since approx. 1992). Governance and its economics backing, being departed from reality, seem to have forgotten the lesson learnt from history, namely that crises emerge primarily after a longer period of moderation phase (low volatility) encouraging people on a massive scale to be more risk-takers by leading to processes grounding critical instabilities.[8]

Importantly, one of the thorniest challenges of our time is the widely perceptible *backlash against globalisation*. Many people feel that they have been left behind and the globalisation machine does not seem to be working for all (i.e. more and more stranded communities, problematic distribution of benefits of globalisation, shrinking of the middle class opening the floodgate to more protectionist, populist and nationalist governance). The consequence of this is the *weakening trust and confidence* in national and supranational governance, in the European integration process, ultimately, in the institutions evolved organically over the last decades.[9] The backlash against globalisation that is to say the ailing trust infrastructure is due to the interplay among *intertwined wicked challenges*. Since a more comprehensive account was given to these complex challenges elsewhere (Kovács 2019), we just mention them: climate change; demographic challenges (i.e. not only the issue of aging population as well as migration crisis, but also the runaway of income and wealth inequalities are of key importance in creating serious instabilities[10]); the runaway of the financial sector at the expense of the real economy (i.e. acting as a parasite to the real economy with capital preferring higher short term returns within the financial sector by affecting harmfully various inequality trajectories, including inequalities among enterprises as well etc.); changing characteristics of emerging markets (i.e. China has been becoming more service and consumption driven by lowering its growth rates affecting the rest of the world); the runaway of indebtedness of countries in the aftermath of the 2008 crisis resulting limited fiscal capacities to stimulate the economies; secular stagnation (i.e. lowering productivity growth implying weakening innovation performance); and uncertainties over the socio-economic impacts of the ongoing digital revolution (including industry 4.0, AI revolution etc.).

The discontent of globalisation (and the weakened trust infrastructure) is mainly because of the distribution of the benefits of globalisation has not been conducive to everyone. And because of the systemic feature of the runaway phenomena described, they are clearly beyond the boundaries of national governances: addressing and solving them separately is impossible, but there are no soothing tools to tackle them collectively, either. This altogether, on one hand, generates increasing uncertainty over what is really going on in the socio-economic innovation ecosystem (i.e. there is an increasing and gaping gap between the perception of reality and what is really going in the socio-economic innovation ecosystem (including the side of economic governance).[11] On the other hand, policymakers do not want to add to increasing uncertainty, that is to say, increasing uncertainty is shrinking the window for comprehensive public service reforms interspersed with uncertain outcomes (i.e. there is a tendency for reform bulimia).

All in all, due to the interplay between the two runaway groups (economics departing from reality together with runaway phenomena encoding critical instabilities), the new norm seems to be a prevalent distrustful behaviour in politics and governance by engendering in flaring populism, secessionism, and protectionism, even in the European integration. It seems that the demand for a post-factual and mainly opinion-driven governance (doxocracy) is firmer than ever before. Importantly, it is not a problem with political populism and the tools applied for manipulation; the main problem comes from the fact that the society seems to be no longer interested in whether politics or the government seek factualism or not (e.g., think of the misleading initial promises of the UK Independence Party arguing for Brexit). And this is nothing but the triumph of delusiveness over (often unvarnished) reality which was called simulacra by the famous French sociologist–philosopher Jean Baudrillard.[12] While the desideratum of today is to initiate productivist economic policies in supporting the reintegration of domestic economies across the board (i.e., boosting productivity and innovation to reinvigorate trust and confidence) by building on evidence-based (relevant, timely, and usable data-driven) policies, the culture of simulacra (the gaping gap between reality-oriented and post-truth politics) serves as an obstacle to it by influencing national governance.

In the face of interwoven complex challenges, considered partly as runaway phenomena, the big (external and internal) silence about the Hungarian agony over Eurozone accession – to date, there is no official date considered by the Hungarian government as a target of Eurozone entry – can be a reminiscent to the so-called *decreasing sensitivity*[13] phenomena in the EU. The EU has become flooded with more and more complex and interrelated challenges while the issue of the Hungarian euro in the agenda has been to some extent faded away. The same holds in case of perceiving the Hungarian case in the light of runaway phenomena requiring more and more attention from policymakers.[14]

3. The Hungarian Runaway – Eulogy, Neutrality and Beyond

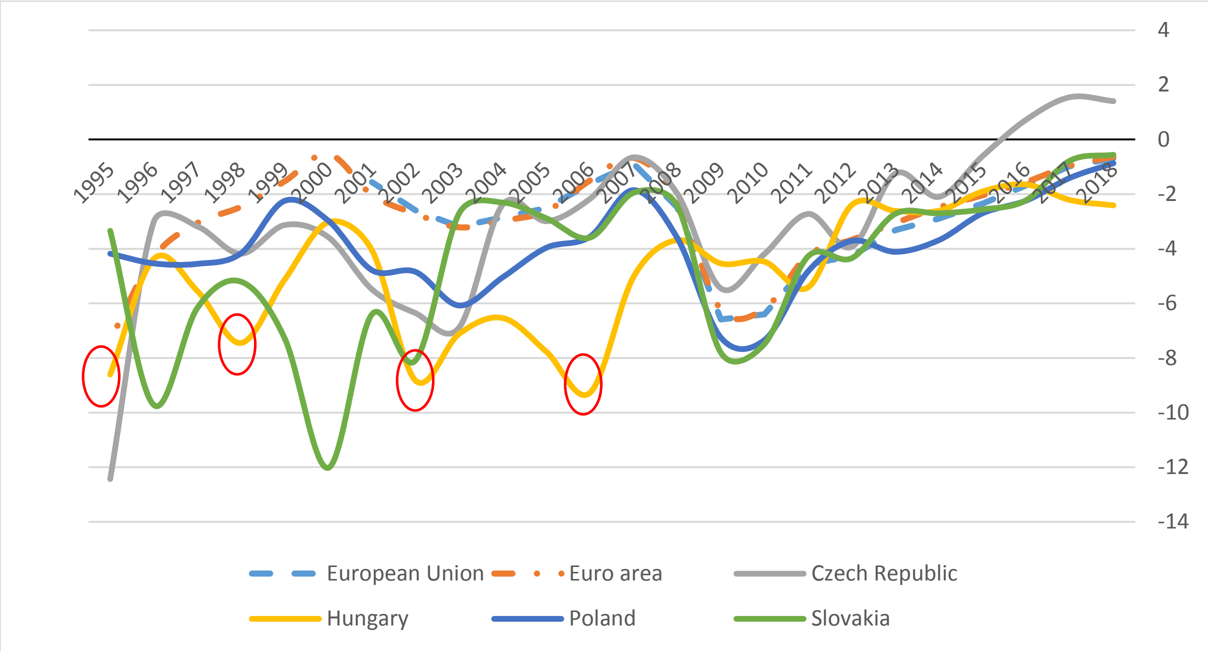
3.1 EUlogy – More than Illusion

The main argument is that Hungary was thought to become a part and parcel member of the EU and then the EMU by building on the grounding conditions established along the years after the regime change. The section argues that the belief about an effective Hungarian path towards a deeper integration into the EU (EMU) was more than an illusion because of some sobering moments implying commitment to Europeanisation.

3.1.1 The Search for a Defending Clique – Becoming a "08/15" up to 2004

Metaphorically speaking, the most wonderful muse for Hungary to be committed to the EU were both the socio-economic hardships after the regime change and the promises of the European integration (e.g. peace and prosperity for all onto the manner of '*Alle Menschen werden Brüder'*), it was to a large extent true for the entire European integration which has been forging in and being driven by crises, as well. It seemed to an external observer that the prospect of EU accession had more or less anchored the Hungarian governments by triggering some, not necessarily enough, sobering moments. Progresses were made on the one hand, but various processes were then reversed on the other, and the so called political budget cycles (i.e. running high deficits and indebtedness before elections in a way of fiscal alcoholism) continued even after the EU accession of 1 May 2004. Public finances were repeatedly in quagmire in case of Hungary since the regime change of 1989/1990. Anyway, that highly volatile nature represented the series of re-emergence of sobering from fiscal alcoholism (*Chart 1*).

Chart 1. Political budget cycles in Hungary (general government net lending, % of GDP)



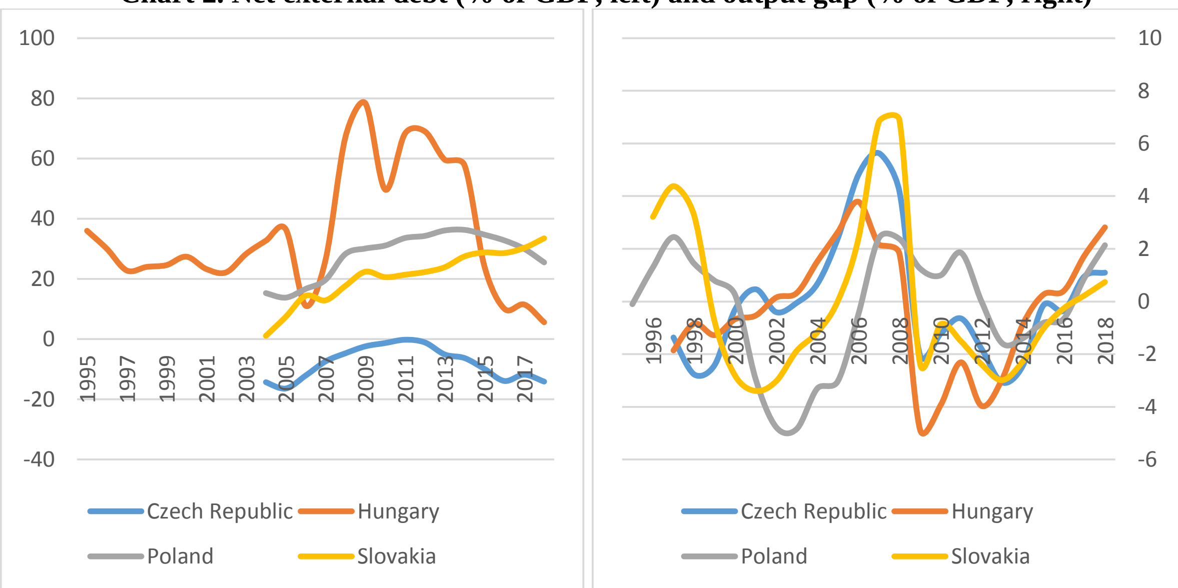
Note: the chart depicts the Net lending (+) or net borrowing (-): general government:- ESA 2010 (UBLG). In Hungary, the election years were as follows: 1994, 1998, 2002, 2006, 2010, 2014 and 2018.
Source: European Commission, AMECO.

Beyond the trust-builder feature of important events such as joining to the OECD in 1996 as well as to NATO in 1999, some half-hearted structural reforms and sustainability-congruent fiscal adjustments (stabilisation package of 1995 named after the finance minister, Lajos Bokros; pension reform of 1998; smaller scale fiscal consolidation of the Medgyessy cabinet in 2003[15] etc.) emerged, unfortunately only with a soupçon of lasting improvements[16], but still enough in complying the Maastricht criteria. In addition, and at least, official target dates for Eurozone accession were considered by successive governments (i.e. 2007 as a date for potential entry was considered by the first Orbán government (1998-2002) in 2001, while the following Medgyessy administration changed that date to 2008/2009). Notwithstanding the short-lived adjustments and superficial reforms in the run up to the EU accession and its aftermath until 2010, Hungary was seen from the perspective of EU-core countries (especially Germany) as a “08/15”[17] in the sense that in that period the Hungarian governments at least did never question and forget the paramount importance of cultivating EU-compatible values such as enhancing democracy, the rule of law, the sacrosanct feature of private property as well as fair competition, the freely functioning civil society, pluralism in intellectual life. The real power of democracy lies precisely in the temporary nature of decisions, nothing can therefore runaway endlessly (e.g. increasing the – perhaps just ostensible – power of the ruling cabinet endlessly is not an option). Under this angle, Europeanisation was the norm and Hungary followed this standard behaviour as an ordinary potential member country up until 2010.

3.1.2 The Non-Defending Clique – Homework at Loose Ends (2004-2010)

After 2004, becoming a member in the defending clique (EU) raised the level of trust and confidence in Hungary in the eyes of domestic and foreign investors, at the same time, it gave a misleading feeling of comfort for Hungarian economic governance. Up until 2006/2007, it refrained from initiating reforms and policies that would have been conducive to supporting structural change into a more competitive and diversified knowledge economy, rather it relied on utilising one of the main benefits of becoming a member state: namely that of the perceptibly dampening costs of external financing. As a result, growth was mainly above that of the EU-average (Hungarian real GDP growth was on average 4.2% in the period 2000-2006) and was fuelled by the runaway of external indebtedness. As *Chart 2* depicts, external indebtedness skyrocketed in Hungary, while the bust period after the 2008 crisis was the deepest one in the Visegrád group.

Chart 2. Net external debt (% of GDP, left) and output gap (% of GDP, right)



Note: the left graph represents net external debt rate, the right graph captures the gap between actual and potential gross domestic product at 2010 reference levels.
Source: European Commission, AMECO.

The internal political dynamics spoiled the great commitment, at least in terms of balanced and prudent management, and the country – pervaded by misaligned fiscal policy but still having the engagement in EU-values – was drifting toward a juncture again right before the hit of the 2008 crisis.

Even before the 2008 financial and economic crisis hit Europe, Hungary had to cope with serious macroeconomic imbalances calling for stabilization due to its tedious and irresponsible fiscal policy (public deficit accounted of 9.2% in 2006). Unfortunately, the structure of the 2006 consolidation, initiated by the Gyurcsány administration, was not conducive to growth (i.e. mainly revenue-side oriented measures with distorting and deleterious effects rather than Keynesian positive impetus, see Kovács (2015a)) and thus it could not curb fiscal problems (e.g. real GDP growth shrunk significantly by reaching 0.4% and 0.8% in 2007 and 2008; the Hungarian debt-to-GDP ratio rose by more than 20% between 2006 and 2009 by hovering around 80%; by the same token, gross debt-to-income ratio of households doubled from the 31% of 2004 to 62% of 2009; private sector debt consolidated climbed up from the 83.4% of 2006 to 116.5% of 2009, the same level as the Greek data!). True, Hungary did not seize enough the opportunity given by the historically exceptional period of the Great Moderation in initiating painful reforms in favoring long term real socio-economic development and growth.[18] Albeit Hungary began to lose its “08/15” image and was put on the crisis map (i.e. got a standby credit offered by the IMF, the EU and the World Bank), and yet, Hungary faced the inevitable during the Bajnai administration in 2009 not only in the interest of survival (solvency) but also in the guise of Europeanization (e.g. Hungary met the criteria of the Schengen Agreement in December 2007 etc.). Regarding the Eurozone accession, it is certainly true that there was no official target date announced on a consensual way, but, at least, they were about to find a date (e.g. Prime Minister Bajnai personally envisioned 2014 as a date of joining the Eurozone). Many thought therefore that Hungary had left behind *the point of no return* in the sense that its path is irreversibly directed toward Europeanisation and not toward living in reclusion. And yet, as we show in the next section, *Eurolessness* has become an organic part of national policy.

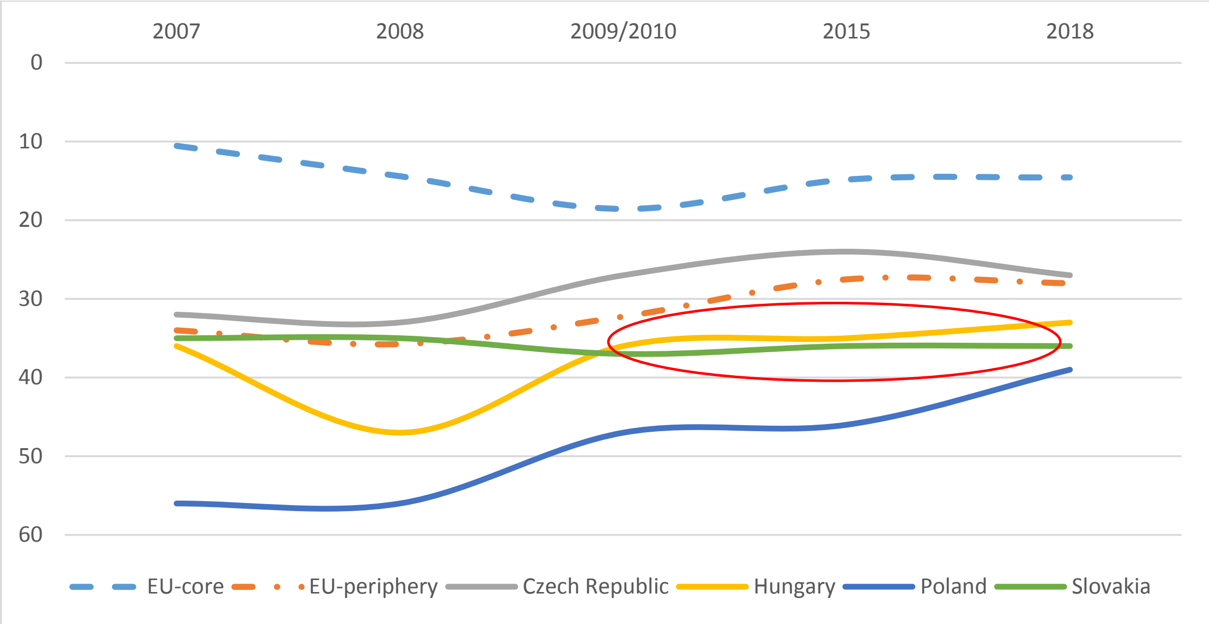
3.2 The New nEUtrality – More than Reclusion

As the preliminary section briefly demonstrated, for almost 20 years, Hungary was seen as a country keeping abreast of the European project, including its Economic and Monetary Union. Still, Hungary did not go the distance, rather it has been going through more than a reclusion. Albeit Hungary was very close to meet the entry criteria of the Eurozone accession (e.g. by 2012, see Csaba 2012), the country had a U-turn after 2010 by shifting from EUlogy to nEUtrality (and even beyond) by manoeuvring between the will and unclear. To this end, we first outline how the Hungarian economic governance initiated changes in its socio-economic development, then we decipher the fundamental constituents of such path-breaking governance being heavily influenced by global runaway phenomena juxtaposed earlier.

3.2.1 Neutrality and Beyond

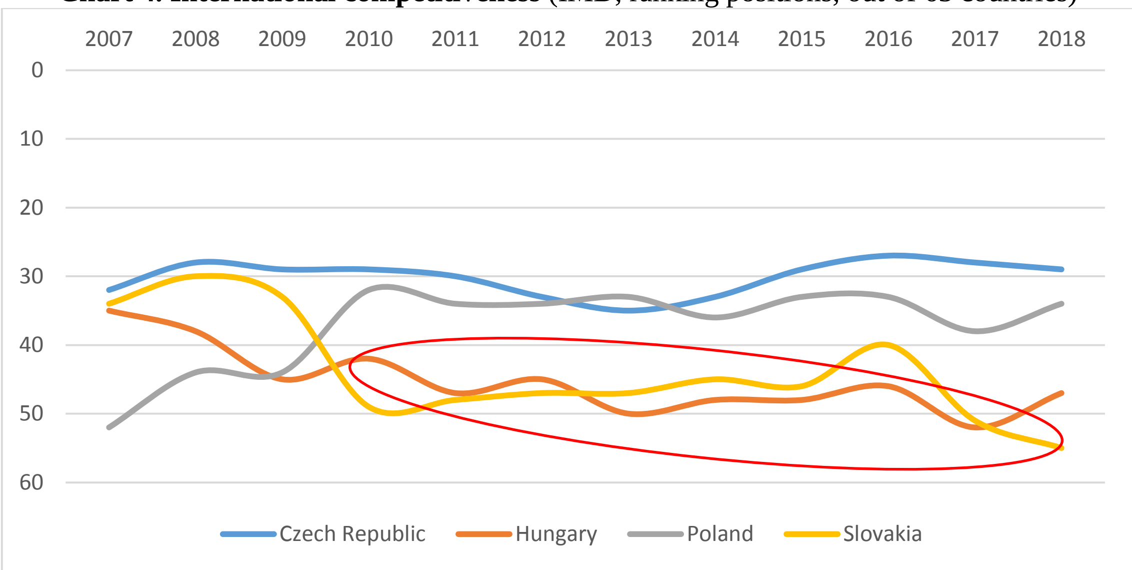
After the cumbersome adjustment of the Bajnai government during 2009, Hungary was seemingly back again on an instructive track in terms of non-deteriorating innovation performance (*Chart 3*) as well as rehabilitating international competitiveness (*Chart 4*). Unfortunately, the Hungarian socio-economic innovation ecosystem became a sort of petrified system after 2010 (i.e. *getting stuck* feature of innovation performance, that of international competitiveness, as well as in case of the convergence process to the EU28 as it is discernible on *Chart 5*). The pace of the Hungarian catching up process lost its élan and got stuck since 2010.

Chart 3. Innovation dynamism in selected countries/country groups (Ranking positions, Global Innovation Index)



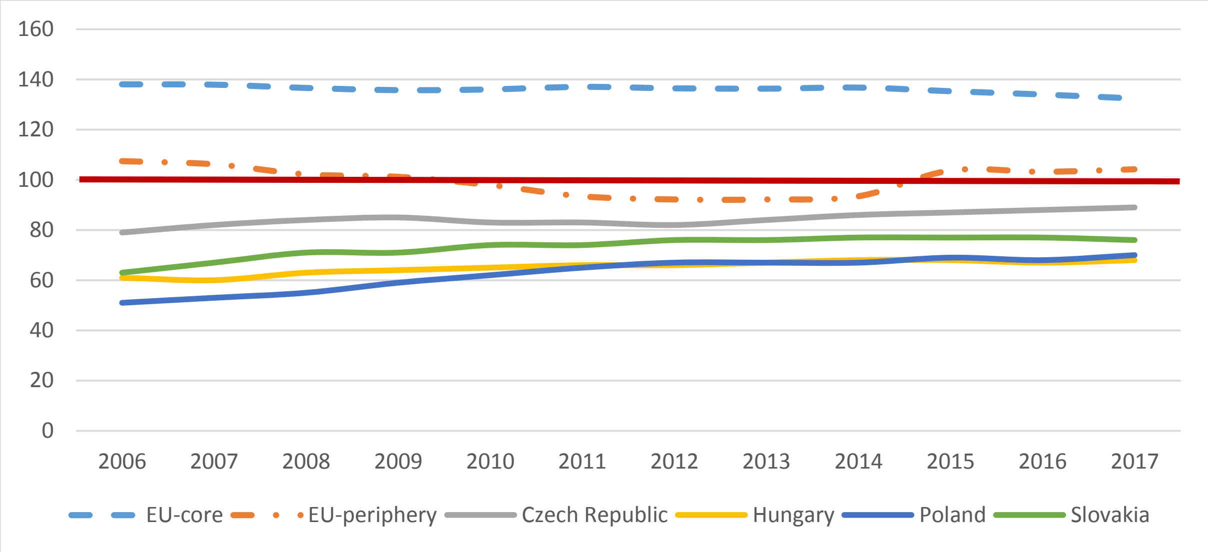
Note: EU-core countries consist of Germany, France, UK, Italy, the Netherlands, Belgium and Luxembourg; EU-periphery embraces: Greece, Ireland, Portugal, and Spain.
Source: Global Innovation Index, Cornell, INSEAD and WIPO.

Chart 4. International competitiveness (IMD, ranking positions, out of 63 countries)



Source: IMD World Competitiveness Reports.

Chart 5. Convergence to the EU (GDP per capita in PPS, EU28=100)

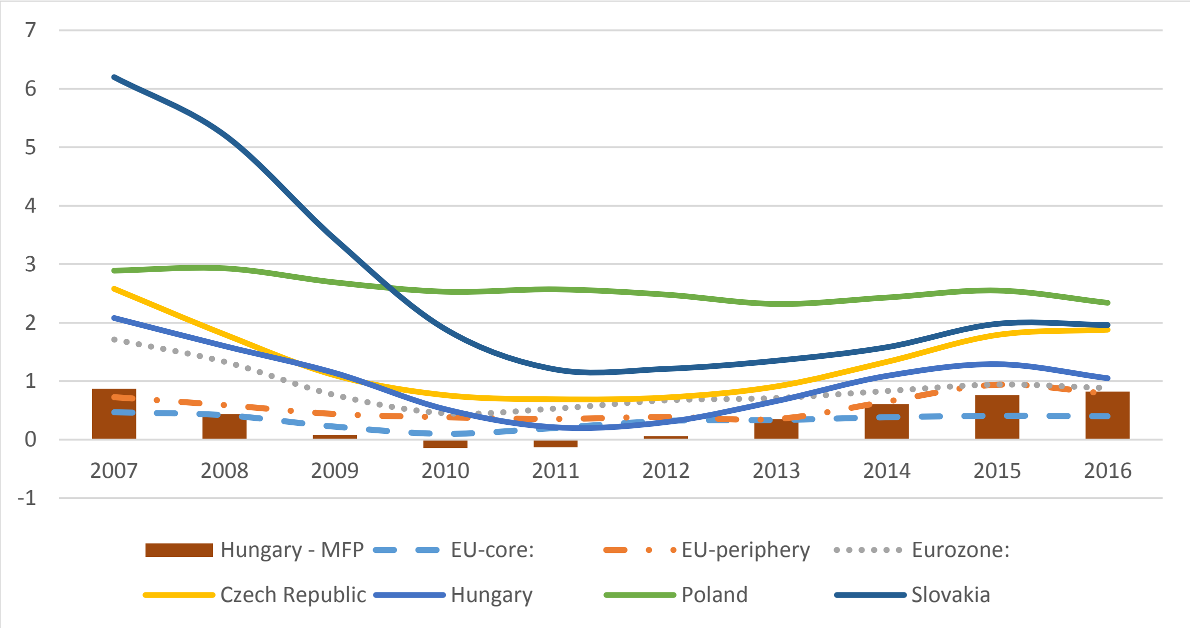


Source: Eurostat.

It is telling that the trend of productivity has been being by far below that of the levels of other Visegrád countries since 2010 (*Chart 6*). What is more, if one take a mere glimpse into the trajectory of multifactor productivity (MFP) – considered as a relatively good proxy for capturing innovativeness driving efficiency gains –, Hungary was a home of extremely deteriorating MFP right after the new government took office with 2010.[19] The protracted and troublesome recuperation of productivity nourishes that the country has been struggling with offering a perspectivic and fertile ground for creative, skilled and agile talents as well as with enhancing the supply side of the human capital.[20]

To the latter, beyond the exodus of firms feeling additional uncertainties in the Hungarian socio-economic system due to its economic governance[21], the ever-more withering issue of exporting talents by causing huge shortage of (skilled) labour in Hungary has also become a hot topic.[22]

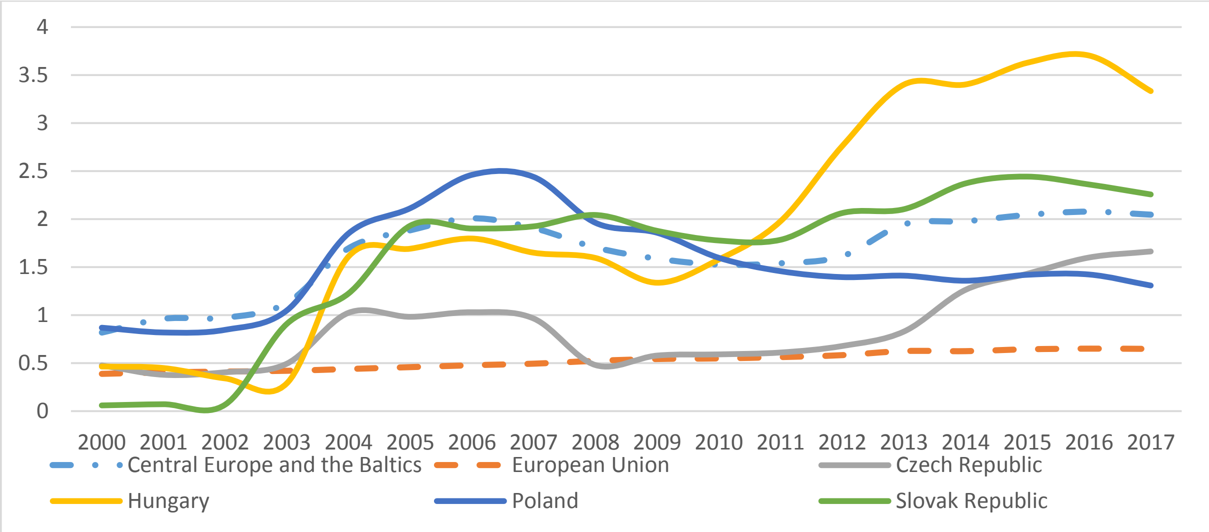
Chart 6. Trend labour productivity growth in selected countries and country groups (% changes)



Note: multifactor productivity (MFP) reflects the overall efficiency with which labour and capital inputs are used together.
Source: OECD Forum on Productivity Database, 2019.

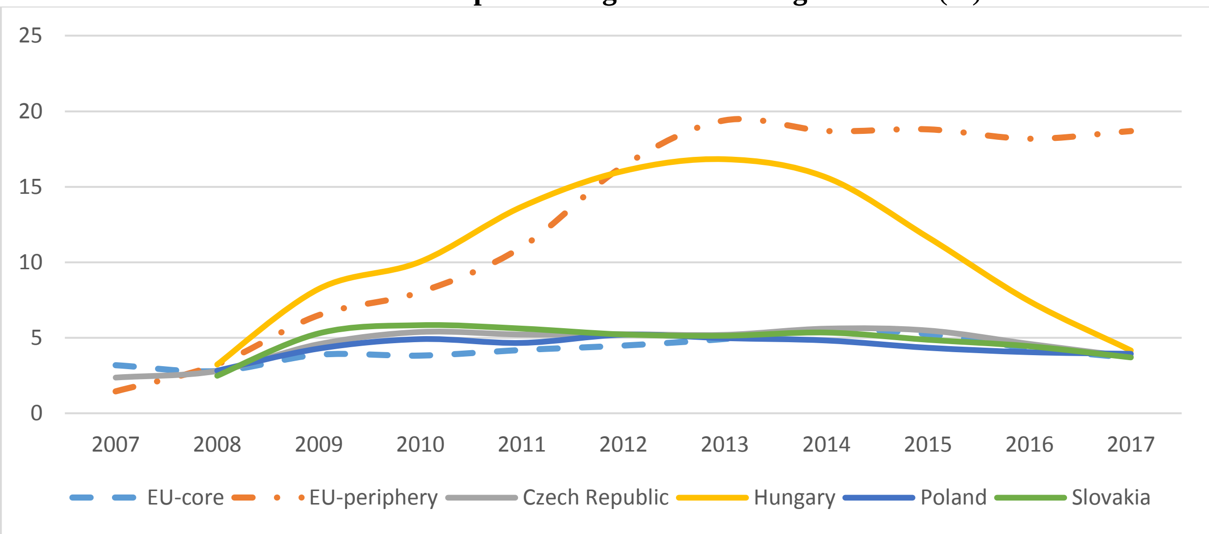
More and more people left Hungary and one of the crucial earmarks of this movement is the skyrocketing personal remittances of expatriated workers (*Chart 7*).[23] Employee income of Hungarian residents working abroad – as a GNI-increasing item – shows a more dynamic pace than workers' remittances. From 2009 to 2010, it increased by 26 percent and then by 2010 by 22 percent. By 2012, the rate of growth was 47 percent largely due to the fact that many Hungarian citizens worked abroad. The remittances of Hungarians working abroad have been growing steadily since 2010 (it accounted of approx. EUR 18 million in 2010, while it was EUR 63.4 million in 2015). And, despite all rumors, the lion share of these amounts has not been invested in innovation, in modernizing businesses, or invested in training which could otherwise have contributed to enhancing competitiveness.[24] Instead, the bulk of those remittances are still for repaying credits and loans. In other words, EU served as a cushion in the sense that it offered (and is still offering) for many Hungarians an escape to mitigate indebtedness (i.e. opportunity for agile ones to work abroad in the EU) as the build-up of an extraordinarily high level of non-performing loans necessitated (*Chart 8*).[25]

Chart 7. Personal remittances, received (% of GDP)



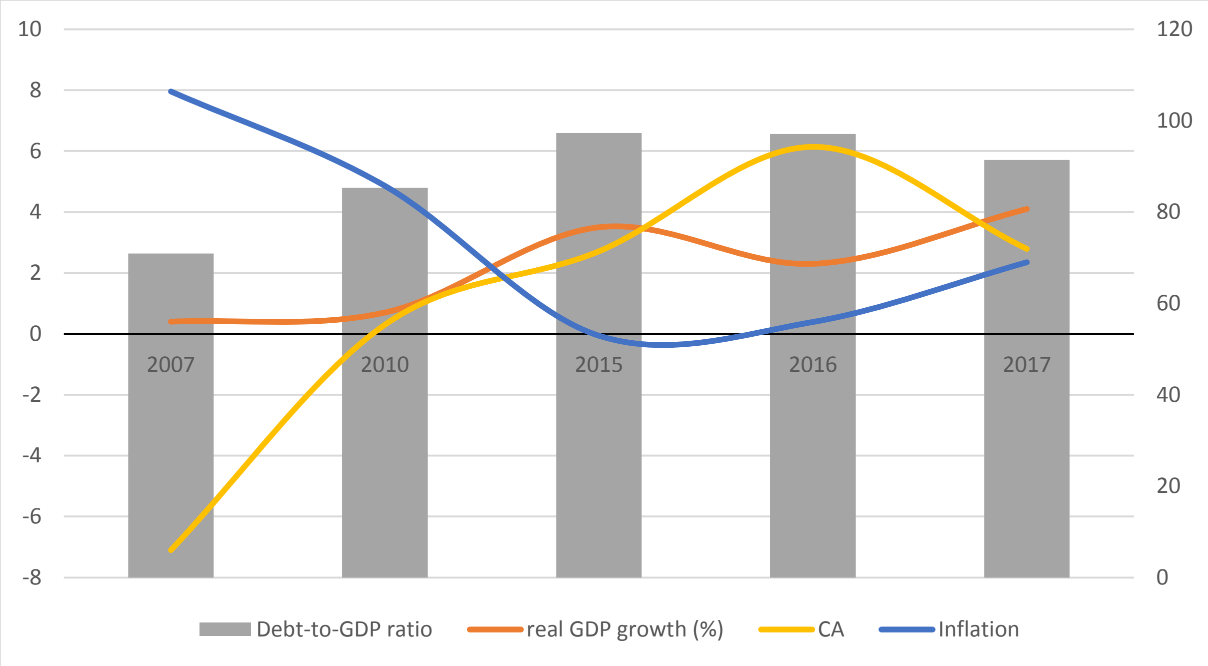
Source: World Development Indicators, World Bank.

Chart 8. Bank non-performing loans to total gross loans (%)



Source: World Development Indicators, World Bank.

Chart 9. Trends in macroeconomic fundamentals



Note: right axis captures the gross general government debt in percentage of GDP.
Source: OECD Stats.

Even though some macroeconomic fundamentals, at first glance, seem to be on right tracks (e.g. debt-to-GDP ratio reaching an inflexion point, low inflation in 2014-2016, surplus in current account balance, relatively high GDP growth[26], as *Chart 9* depicts), something deeper is amiss since the same indicators can be seen as symptoms of many shortcomings. *First*, fighting against debt once became a guiding principle of the government mainly because of a fear of future interference by Brussels in the Hungarian economic policy engineering in case of serious financial events.[27] The government was thus by all means to avoid this possibility (including the potential suspension of EU funds streaming into the country) mainly by one-off measures in stabilizing deficits (e.g. record high VAT, special taxes on certain sectors, and by the 2014 election, the deficit fell close to the threshold set in the Maastricht Treaty). Let us add immediately that there was more or less only one exceptional sphere that remained intact: the public sector itself, of which size in terms of public sectors workers as well as the amount of budgetary personal allowances have increased further to unprecedentedly high levels after 2010.[28] The latter development reflects to a certain extent that the new government was to establish an increasingly one-sided dependency of many on the public sector. *Second*, the historically low level of inflation in 2014-2016 reflected increasing uncertainty (i.e. lowering investments and dispiriting outlooks, which was admittedly the case in the convergence programme of Hungary)[29], and similarly, current account surplus means that Hungary finances abroad because of the alarming feature of the domestic economic environment and its governance (i.e. external imbalances given by worsening net international investment position[30]).

In addition, with respect to the Hungarian commitment to Eurozone entrance, it seemed that the country was approaching Maastricht criteria in an acceptable way, and yet, not only its political commitment was lacking (i.e. not stepping into the ERM II) but the European Commission (2014) itself revealed some important backlogs in terms of legal compatibility. Furthermore, exchange rate stability was not among the priorities of the government as the rate followed a rather volatile path by implying growing uncertainty.[31] Apart from this development, since the ruling government re-created the constitution in 2012 by literally stipulating that Hungary's official currency is the Hungarian Forint (i.e. it is not possible to make a referendum about the introduction of the Euro), Eurozone accession requires a constitutional amendment a two-thirds majority vote. With the benefit of hindsight, the Hungarian economic governance was no longer just neutral to the issue of Eurozone entrance but it made a runaway even further.[32]

3.2.2 Further from Reality – Simulacrum

Behind the curtain of the trends juxtaposed so far was a U-turn. To be clear, the Hungarian U-turn does not mean marching into socialism in a Schumpeterian way, and it is not a representation of the Hayekian road to serfdom, either. Instead, it is *a configuration of market oriented plebiscitary leadership governance interspersed with a good deal of simulacrum,* in other words*, post-factual governance with extensive nationalism as well as macroeconomic populism potentially at the expense of an EU-congruent democratic development*.[33]

Since nothing develops in vacuum in the hyper-globalised world economy, the Hungarian path emerged to a large extent logically under the auspices of the runaway phenomena described earlier. The main building blocks of such system were as follows:

- *First, unorthodox economics as well as economic governance not by bolt from the blue*. With the runaway phenomena of modern economics departing from reality together with the cascading complex runaway-like challenges described earlier, it was no coincidence that Hungary could step on a rather swampy road in addressing economic challenges by ideologising a blend of liberalisation and illiberalisation. As the distinguished professor at the Chicago University, Deirdre Nansen McCloskey recently emphasised (McCloseky 2015, 2016), ideas and ideologies were always the great drivers of changes, perversely, the global runaways described paved the way for such idea/ideology to prevail in Hungary by leading to gargantuan changes (U-turn). At the level of governmental and central bank communications, unorthodoxy meant structural reforms strictly without austerity measures (flat personal income taxation, special taxes on particular sectors). A range of governmental measures were introduced bearing to some extent the stamp of autocracy by being powerful enough to escalate uncertainty and critical instability in the Hungarian socio-economic innovation ecosystem on the one hand, while making the leading elite to be in an unshakable position and not voted out of office on the other.[34]

- *Second, economic governance miring into post-factualism.* This shift ranged from a fight for economic freedom through ill-based communications of governmental achievements. As far as the economic freedom war[35] is concerned, the governmental communication was imbued with a kind of anti-globalisation atmosphere, which is not a perspectivic strategy in the light of the irreversible nature of globalisation (i.e. wanting to stay out from globalisation would equal with a self-reliance without sharing international knowledge to spark innovation dynamism and real socio-economic development). Moreover, Hungary relies asymmetrically on the European Union since 97 per cent of all public investments in the country has been financed mostly via EU Funds. Not to mention that Hungary's new-fangled economic policy, officially referred as unorthodoxy, could not have delivered any achievements if Hungary had no received significant amount of EU funds (e.g. EU funds streaming into Hungary helped the Hungarian foreign exchange reserve to rise by providing a room for transforming the gargantuan volume of households' credits denominated mainly in Swiss Franc during November 2014 and 2015 by the Hungarian Central Bank).[36] Thus, turning against Brussels (or whoever else from abroad) is based on post-factual beliefs. Similarly, foreign policy made a shift in its orientation (the so-called Opening to East strategy) that has not led to the desired outcomes so far.[37] As for communication, the Hungarian government has been publishing sugar-coated messages in the state-owned media (e.g. experiencing historically low levels of inflation as real governmental as well as unorthodox monetary policy achievement, which, in reality, implied frozen or delayed real investments; announcing that Hungary reached the state of full employment, which was mainly due to the increased public employment and compulsory working[38] associated with growing emigration; communicating the governmental action of utility price cuts as a real development in the interest of Hungarians, while this step actually led to prices being above that of the world market prices for energy carriers).

With a complexity view, by knowing that supercritical states entailing huge eruptions (crises) always develop in a seemingly peaceful (low volatility, low fluctuation) environment by boosting the risk taking willingness of people within it, the Hungarian runaway guarantees volatility in the development of the European integration as a whole. The European integration has always been forged via crises, to the same token, the Hungarian runaway acts as a mechanism for the EU to become more alert, more efficient and resilient. It can be illustrated at least by two recent developments. (i) Growing intention to vigorously checking the state of rule of law in member states in the interest of an EU-values-congruent development (e.g. as the so-called Sargentini Report indicated in case of Hungary[39]). In this spirit, in April 2019, the European Parliament adopted a new draft law stating that governments interfering with courts or failing to tackle fraud and corruption will risk suspension of EU funds.[40] (ii) Proposing a Reform Support Programme[41] with the aim at incentivising even non-euro-area Member States to design and implement far-reaching (often painful) structural reforms in facilitating convergence, competitiveness and the resilience of the EU as a whole.

Albeit these developments imply that the phenomena of *decreasing sensitivity* does not last forever, and it may even suggest that the issue of when and how to enter the Eurozone will also return; there are at least two inertia forces acting against the Hungarian Eurozone accession: 1) uncertainty still lingers around the prospect of Eurozone reforms that serves as a perhaps even legitimate reference base of the Hungarian government postponing a decision about the introduction of euro (i.e. the reform sentiment and political willingness to reform seem to have lost its momentum by the end of April 2019)[42]; 2) fostering (politically) painful structural reforms is not necessarily compatible with the Hungarian economic governance miring into post-factualism and unorthodoxy. Consequently, it is very likely that euro adoption is not in sight for Hungary.

4. Conclusions

In this study we followed a more inconvenient line of thinking namely that the Hungarian process cannot be explained solely by its internal developments rather its runaway phenomena shall be embedded into the global context. By now the world economy has become an arena of interplaying runaway phenomena such as the dominance of far-from-reality economics as well as the runaway of complex challenges making economic governance ever-more limited.

Importantly, the configuration of global runaways played a key role in the building up process of simulacrum, a concept developed by Jean Baudrillard, which seems to have had a powerful impact on the Hungarian governance as a Member State of the European Union. Hungary shifted from EUlogy to nEUtrality towards Eurozone accession and went even beyond neutrality by showing the symptoms of simulacrum (i.e. the dominance of unreality, indifference in the socio-economic sphere) being heavily fuelled by international configuration of runaway phenomena. Our line of thinking can then lead to at least two important lessons both for economics theory and economic governance.

As for economics theory, there is really a need for a new unorthodoxy in economics. Let us add immediately that it is not a kind of unorthodoxy as Hungary imagined so far, but as Neil W. Chamberlain suggested in 1960 because "[…] old perceptions of how our economy functions do not provide adequate clues for unraveling the mysteries of current and evolving problems." (Chamberlain 1960:31). Without pursuing a complexity based economic approach[43], without addressing individual and system-wide interactions (at least most of them), national and especially supranational level of economic governance and its macroeconomics backing may indeed be doomed in understanding more accurately what is really going on in the world economy (e.g. the Hungarian case cannot be explained by the sheer concentration on its domestic policies and macro trends in addressing its runaway phenomena after 2010). Without a more complexity oriented economics (i.e. taking into account that we are living in an age of multiplicity interspersed with simultaneity, growing networks, asymmetrical interdependency, globalization of side-effects, positive and negative feedbacks with non-linear changes, fluctuations on microscale having impacts on macroscale, and cumulative causation are in the cards) policies tend to fall short in becoming the instruments of a sustainable development value-congruent governance. As a corollary, governance becomes more deformative by opening ways for simulacrum.

As for economic governance at EU level, *addressing simulacrum is a must*. We argue that the broadened thesaurus of manipulation-oriented tools and the populism as well as nationalism are not themselves the main problem, rather, the problem becomes serious when people do not care about any longer whether politicians intend to be accountable by pursuing and seeking factualism or they do not. The Hungarian case sheds a new light on this issue. It is our hope that the Hungarian case, within an era pervaded by runaways described, is not working in line with what complexity science conveys, namely that in a complex living system[44], such as the European integration, small differences as well as fluctuations that once appeared to be insignificant – if they are emerging in the right wider circumstances – can flood the whole system by creating a new orientation, potentially, a new order. It is therefore the responsibility of the European level economic governance to counterbalance such seemingly insignificant forces by: (*i*) *Fostering mission-orientation (or strategic state*[45]*) in signalling the EU's ability to reinvigorate growth and fair development*. For example, mission No. 1: harmonising the real economy and the financial sphere by fostering positive green finance to address unsustainable credit consumerism to transform the economic model via breaking secular stagnation; mission No. 2: reducing the ever-widening gulf of inequality, while taking into account environmental constraints etc. (*ii*) *Catalysing internal commitment by eliminating the missing fear from fear in the Eurozone and in the entire European Union as well*.

This is to foster the engagement of Member States in implementing structural reforms that are making the European integration process sustainable and resilient. For instance, imposing sanctions if needed in accordance with the article 126(8) of the Treaty on the Functioning of the European Union; winding up the illusion of cheap money – providing funds in a pulse basis rather than permanently by linking them to the respect of EU-values and real socio-economic development(!); progressing with the Reform Support Programme including the Convergence Facility for non-euro-area Member States as well; going beyond intergovernmentalism when needed, but pursuing no-bailout principle;[46] and establishing mechanisms shedding lights for the wider public in a runaway Member State on the *cul-de-sac* nature of its governance (clear communication, empowering citizens by pursuing *social and solidarity economies* in line with the plans of the European Economic and Social Committee[47] etc.).

There can be no doubt whatsoever about the importance of homogeneity across the Member States within the Eurozone as the theory of optimal currency areas suggested for a long time.[48] Nor can there be any doubt about the potential economic losses when it comes to euro adoption in case of Hungary. And yet, belonging to the EU (including the EMU) is not only about economic benefits, and since the Eurozone architecture will always be a constantly evolving creature of the common[49], the wait-and-see behaviour of Hungary with unsustainable and uncertainty-triggering economic governance is therefore nothing but a pyrrhic victory. By keeping in mind the current economic condition of Hungary, it becomes crystal-clear that euro adoption is more of a political question than an economic one. In other words, *Eurolessness is an integral part of the national policy*. Of course, we cannot say anything peremptorily about the future of Hungary toward the Eurozone because of the basic indeterminism driving complex systems. Still, since the development of the human brain relies on the surrounding environment, the Hungarian euro and Europeanisation depend on the European Union (and its answers to runaway phenomena) in a similar way.

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Notes

[1] See: Government of Hungary (2018, 2019).

[2] According to the new criteria suggested by the Central Bank of Hungary (2017), euro should be adopted when 90% of the average development level of the Eurozone has been achieved (a matter of a minimum of three decades). See: https://bbj.hu/economy/hungary-needs-new-euro-criteria-says-mnb-deputy-gov_138341 Accessed on: 29.06.2019

[3] There are social and economic runaway phenomena as well such as the drug and alcohol consumption (275 million drug users around the globe, 6 persons die in every minute due to alcohol consumption related diseases), civilisation diseases (e.g. obesity and diabetes owing to excessive carbohydrate intake), heightening loneliness and depression due to intensive and 24/7 availability thanks to the Internet and ICT devices, the runaway of the financial sector acting like a parasite of the real economy etc.

[4] Such questions *inter alia* are as follows: Shall we exclude Greece from the Eurozone or bail it out from the debt crisis? Shall we expand EU budget or create an emergency fund to be functioning as a transfer mechanism thereby crisis-ridden countries can be bailed out in serious times? Which one is more important, fiscal or monetary policy in crisis management? Shall governments intensively support the diffusion of the digital economy irrespective of the fact that the growth of total factor productivity has been declining for decades? Shall we focus budgetary resources on developed or less developed regions?

[5] Evolutionary economics pointed out that fluctuations are endogenous, see Fatás-Villafranca et al. (2012).

[6] See: Samuelson and Nordhaus (1998, xxvii). What is more, due to ever-more increasing complexity, believing in "enduring truths" (Samuelson – Nordhaus 2009: xix) in economics does not mean anything but a narrow

vision. Some conventional wisdoms are no longer valid. For instance, in the past, the financial sector served the real economy performance by functioning as an effective intermediator, today it is a self-sustaining parasite; or, previously, if increases in employment were coupled with rising average wages, or at least with growing public revenues, today this trend cannot be identified; once productivity increased, it was accompanied by an increase in wages, today it is not necessarily true, either. For more on complexity and economics, see: Colander et al. (2009), Colander – Kupers (2014), Kirman (2016), or Kovács (2019 - forthcoming).

[7] In 2011, Christopher Sims and Thomas J. Sargent, Nobel Laureates for their empirical research on cause and effect in the economy, were asked at a reception about what their models say about the crisis of 2008, and the answer was nothing but sheer silence. It clearly indicated the limits of mainstream economics to understand what is really going on. For more on the failure of modern economics, see: Earle et al. (2017).

[8] E.g., during the great moderation, when economic fluctuations were low and self-correcting (Blanchard 2014), lending and borrowing were on rise (e.g. increasing number of credit cards in use, rise in the amount of lending to companies without putting covenants into their loans, spectacular increase in sub-prime mortgages being securitised etc.) by leading to a bigger boom, and then, to a deeper recession due to excessive indebtedness.

[9] E.g.: the share of voters trusting the government to put national interests above party interests all or most of the time fell from 47 per cent in 1987 to 33 per cent in 1992 to 28 per cent in 2001. See: Giddens (2009:1001).

[10] The process of shrinking middle class within economies has been deeply analysed by many, see for instance the work of Autor (2019). In the period 1820-2013, Milanovic (2016) demonstrated that the middle class within countries has been hollowing out, while the global middle class has been more and more perceptible. The former process undermines political stability and creates a fertile ground for more authoritarian and nationalist governance because of the weakening functions of the middle class: they do care about checks and balances in a country because (i) they do not want to sink deeper within the society and (ii) they do not want the thin elite to be fully capable of utterly influencing their opportunities and outlooks.

[11] For example, Starmans et al. (2017) found that people in the US think that the wealthiest 20% of households owns approximately 60% of the total wealth of households, in turn, they would accept a rate of 32-33% as a fair one. In reality, the wealthiest 20% owns more than 84% (!). It conveys that a huge gap exists between perceptions of inequality and reality (what is more, between perceptions of inequality and demand for corrective actions, as OECD (2018) revealed). Similarly, a survey in French in 2018 showed that the perceived share of Muslim population was thought to be around 27%, while the actual share is only 9% (Ipsos 2018).

[12] See: Baudrillard (1981). For example, at the end of the 2016 US presidential election campaign, the number of fake news posts on Facebook outnumbered that of the real ones with respect to the election. See: Allcott and Gentzkow (2017).

[13] Think of a burning candle in a dark room which is clearly perceptible, but as soon as one turns the lights on and the room becomes brighter and brighter, the candlelight becomes almost unnoticeable.

[14] This happens despite the warnings coming from serious places, e.g. Nobel laureates from all over the world. See: https://www.theguardian.com/commentisfree/2019/jan/25/fight-europe-wreckers-patriots-nationalist Accessed on: 29.06.2019.

[15] It is still debated whether the elements of the Bokros-package proved to be harmful for grounding innovation dynamism in the longer run since it highlighted the importance of wage-based competition with policies freezing any wage/salary increases at that time. By now, with the age of Digital Economy, the so-called wage-based competition paradigm seems to be obscured and the shortage of labour being already corpulent in Hungary requires radical wage increases.

[16] The relatively outbalanced budgetary management was still vulnerable, and went into the oblivion after 2000 since opportunistic political behaviour dominated election periods by embracing various populist promises and actions, just to name a few: (i) new housing subsidy system initiated by FIDESZ government; (ii) 50% salary increase in case of public sector workers during the Medgyessy administration; (iii) one-off payment for pensioners; (iv) making the minimum wage tax-free; (v) introducing the institution of 13th month pension; (vi) inducing a shift of the Forint's trading band in 2003; (vii) VAT reduction during the Gyurcsány government; lacking transparency or creative accounting techniques as well as inadequate considerations over PPP constructions etc.

[17] In German, „08/15" is a slang meaning run of the mill or nothing outstanding in terms of quality and rarity. The term originates in military when the name of the first standardised machine riffle was 08/15. So, 08/15 refers to something that is very common.

[18] Let us add immediately that it held in case of many other EU Member States, see: Csaba (2019).

[19] Despite the huge volume of incoming EU funds dedicated to the development of small and medium sized enterprises (SMEs), a paper by the Hungarian Central Bank demonstrated that such funds did not have a significant effect on the labour productivity of SMEs in the period 2007-2013. See: Banai et al. (2017).

[20] According to IMD World Talent Ranking, Hungary has become a net talent exporter, out of 63 countries ranked, the positions in case of Visegrád countries were as follows: Czech Republic (38), Hungary (54), Poland (34) and Slovakia (46); while one year later Hungary still lagged behind the group with its 49th position.

[21] Examples for such exodus are many, e.g. Elqoteq, Cora, Bricostore, Nord Sea, Electroworld and Saturn were those that decided to leave Hungary in 2011. In April 2014, Samsung closed its factory located in Göd, while Nokia and Flextronics fired altogether 4,000 employees. By 2015, Michelin closed down its Budapest site by eliminating the jobs of more than 510 people.

[22] Another proof of increasing uncertainty after 2010 is the strengthening intention among the Hungarian population to migrate abroad. Between 2010 and 2013, nearly 400,000 Hungarians decided to try to settle abroad. This was entailed by a series of negative effects, as evidence suggests, there has been a spectacular jump in the number of people living in poverty or social exclusion (the volume of 34.8% was the fourth largest one in the EU28 in 2013, being close to the height of the Greek number). This value increased by 100,000 from 2012 to 2013, according to Eurostat. It is hardly by chance that, in recent years, Hungary shows one of the most outstanding real wage growth dynamics in the Europa and Central Asia region due to the pressure on increasing wages for people still willing to stay. According to ILO's Global Wage Report 2018/2019, the growth rate of real wages was 4.4, 5.7 and 10.2 in 2015, 2016 and 2017, respectively. See: ILO (2019:119).

[23] It is therefore an open and shut case that the dependency of households on remittances has been growing, as it was demonstrated by Kajdi (2018) in a journal published by the Central Bank of Hungary.

[24] As Theodore W. Schultz emphasised in his Nobel Prize Lecture, enhancing the qualitative side of the human capital is even more important than the sheer increase in the number of labour force (Schultz, 1979). Bearing in mind the intensifying shortage of (skilled) labour via brain drain coupled with ever-more heightening inequalities and impoverishment – it takes 7 generations for a child born in a poor family in Hungary to climb up to the middle class, while there is a comparatively surpassing share of well-being deprivations, with 12 out of 18 deprivation indicators ranked in the bottom (most deprived) third of OECD countries (OECD 2017) – thus the qualitative side of human capital is at stake in case of Hungary.

[25] Importantly, this mechanism helped the government to show that the increasing trend in the total number of people at risk of poverty or social exclusion was mainly stopped by 2014/2015. According to breakdown of this indicator prepared by Eurostat, one can claim that the younger, more skilled and more mobile generations (being more capable of working abroad) were those in which the number of people at risk of poverty and social exclusion could dampen while the numbers for those being from 55 to 64 years, 65-74 years as well as over 75 years have been rising. Of course, due to EU transfers, Central Bank of Hungary had more room for addressing credits denominated in foreign exchange by bringing down non-performing loans later on.

[26] Let us add immediately that Hungary plunged into recession again by 2012 (according to Eurostat, real GDP growth rate was -1.6% in 2012) partly because of the culmination of the Eurozone crisis (Euro area's rate was -0.9%) and partly due to the new governance thinking as well as actions that injected additional uncertainties into the Hungarian socio-economic innovation ecosystem (i.e. the growth rate was still anaemic by 2013 when the international arena was by far in a better condition implying that internal forces can explain more the Hungarian processes). See more on this issue by Kovács (2015b).

[27] See: Trichet (2011).

[28] Data stemming from the national budget and discharge procedures exemplify that plastically. In terms of the number of people employed at budgetary institutions more than doubled between 2010 and 2016 (it was 251,000 in 2010, while it reached 556,000 in 2016). If one also takes into account the state run companies, the number of the public sector workers can even exceed 1-1.2 million in a country populated by 9.7 million people. Similarly, the amount paid out as budgetary personal allowance also underwent a spectacular increase (it was EUR 3.5 billion in 2010, while it accounted for more than EUR 6.8 billion in 2016).

[29] Inflation rate was even negative between September 2014 and April 2015, see Eurostat. See more on the macroeconomic instability in Hungary by Brůna and Durčáková (2012) from the point of view of exchange rate policy.

[30] See: European Commission (2014).

[31] According to ECB statistics, EUR/HUF exchange rate was 270 in the end of 2009, it hovered around 320 by 2012, it then approached 298 by 2013, while it was again at a historically high level of 324 by June 2018. At the time of writing this chapter, EUR/HUF rate is still above 320. Not only *de facto* economic policy measures were responsible for such uncertainty-increases, but also ill-conceived and clumsy verbal interventions by policymakers that affected negatively investors' confident (e.g. executive vice president of the ruling party FIDESZ speaking about potential bankruptcy in June 2010; unsuccessful negotiations with the IMF by 2012 and there was not only a substantial difference between words and deeds regarding wanting an IMF deal, but the statements were not compatible with each other in time, either).

[32] Partly because of the blurred picture of the ongoing modernisation of the institutional architecture of the Eurozone, which, of course, represented and still represents a factor of uncertainty. All things considered, there is still an impression that not entering the Eurozone in case of Hungary is more like a political choice rather than an economic determinism. See Dandashly and Verdun (2018) about the *laggard by choice* mentality in case of Hungary.

[33] Kornai (2015, 2017) showed that, since 2010, the Hungarian government changed course by shifting from a post-communist and EU-congruent democracy towards a post-communist and EU-incompatible autocracy. By plebiscitary leadership governance we mean a governance referring perpetually to the people's will when it comes to initiating various actions, but its main goal is to shape that will to its own purposes. See Urbinati (2014).

[34] Without being exhaustive, the measures were as follows: abolishing Hungary's Fiscal Council in its original form; ad hoc changes in the constitution then creating a new one; the practice of reframing the authority of the Constitutional Court by adapting it to the forthcoming and planned laws as well as regulations; introducing special taxes on sectors like energy, telecommunications, retail, and banking by discriminating foreign players in the Hungarian economy; breaking the sacrament of private property by nationalising private pension funds; introducing flat income taxes being more beneficial for high earners than the wider public since the contribution of the top tenth of the population to total tax revenue fell from 61% to 42% between 2010 and 2013 (Tóth – Virovácz 2013); serious centralisation in case of health and education, while reducing the autonomy of higher education and cutting its budget by HUF 84 billion between 2010 and 2013; introducing stricter regulations on media; and establishing and adopting Hungary's new Constitution (*Fundamental Law*), which among others limits the authority of the Constitutional Court and reduces the scope of future governments without two-thirds majority. In 2014, the Hungarian prime minister explicitly expressed its intention to move toward an '*illiberal democracy'*. Beyond the perceptible turn-away from the involvement of civil actors in policy-making and in politics as Szalai (2018) demonstrated, independent media also suffered from serious attacks (e.g., as Freedom House documented, Hungary's largest independent daily, *Népszabadság*, which happens to be the one that had previously uncovered a string of scandals involving the ruling party, was unexpectedly suspended in October 2016, available: https://freedomhouse.org/report/freedom-press/2017/hungary accessed on: 29.06.2019). Due to the increasing concentration of Hungary's media, Hungary was ranked 87th in the 2019 World Press Freedom Index. An increasing share of the national budget has been spent on communication rebelling against Brussels, to communicate the lurking and observable dangers related to the migration crisis, etc. (e.g. even in 2018, approx. EUR 150 million was spent on such communication). In 2018, the approval of the amendments to the Labour law (Slavery Act, i.e. Overtime Act, which has become effective as of 1 January 2019, meaning the possibility to raise overtime hours from 250/year to 400/year on a voluntary basis, overriding even the collective agreements with trade unions), reflected the pressing need for the government to alleviate the labour shortage problems in the sake of multinational companies. Besides, the Hungarian Parliament also passed a law on establishing a new system of administrative courts under the firm control of the Minister of Justice, meaning that a separate court system will be responsible for decisions in which Hungarian authorities are affected or involved by endangering judicial independence (the introduction of such system has been postponed for an indefinite period in May 2019). Attacking well-renowned higher education institutions together with the sanctuary of Hungarian science (Hungarian Academy of Sciences) by removing its financial autonomy triggered a series of demonstrations in the first half of 2019.

[35] The term *'fight for economic freedom'* was repeatedly used in governmental speeches (e.g., a speech with respect to the IMF credit agreement delivered by the Minister of the National Economy in the Hungarian parliament on 21 November 2011).

[36] According to the Hungarian Central Bank's balance of payments statistics, between the EU accession of 2004 and June 2018, Hungary received approx. EUR 42 billion in a form of EU transfers. Bringing down the share of non-performing loans was also the case in point. Although the Convergence Programme of Hungary, submitted in April 2019 to the European Commission, triumphantly cites that Hungary was the 8th best place to invest according to the ranking of the US Site Selection 2018, EU funds played a major role in such achievement. See: Palócz et al. (2017).

[37] See: Kozár and Neszmélyi (2017).

[38] By absorbing almost 80,000 people between 2008 and 2013.

[39] A report on a proposal calling on the Council to determine, pursuant to Article 7(1) of the Treaty on European Union, the existence of a clear risk of a serious breach by Hungary of the values on which the Union is founded. (2017/2131(INL) Committee on Civil Liberties, Justice and Home Affairs Rapporteur: Judith Sargentini. Available: http://www.europarl.europa.eu/doceo/document/A-8-2018-0250_EN.pdf Accessed on: 29.06.2019.

[40] Manfred Weber, leader of the European People's Party (EPP) in the European Parliament and candidate for the next president of the European Commission, in April 2019, put into perspective a new rule of law mechanism safeguarded by a transparent, independent body, shielded from political pressure in equally assessing all member states by checking the independence of the judiciary, freedom of the press, and the fight against corruption.

[41] See: EC (2018).

[42] Bénassy-Quéré et al. (2019) gave a very good account on the disappointing reform will regarding the Eurozone.

[43] See Kirman (2010) or for a more detailed discussion on complexity economics, see Kovács (2019 – forthcoming).

[44] See: Prigogine – Stengers (1986).

[45] See: Aghion – Festré (2016).

[46] As the Greek case illustrates, the key to the development of Greece can be the sobering, master role of integration, which has already started by the EU actually taking over the role of governance. ESM (European Stability Mechanism) means a fiscal puffer, but not for member states facing continuous indebtedness. This is in line with the recommendation of German Council of Economic Experts (2013) on Maastricht 2.0.

[47] See the action plan published by the European Economic and Social Committee (2017). Recent evidence suggest that simply just communicating the truth (e.g. correct numbers about socio-economic development) is not sufficient enough to win the battle against post-factualism (Barrera et al. 2018). If incorrect facts are communicated by a charismatic leader (or a group having a charismatic leader), their full narrative must be debunked by a fact-based alternative narrative proposed by a similarly charismatic leader. In the light of the current Hungarian state of affairs with the highly fragmented opposition parties without having a unifying charismatic leader, this is why supporting the grassroots (civil society) is of paramount importance.

[48] This was partly resonated in the recent Polish development with respect to euro adoption, where the president of the government party sent a draft statement to the most important leaders in the Polish parliamentary blocs by asserting that there will be no euro adoption in Poland as long as the country reaches the economic level of Germany. See: http://www.radiopik.pl/2,77681,jaroslaw-kaczynski-gosciem-konferencji-byc-polak Accessed on: 29.06.2019.

[49] In April 2019, Prime Minister Orbán argued against euro adoption mainly because no one knows where the European Union and the Eurozone will develop in the next period.

THE HUNGARIAN EUROLOGY – THE ROAD TO PERDITION?[i]

1. Introduction

By 2020, Hungary has become a land of 'despite'. Despite the fact that over the last 10 years the Eurozone economic governance has become much stronger than ever before due to regulatory and institutional changes, despite the observable commitment of some post-socialist Member States of the European Union (EU) to introducing the common currency (euro) – Croatia and Romania envision 2023-2024 respectively as a date for potential euro adoption –, and despite the relatively good economic condition of the country in terms of meeting the accession criteria, the Hungarian euro is not even in sight in the mindset of the ruling cabinet. The Eurozone accession is probably one of the most intriguing and yet not sufficiently discussed issues in the relationship between Hungary and the EU.

After the regime change, the Hungarian socio-economic development was hallmarked by the perceptible commitment to the accession to the EU and later to the Eurozone, in accordance with the necessary obligations, to the Eurozone when the country's economic condition suits to such a historical step. Paradoxically, although Hungary had been in a relatively good economic shape by 2010 when the repercussions of the 2008 financial and economic crisis hit in (Kovacs 2014), since then, its political and thus socio-economic development has been, to a large extent, experiencing a certain derailment from its original purpose to become a member of the Eurozone. The Hungarian governance seems to have made a conscious *U turn* (Kornai 2015) from that aim by *manipulating the consciousness of the wider public* about this derailment. There is no singular reference to Eurozone accession in official documents of 2018-2019 submitted to the EU (see Government of Hungary, 2018, 2019). The new criteria, introduced by the Hungarian Central Bank, namely that the euro should be adopted when 90% of the average development level of the Eurozone is achieved (which can be a matter of a minimum of three decades), is unequivocally signalling the unwillingness of the government to introduce the euro.[ii]

The main aim of this paper is to decipher the major trends and causes of this Hungarian path without forgetting the influential global phenomena. We argue that the Hungarian road to perdition in terms of eurozone accession cannot be understood by neglecting global trends. *Section 2* reveals how Hungary turned first from eulogy to neutrality, and then has gone even beyond by incorporating the impact of global runaway phenomenon being mirrored in the Hungarian development path as well. *Section 3* conveys some lessons both for economics theory and economic governance alike.

2. The Hungarian Eurology: Phases of Eulogy, Neutrality and Beyond

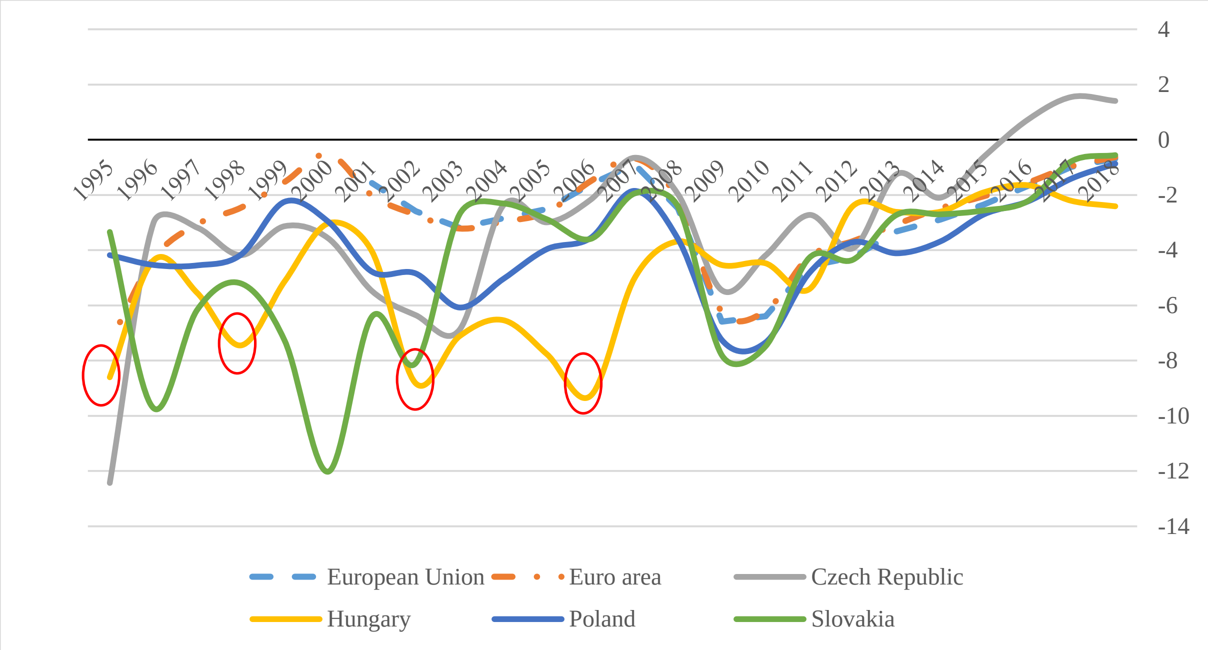
2.1 EUlogy – More than an Illusion

Hungary was thought to become a part and parcel member of the EU and then that of the EMU by building on the grounding conditions established along the years after the regime change. The section argues that the belief about an effective Hungarian path towards a deeper integration into the EU (EMU) was more than an illusion because of some sobering moments implying commitment to Europeanisation.

2.1.1 The Search for a Defending Clique – Becoming a '08/15' up to 2004

Metaphorically speaking, the most wonderful muse for Hungary to be committed to the EU were both the socio-economic hardships after the regime change and the promises of the European integration – peace and prosperity for all onto the manner of '*Alle Menschen werden Brüder' –*, it was to a large extent true for the entire European integration which has been forging in and being driven by crises, as well. It seemed to an external observer that the prospect of EU accession had more or less anchored the Hungarian governments by triggering some, not necessarily enough, sobering moments. Progresses were made on the one hand, but various processes were then reversed on the other, and the so-called political budget cycles[iii] (i.e. running high deficits and indebtedness before elections in a way of fiscal alcoholism) continued even after the EU accession of 1 May 2004. Public finances were repeatedly in quagmire in case of Hungary since the regime change of 1989/1990. Anyway, that highly volatile nature represented the series of re-emerging sobering from fiscal alcoholism (*Figure 1*).

Figure 1. Political budget cycles in Hungary (general government net lending, % of GDP)



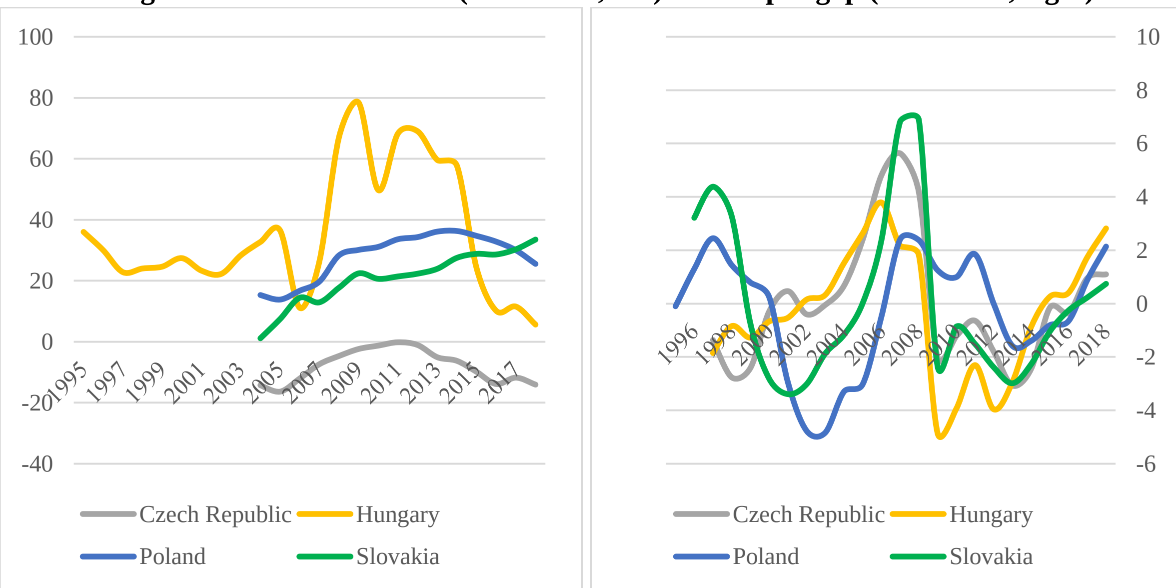
Note: the Figure depicts the Net lending (+) or net borrowing (-): general government:- ESA 2010 (UBLG). In Hungary, the election years were as follows: 1994, 1998, 2002, 2006, 2010, 2014 and 2018.
Source: European Commission, AMECO.

Beyond the trust-builder feature of important events such as joining to the OECD in 1996 as well as to NATO in 1999, some half-hearted structural reforms and sustainability-congruent fiscal adjustments (stabilisation package of 1995 named after the finance minister, Lajos Bokros; pension reform of 1998; smaller scale fiscal consolidation of the Medgyessy cabinet in 2003 etc.) emerged, unfortunately only with a soupçon of lasting improvements[iv], but still enough in complying the Maastricht criteria. In addition, and at least, official target dates for Eurozone accession were considered by successive governments (i.e. 2007 as a date for potential entry was considered by the first Orbán government (1998-2002) in 2001, while the following Medgyessy administration changed that date to 2008/2009). Notwithstanding the short-lived adjustments and superficial reforms in the run up to the EU accession and its aftermath until 2010, Hungary was seen from the perspective of EU-core countries (especially Germany) as a '08/15'. In German, that term is a slang meaning run of the mill or nothing outstanding in terms of quality and rarity. The term originates in military when the name of the first standardised machine riffle was 08/15. Hungary was seen as a '08/15' in the sense that in that period the Hungarian governments at least did never question and forget the paramount importance of cultivating EU-compatible values such as enhancing democracy, the rule of law, the sanctity of private property as well as fair competition, the freely functioning civil society, pluralism in intellectual life. The real power of democracy lies in the temporariness of decisions, nothing can therefore runaway endlessly (i.e., increasing the power of the ruling cabinet endlessly is not an option). Under this angle, Europeanisation was the norm and Hungary followed this standard behaviour as an ordinary potential member country up until 2010.

2.1.2 The Non-Defending Clique – Homework at Loose Ends (2004-2010)

After 2004, becoming a member in the defending clique (EU) raised the level of trust and confidence in Hungary in the eyes of domestic and foreign investors, at the same time, it gave a misleading feeling of comfort for Hungarian economic governance. Up until 2006/2007, it refrained from initiating reforms and policies that would have been conducive to supporting structural change into a more competitive and diversified knowledge economy, rather it relied on utilising one of the main benefits of becoming a member state: namely that of the perceptibly dampening costs of external financing. As a result, growth was mainly above that of the EU-average (Hungarian real GDP growth was on average 4.2% in the period 2000-2006) and was fueled by the runaway of external indebtedness. As *Figure 2* depicts, external indebtedness skyrocketed in Hungary, while the bust period after the 2008 crisis was the deepest one in the Visegrad group.

Figure 2. Net external debt (% of GDP, left) and output gap (% of GDP, right)



Note: the left graph represents net external debt rate, the right graph captures the gap between actual and potential gross domestic product at 2010 reference levels.
Source: European Commission, AMECO.

The internal political dynamics spoiled the great commitment, at least in terms of balanced and prudent management, and the country – pervaded by misaligned fiscal policy but still having the engagement in EU-values – was drifting toward a juncture again right before the hit of the 2008 crisis. Even before the 2008 financial and economic crisis hit Europe, Hungary had to cope with serious macroeconomic imbalances calling for stabilization due to its tedious and irresponsible fiscal policy (public deficit accounted of 9.2% in 2006). Unfortunately, the structure of the 2006 consolidation, initiated by the Gyurcsány administration, was not conducive to growth (i.e. mainly revenue-side oriented measures with distorting and deleterious effects rather than Keynesian positive impetus, see Kovács (2015a)) and thus it could not curb fiscal problems. For instance, real GDP growth shrunk significantly by reaching 0.4% and 0.8% in 2007 and 2008; the Hungarian debt-to-GDP ratio rose by more than 20% between 2006 and 2009 by hovering around 80%; by the same token, gross debt-to-income ratio of households doubled from the 31% of 2004 to 62% of 2009; private sector debt consolidated climbed up from the 83.4% of 2006 to 116.5% of 2009, the same level as the Greek data.

True, Hungary did not seize enough the opportunity given by the historically exceptional period of the Great Moderation in initiating painful reforms in favoring long term real socio-economic development and growth. Albeit Hungary began to lose its '08/15' image and was put on the crisis map (i.e. got a standby credit offered by the IMF, the EU and the World Bank), and yet, Hungary faced the inevitable during the Bajnai administration in 2009 not only in the interest of survival (solvency) but also in the guise of Europeanization. For example, Hungary met the criteria of the Schengen Agreement in December 2007. Regarding the Eurozone accession, it is certainly true that there was no official target date announced on a consensual way, but, at least, they were about to find a date. Prime Minister Bajnai personally envisioned 2014 as a date of joining the Eurozone. Many thought, therefore, that Hungary had left behind *the point of no return* in the sense that its path is irreversibly directed toward Europeanisation and not toward living in reclusion. And yet, as we show in the next section, *Eurolessness* has become an organic part of national policy.

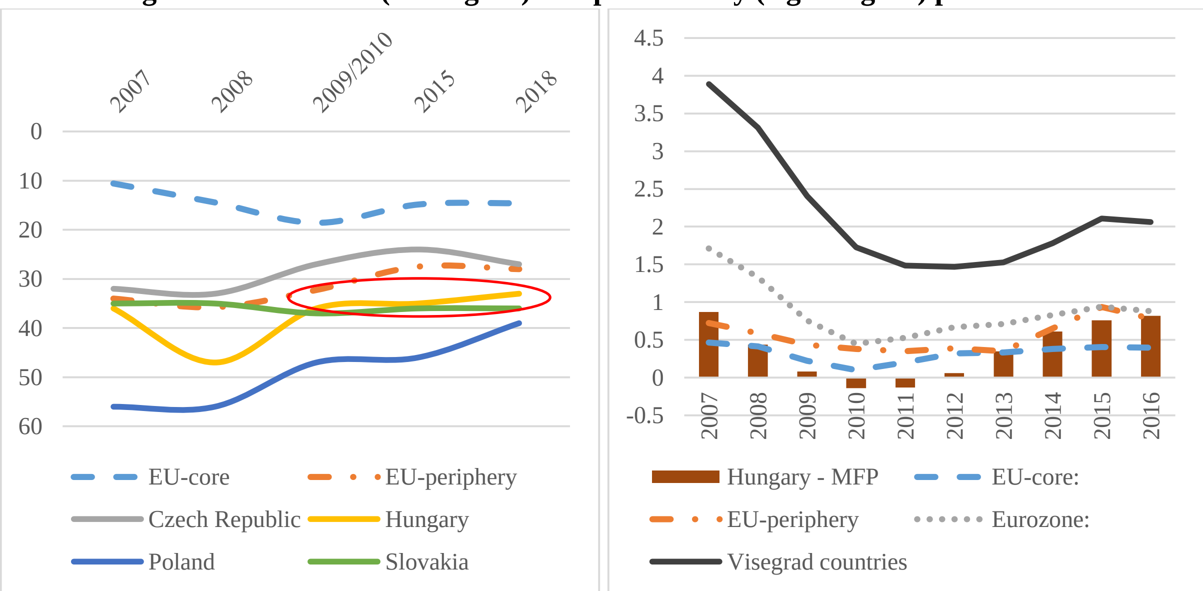
2.2 The New nEUtrality – More than Reclusion

As we demonstrated, for almost 20 years, Hungary was seen as a country keeping abreast of the European project. Still, Hungary did not go the distance, rather it has been going through more than a reclusion. Albeit Hungary was very close to meet the entry criteria of the Eurozone accession by 2012 (e.g. Csaba, 2012), the country had a U-turn after 2010 by shifting from EUlogy to nEUtrality (and even beyond) by manoeuvring between the will and unclear. To this end, we first outline how the Hungarian economic governance did initiate changes in its socio-economic development, then we decipher the fundamental constituents of such path-breaking governance.

2.2.1 Neutrality and Beyond

After the cumbersome adjustment of the Bajnai government during 2009, Hungary was seemingly back again on an instructive track in terms of non-deteriorating innovation performance (*Figure 3*) as well as rehabilitating international competitiveness (i.e. check IMD World Competitiveness Yearbooks).

Figure 3. Innovation (left Figure) and productivity (right Figure) performance



Note: Left Figure refers to the ranking positions, Global Innovation Index, while the right Figure contains data stem from OECD Forum on Productivity Database on multifactor-productivity which captures the overall efficiency with which labour and capital inputs are used together. EU-core countries consist of Germany, France, UK, Italy, the Netherlands, Belgium and Luxembourg; EU-periphery embraces: Greece, Ireland, Portugal, and Spain.
Source: Global Innovation Index, Cornell, INSEAD and WIPO, OECD.

Unfortunately, Hungary became a sort of petrified system after 2010. The trajectory of Hungarian multifactor productivity (MFP) – considered as a relatively good proxy for capturing innovativeness driving efficiency gains –, was extremely deteriorating right after the new government took office in 2010. This was the case despite the huge volume of incoming EU funds dedicated to the development of small and medium sized enterprises (SMEs) (see Banai et al. 2017). Thus, the country has been struggling with offering a prospective ground for agile talents as well as with enhancing the supply side of the human capital.

To the latter, beyond the exodus of firms feeling additional uncertainties in the Hungarian socio-economic system due to its economic governance[v], the ever-more withering issue of exporting talents by causing huge shortage of (skilled) labour in Hungary has also become a hot topic.[vi] More and more people left Hungary and one of the crucial earmarks of this movement is the skyrocketing personal remittances of expatriated workers (World Bank data shows that personal remittances received in GDP percentage was 2% in 2010 while it run up over 3.7% by 2016 by far the highest among Visegrad countries). It is therefore an open and shut case that the dependency of households on remittances has been growing, as it was demonstrated by Kajdi (2018) in a journal published by the Central Bank of Hungary. Employee income of Hungarian residents working abroad – as a GNI-increasing item – shows a more dynamic pace than workers' remittances. From 2009 to 2010, it increased by 26 percent and then by 2010 by 22 percent. By 2012, the rate of growth was 47 percent largely due to the fact that many Hungarian citizens worked abroad. The remittances of Hungarians working abroad have been growing steadily since 2010 (it accounted of approx. EUR 18 million in 2010, while it was EUR 63.4 million in 2015). And, despite all rumors, the lion share of these amounts has not been invested in innovation, in modernizing businesses, or invested in training which could otherwise have contributed to enhancing competitiveness. Instead, the bulk of those remittances are still for repaying credits and loans. In other words, EU served as a cushion in the sense that it offered (and is still offering) an escape for many Hungarians to mitigate their indebtedness as the build-up of an extraordinarily high level of non-performing loans necessitated (i.e. World Bank data depict that Hungary faired rather worse in terms of bank non-performing loans in the period 2010-2014 as compared to other Visegrad countries). Importantly, this mechanism helped the government to show that the increasing trend in the total number of people at risk of poverty or social exclusion was mainly stopped by 2014/2015.

Even though some macroeconomic fundamentals, at first glance, seem to be on right tracks – for example, debt-to-GDP ratio reaching an inflexion point, low inflation in 2014-2016, surplus in current account balance, relatively high GDP growth[vii] –, something deeper is amiss since the same indicators can be seen as symptoms of many shortcomings. *First*, fighting against debt once became a guiding principle of the government mainly because of a fear of future interference by Brussels – as Trichet (2011) suggested – in the Hungarian economic policy engineering in case of serious financial events. The government was thus by all means to avoid this possibility (including the potential suspension of EU funds streaming into the country) mainly by one-off measures in stabilizing deficits (for instance, imposing record high VAT, special taxes on certain sectors, and by the 2014 election, the deficit fell close to the threshold set in the Maastricht Treaty). Let us add immediately that there was more or less only one exceptional sphere that remained intact: the public sector itself, of which size in terms of public sectors workers as well as the amount of budgetary personal allowances have increased further to unprecedentedly high levels after 2010.[viii] The latter development reflects to a certain extent that the new government was to establish an increasingly one-sided dependency of many on the public sector. *Second*, the historically low level of inflation – even negative – in 2014-2016 reflected increasing uncertainty (i.e. lowering investments and dispiriting outlooks, which was admittedly the case in the convergence programme of Hungary), and similarly, current account surplus means that Hungary finances abroad because of the alarming feature of the domestic economic environment and its governance (i.e. external imbalances given by worsening net international investment position).

In addition, with respect to the Hungarian commitment to Eurozone entrance, it seemed that the country was approaching Maastricht criteria in an acceptable way, and yet, not only its political commitment was lacking (i.e. not stepping into the ERM II) but the European Commission (2014) itself revealed some important backlogs in terms of legal compatibility. Furthermore, exchange rate stability was not among the priorities of the government as the rate followed a rather volatile path by implying growing uncertainty.[ix] Apart from this development, since the ruling government re-created the constitution in 2012 by literally stipulating that Hungary's official currency is the Hungarian Forint (i.e. it is not possible to make a referendum about the introduction of the Euro), Eurozone accession requires a constitutional amendment a two-thirds majority vote. With the benefit of hindsight, despite the registrable convergence to the entry criteria (see *Table 1*), the Hungarian economic governance was no longer just neutral to the issue of Eurozone entrance but it made a runaway even further. Partly because of the blurred picture of the ongoing modernisation of the institutional architecture of the Eurozone, which, of course, represented and still represents a factor of uncertainty. All things considered, there is still an impression that not entering the Eurozone in case of Hungary is more like a political choice rather than an economic determinism.[x]

Table 1. Almost meeting all the Eurozone joining criteria

No.	Criteria	Indicator	Expected values	Current data for Hungary
1	price stability	inflation rate	A price performance that is sustainable and average inflation not more than 1.5 percentage points above the rate of the three best performing Member States	+2.97 percentage point (2019)
2	Sound and sustainable public finances	Government deficit	Maximum of 3% of the GDP	2.3% (2018)
3	Sustainable debt management	Public debt	Maximum of 60% of the GDP (decreasing)	68.22 % (September 2019)
4	durability of convergence	Long-term interest rate	Not more than 2 percentage points above the rate of the three best performing Member States in terms of price stability	+2.1 percentage point (December 2019)
5	Exchange rate stability	Exchange rate developments in ERM II	Participation in ERM II for at least 2 years without severe tensions, in particular without devaluing against the euro	Hungary does not take part in the ERM II, but it meets the criteria

Source: European Commission, European Central Bank.

2.2.2 Further from Reality – Simulacrum

Behind the curtain of the trends juxtaposed so far was a U-turn. To be clear, the Hungarian U-turn does not mean marching into socialism in a Schumpeterian way, and it is not a representation of the Hayekian road to serfdom, either. Instead, it is *a configuration of market oriented plebiscitary leadership governance interspersed with a good deal of simulacrum*, in other words, *post-factual governance with* *extensive nationalism as well as macroeconomic populism potentially at the expense of an EU-congruent democratic development*.

Before outlining the main building blocks of such system, one must not forget that nothing develops in vacuum in the hyper-globalised world economy. Consequently, the Hungarian road (i.e. the path-breaking governance preferring eurolessness described earlier) emerged to a large extent logically under the auspices of more complex global influential forces such as *global runaway phenomena*. In case of a living system (such as our socio-economic system), a runaway phenomenon happens when one or several specific features of a living organism is going through an excessive expansion which at first appeared to be straightforward in reaching out some higher-level goals (preserving a specie, quick enjoyment via drug/alcohol consumption, risky but high-return financial investments etc.), but proving to be self-defeating later on (Csányi 2003).[xi] In socio-economic dimension, now we just mention very briefly and succinctly (i) the influencing role of runaway economics departed from reality and (ii) the global processes featured with runaways.

As far as *economics departing from reality* is concerned, mainstream economics had ceased to be a fanatic of reality long time ago primarily by favouring only quantophrenia (i.e. excessive use of quantification by creating a culture of measurement even in case when qualitative approaches dominates and quantification loses sight of reality)[xii], by postulating different things having no direct link to reality: a system without memory and being in or at least always approaching equilibrium, linearity, value-free approaches considering only risks rather than uncertainty, by considering a fully rational *homo oeconomicus* by neglecting the psychic capital and processes. In this way, mainstream economics has a predilection to imagine the socio-economic system as a fine tuneable and repairable machine. But, the 2008 financial and economic crisis demonstrated that the world economy, the reality itself is not functioning like that since we face far-from-equilibrium situations pervaded by multiplicity, simultaneity, growing networks interspersed with value-choices and the human factor resulting in non-linear changes, spillovers, positive and negative feedback mechanisms, asymmetrical interdependency, globalization of side-effects, fluctuations on microscale having impacts on macroscale, and cumulative causation. One can therefore detect the runaway phenomena in the course of mainstream economics having not necessarily a clear vision of reality. It implies at least two things, *first, economic governance has to a large extent lost its economics-backing in navigating through and enhancing the performance of the socio-economic innovation ecosystem* in terms of quantitative and qualitative growth; and *second, alternative economic theories of reality, being not necessarily close to reality (post-factual), are intensively spurred*.

As far as *global processes featured with runaways* are concerned, the 2008 financial and economic crisis made the developed world aware of the importance of *not sitting back comfortably in periods of low volatility* (i.e. into the so-called *Great Moderation* in most advanced economies with seemingly managed macroeconomic fundaments since approx. 1992) leading to processes grounding critical instabilities by potentially engendering a *backlash against globalisation*. The backlash against globalisation, that is to say the ailing trust infrastructure, is due to the interplay among *intertwined complex challenges*: climate change; demographic challenges (i.e. not only the issue of aging population as well as migration crisis, but also the runaway of income and wealth inequalities are of key importance in creating serious instabilities); the runaway of the financial sector at the expense of the real economy (i.e. acting as a parasite to the real economy with capital preferring higher short term returns within the financial sector by affecting harmfully various inequality trajectories, including inequalities among enterprises as well etc.); changing characteristics of emerging markets (i.e. China has been becoming more service and consumption driven by lowering its growth rates affecting the rest of the world); the runaway of indebtedness of countries in the aftermath of the 2008 crisis resulting limited fiscal capacities to stimulate the economies; secular stagnation (i.e. lowering productivity growth implying weakening innovation performance); and uncertainties over the socio-economic impacts of the ongoing digital revolution including the so-called industry 4.0 as well as AI developments (e.g. Kovács 2019a).

All in all, the new norm seems to be a prevalent distrustfulness in politics by fuelling flaring populism, secessionism, and protectionism even in the European integration. It seems that the demand for a post-factual and mainly opinion-driven governance is firmer than ever before (Hungary is a case in point since it has become the EU's fourth least democratic state by 2019[xiii]). And this is nothing but the triumph of delusiveness over reality which was called *simulacra* by the famous French sociologist–

philosopher Jean Baudrillard (1981). The interwoven complex challenges, considered as runaway phenomena, are here in the European Union as well of which governance has become flooded by them by making it less sensitive to 'smaller' issues like the Hungary's changing position on the entry into the Eurozone. The big silence about the Hungarian agony over Eurozone accession, often considered as a road to perdition – to date, there is no official date considered by the Hungarian government as a target of Eurozone entry – might be just a logical consequence. The same holds in case of perceiving the Hungarian case in the light of runaway phenomena requiring more and more attention from policymakers.[xiv]

Against this background, the main building blocks of a path-breaking Hungarian economic governance can be juxtaposed as follows:

- *First, unorthodox economics as well as economic governance not by bolt from the blue.* With the runaway phenomena of modern economics departing from reality together with the cascading complex runaway-like challenges described above, it was no coincidence that Hungary could step on a rather swampy road in addressing economic challenges by following a blend of liberalisation and illiberalisation. At the level of governmental and central bank communications, unorthodoxy meant structural reforms strictly without austerity measures (flat personal income taxation, special taxes on particular sectors). A range of governmental measures were introduced bearing to some extent the stamp of autocracy by being powerful enough to escalate uncertainty and critical instability in the Hungarian socio-economic innovation ecosystem on the one hand, while making the leading elite to be in an unshakable position and not voted out of office on the other.
- *Second, economic governance miring into post-factualism.* This shift ranged from a fight for economic freedom through ill-based communications of governmental achievements. As far as the *economic freedom war*[xv] is concerned, the governmental communication was imbued with a kind of anti-globalisation atmosphere, which is not a bright strategy in the light of the irreversible globalisation (i.e. staying out from globalisation would repress knowledge exchange, hence innovation dynamism). Moreover, Hungary relies asymmetrically on the European Union since 97 per cent of all public investments in the country has been financed mostly via EU Funds. Not to

mention that Hungary's new-fangled economic policy, officially referred as unorthodoxy, could not have delivered any achievements if Hungary had no received significant amount of EU funds. For example, EU funds streaming into Hungary helped the Hungarian foreign exchange reserve to rise by providing a room for transforming the gargantuan volume of households' credits denominated mainly in Swiss Franc during November 2014 and 2015 by the Hungarian Central Bank. Thus, turning against Brussels (or whoever else from abroad) is based on post-factual beliefs. Similarly, foreign policy made a shift in its orientation (the so-called Opening to East strategy) that has not led to the desired outcomes so far. As for communication, the Hungarian government has been publishing sugar-coated messages in the state-owned media. Just to name a few, experiencing historically low levels of inflation as real governmental as well as unorthodox monetary policy achievement, which, in reality, implied frozen or delayed real investments; announcing that Hungary reached the state of full employment, which was mainly due to the increased public employment and compulsory working associated with growing emigration; communicating the governmental action of utility price cuts as a real development in the interest of Hungarians, while this step actually led to prices being above that of the world market prices for energy carriers.

Box 1. The rise of the Hungarian plebiscitary leadership governance and the paradox eurolessness

Since 2010, the Hungarian government changed course by shifting from a post-communist and EU-congruent democracy towards a post-communist and EU-incompatible autocracy (Kornai 2015, 2017). A plebiscitary leadership governance has emerged meaning a governance referring perpetually to the people's will, but its main goal is to shape that will to its own purposes (e.g. Urbinati 2014). One might interpret the process as a runaway phenomenon in the interest of retaining and expanding the power in an excessive way as it is well-known from (new) political economy literature. Of course, no one is able to predict when such system will fall, but the endgame will be undoubtedly be pervaded by deteriorating trust and confidence of the wider public and that of the international players (e.g. European Parliament). In this sense, it is a runaway phenomenon like pattern.

Without being exhaustive, the major measures were as follows: abolishing Hungary's Fiscal Council in its original form; ad hoc changes in the constitution then creating a new one; the practice of reframing the authority of the Constitutional Court by adapting it to the forthcoming and planned laws as well as regulations; introducing special taxes on sectors like energy, telecommunications, retail, and banking by discriminating foreign players in the Hungarian economy; breaking the sacrament of private property by nationalising private pension funds; introducing flat income taxes being more beneficial for high earners than the wider public since the contribution of the top tenth of the population to total tax revenue fell from 61% to 42% between 2010 and 2013 (e.g. Tóth & Virovácz 2013); serious centralisation in case of health and education, while reducing the autonomy of higher education and cutting its budget by HUF 84 billion between 2010 and 2013; introducing stricter regulations on media; and establishing and adopting Hungary's new Constitution (*Fundamental Law*), which among others limits the authority of the Constitutional Court and reduces the scope of future governments without two-thirds majority. In 2014, the Hungarian prime minister explicitly expressed its intention to move toward an '*illiberal democracy'*. Beyond the perceptible turn-away from the involvement of civil actors in policy-making and in politics as Szalai (2018) demonstrated, independent media also suffered from serious attacks (as Freedom House documented, Hungary's largest independent daily, *Népszabadság*, which happens to be the one that had previously uncovered a string of scandals involving the ruling party, was unexpectedly suspended in October 2016[xvi]). Due to the increasing concentration of Hungary's media, Hungary was ranked 87th in the 2019 World Press Freedom Index. An increasing share of the national budget has been spent on communication rebelling against Brussels, to communicate the lurking and observable dangers related to the migration crisis, etc. (even in 2018, approx. EUR 150 million was spent on such communication). In 2018, the approval of the amendments to the Labour law (Slavery Act, i.e. Overtime Act, which has become effective as of 1 January 2019, meaning the possibility to raise overtime hours from 250/year to 400/year on a voluntary basis, overriding even the collective agreements with trade unions), reflected the pressing need for the government to alleviate the labour shortage problems in the sake of multinational companies. Besides, the Hungarian Parliament also passed a law on establishing a new system of administrative courts under the firm control of the Minister of Justice, meaning that a separate court system will be responsible for decisions in which Hungarian authorities are affected or involved by endangering judicial independence (the introduction of such system has been postponed for an indefinite period in May 2019). Attacking well-renowned higher education institutions together with the sanctuary of Hungarian science (Hungarian Academy of Sciences) by removing its financial autonomy triggered a series of demonstrations in the first half of 2019.

Paradoxically, despite the positive communication about the country's social and economic achievements (e.g. surprisingly strong GDP growth performance for 2019 with its 4.9% growth instead of the previously calculated 4.1%; high employment rate which is to be maintained via economic protection action plans), despite the statements of the Central Bank of Hungary. It is worth timing the eurozone entry at a time when the economy is already in a strong competitiveness position, while the channels that shape the future competitiveness and adaptability of the economy are working effectively. In the latter, labour and commodity markets play a key role. See: Central Bank of Hungary (2020:13), the ruling cabinet does not consider concrete entry date. As a corollary, eurolessness (i.e. a form of sovereignty) is a part and parcel element of the new national identity, which is the product of the conscious nation-building vision of the nationalist ruling elite[xvii].

On the bright side, the documented Hungarian runaway acts as a mechanism for the EU to become more alert, more efficient and resilient. At least two recent developments indicate such a role. *First*, growing intention to vigorously check the state of rule of law in member states in the interest of an EU-values-congruent development (e.g. as the so-called Sargentini Report indicated in case of Hungary[xviii]). In this spirit, in April 2019, the European Parliament adopted a new draft law stating that governments interfering with courts or failing to tackle fraud and corruption will risk suspension of EU funds. *Second*, proposing a Reform Support Programme (European Commission, 2018) with the aim at incentivising even non-euro-area Member States to design and implement far-reaching (often painful) structural reforms in facilitating convergence, competitiveness and the resilience of the EU as a whole.

3. Conclusions

In this paper we argued that the Hungarian process cannot be explained solely by its internal developments rather its runaway phenomena shall be embedded into the global context. By now the world economy has become an arena of interplaying runaway phenomena such as the dominance of far-from-reality economics as well as the runaway of complex challenges making economic governance ever-more limited.

Importantly, the configuration of global runaways played a key role in the building up process of simulacrum, a Platonian concept developed further by Jean Baudrillard, which seems to have had a powerful impact on the Hungarian governance as a Member State of the European Union. Hungary shifted from EUlogy to nEUtrality towards Eurozone accession and went even beyond by showing the symptoms of simulacrum (i.e. the dominance of unreality, indifference in the socio-economic sphere) being heavily determined by international configuration of runaway phenomena. Our line of thinking can then lead to at least two important lessons both for economics theory and economic governance.

First, there is really a need for a new unorthodoxy in economic theory. Let us add immediately that it is not a kind of unorthodoxy as Hungary imagined so far, but as Neil W. Chamberlain suggested in 1960 because '[…] old perceptions of how our economy functions do not provide adequate clues for unravelling the mysteries of current and evolving problems.' (Chamberlain 1960:31). Without pursuing a complexity based economic approach[xix], without addressing individual and system-wide interactions (at least most of them), national and especially supranational level of economic governance and its macroeconomics backing may indeed be doomed in understanding more accurately what is really going on in the world economy. Thus, the Hungarian case cannot be explained by the sheer concentration on its domestic policies and macro trends in addressing its runaway phenomena after 2010. Without a more complexity oriented economics (i.e. taking into account the multiplicity interspersed with simultaneity, growing networks, asymmetrical interdependency, globalization of side-effects, positive and negative feedbacks with non-linear changes, fluctuations on microscale having impacts on macroscale, and cumulative causation) policies tend to fall short in becoming the instruments of a sustainable development value-congruent governance. As a result, governance becomes more deformative by opening ways for simulacrum.

Second, for economic governance at EU level, addressing simulacrum is a must. We argue that the broadened thesaurus of manipulation-oriented tools and the populism as well as nationalism are not the main problem in themselves. The problem becomes serious when people do not care about politicians to be accountable by pursuing and seeking factualism. The Hungarian case sheds a new light on this issue. Complexity science suggests that in a complex living system, such as the European integration, small differences as well as fluctuations that once appeared to be insignificant – if they are emerging in the right wider circumstances – can flood the whole system by creating a new orientation, potentially, a new order. Within an era pervaded by runaways described, it is the responsibility of the European level economic governance to counterbalance such seemingly insignificant forces by: (*i*) *Fostering mission-orientation in signalling the EU's ability to reinvigorate growth and fair development*. For example, mission No. 1: harmonising the real economy and the financial sphere by fostering positive green finance to address unsustainable credit consumerism to transform the economic model via breaking secular stagnation; mission No. 2: reducing the ever-widening gulf of inequality, while to take into account environmental constraints etc. (*ii*) *Catalysing internal commitment by eliminating the missing fear from fear in the Eurozone and in the entire European Union as well*. This is to foster the engagement of Member States in implementing structural reforms that are making the European integration process sustainable and resilient. For instance, imposing sanctions if needed in accordance with the article 126(8) of the Treaty on the Functioning of the European Union; winding up the illusion of cheap money – providing funds in a pulse basis rather than permanently by linking them to the respect of EU-values and real socio-economic development(!); progressing with the Reform Support Programme including the Convergence Facility for non-euro-area Member States as well; going beyond intergovernmentalism when needed, but pursuing no-bailout principle; and establishing mechanisms unveiling governance deadlocks for the wider public in a runaway Member State (clear communication, empowering citizens by pursuing *social and solidarity economies* in line with the plans of the European Economic and Social Committee[xx] etc.).

As far as the Hungarian case is concerned, there can be no doubt whatsoever about the importance of homogeneity across the Member States within the Eurozone as the theory of optimal currency areas suggested for a long time.[xxi] Nor can there be any doubt about the potential economic losses when it comes to euro adoption in case of Hungary. And yet, belonging to the EU (including the EMU) is not only about economic benefits, and since the Eurozone architecture will always be a constantly evolving creature of the common[xxii], the wait-and-see behaviour of Hungary with unsustainable and uncertainty-triggering economic governance is therefore nothing but a pyrrhic victory. By keeping the current economic condition of Hungary in mind, it becomes crystal-clear that euro adoption is more of a political question than an economic one. In other words, *Eurolessness is an integral part of the national policy, an element of the new national identity, which is the product of the conscious nation-building policy of the nationalist ruling elite.*

By admitting that no one knows what the future has in store; still, there are at least two inertia forces acting against the Hungarian Eurozone accession in the near future irrespective of what happens in case of other non-Eurozone member Visegrad countries like Czech Republic or Poland. *First*, uncertainty still lingers around the prospect of Eurozone reforms that serves as a perhaps even legitimate reference base of the Hungarian government postponing a decision about euro introduction (i.e. the reform sentiment and political willingness to reform seem to have lost its momentum by the end of April 2019). *Second*, fostering (politically) painful structural reforms, being inevitable if government wants to pursue and prioritise real economic convergence as a precondition of becoming a sustainable member of the Eurozone, is not necessarily compatible with the Hungarian economic governance miring into post-factualism and unorthodoxy. Consequently, it is very likely that euro adoption is not in sight for Hungary.

All things considered, Hungary does not necessarily need the euro but a democratic economic governance that supports sustainable real convergence in strengthening the country's resilience in the future. Although eurolessness seems to be an integral element of the new national identity of Hungary (preserving sovereignty), economic history suggests that national identity is the product of the conscious nation-building of the elite, thus the pattern can be changed. The country will therefore not necessarily remain on the road to perdition.

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Notes

[i] This paper was supported by the János Bolyai Research Scholarship of the Hungarian Academy of Sciences.

[ii] See: https://bbj.hu/economy/hungary-needs-new-euro-criteria-says-mnb-deputy-gov_138341 Accessed on: 26.01.2020

[iii] See the original work of Nordhaus (1975), Kopits and Symansky (1998), or in the context of fiscal adjustment-growth nexus, Kovács (2015a).

[iv] The relatively prudent fiscal policy became lax after 2000: (i) new housing subsidy system initiated by FIDESZ government; (ii) 50% salary increase in case of public sector workers during the Medgyessy administration; (iii) one-off payment for pensioners; (iv) making the minimum wage tax-free; (v) introducing the institution of 13th month pension; (vi) inducing a shift of the Forint's trading band in 2003; (vii) VAT reduction during the Gyurcsány government; lacking transparency or creative accounting, inadequate PPP constructions etc.

[v] Elqoteq, Cora, Bricostore, Nord Sea, Electroworld and Saturn decided to leave Hungary in 2011. In April 2014, Samsung closed its factory located in Göd, while Nokia and Flextronics fired altogether 4,000 employees.

[vi] Another proof of increasing uncertainty after 2010 was the strengthening migration of Hungarians. Between 2010 and 2013, nearly 400,000 Hungarians decided to try to settle abroad. This was entailed by a series of negative effects, as evidence suggests, there has been a spectacular jump in the number of people living in poverty or social exclusion (the volume of 34.8% was the fourth largest one in the EU28 in 2013, being close to the height of the Greek number), more telling is the fact that now it takes 7 generations for a child born in a poor family in Hungary to climb up to the middle class (OECD, 2017). It is hardly by chance that, in recent years, Hungary shows one of the most outstanding real wage growth dynamics in the Europa and Central Asia region due to the pressure on increasing wages for people still willing to stay.

[vii] Hungary plunged into recession again by 2012 partly due to the governmental actions thinking with actions injecting additional uncertainties into the weekdays (See Kovács, 2015b).

[viii] The number of people at budgetary institutions as well as the amount of the budgetary personal allowance more than doubled between 2010 and 2016.

[ix] According to ECB statistics, EUR/HUF exchange rate was 270 in the end of 2009, it hovered around 320 by 2012, it then approached 298 by 2013, while it was again at a historically high level of 324 by June 2018. At the time of writing this paper, EUR/HUF rate is still above 320. Ill-conceived and clumsy verbal interventions by

policymakers did also affect negatively the investors' confident (e.g. executive vice president of the ruling party FIDESZ speaking about potential bankruptcy in June 2010).

[x] See Dandashly and Verdun (2018) about the *laggard by choice* mentality in case of Hungary.

[xi] There are social and economic runaway phenomena as well such as the drug and alcohol consumption (275 million drug users around the globe, 6 persons die in every minute due to alcohol consumption related diseases), civilisation diseases (e.g. obesity and diabetes owing to excessive carbohydrate intake), heightening loneliness and depression due to intensive and 24/7 availability thanks to the Internet and ICT devices, the runaway of the financial sector acting like a parasite of the real economy etc.

[xii] See the Nobel Prize lecture of Hayek (1974).

[xiii] See the Democracy Index prepared by Economist Intelligence Unit. https://www.eiu.com/topic/democracy-index Accessed on: 26.01.2020

[xiv] Despite the warnings of Nobel laureates, see: https://www.theguardian.com/commentisfree/2019/jan/25/fight-europe-wreckers-patriots-nationalist Accessed on: 26.01.2020.

[xv] For instance, a speech with respect to the IMF credit agreement delivered by the Minister of the National Economy in the Hungarian parliament on 21 November 2011.

[xvi] See: https://freedomhouse.org/report/freedom-press/2017/hungary Accessed on: 26.01.2020.

[xvii] The constructivist approach to national identity emphasises this, see the pioneering work on invented traditions by Hobsbawn and Ranger (1983).

[xviii] See: http://www.europarl.europa.eu/doceo/document/A-8-2018-0250_EN.pdf Accessed on: 26.01.2020.

[xix] See Kovács (2019b – forthcoming).

[xx] See European Economic and Social Committee (2017). Recent evidence suggests that debunking a post-truth narrative proposed by a charismatic leader requires a charismatic opposition too (Barrera et al. 2018). The highly fragmented Hungarian opposition without a unifying charismatic leader necessitates a strong civil society.

[xxi] This was partly resonated in the recent Polish development with respect to euro adoption. See: http://www.radiopik.pl/2,77681,jaroslaw-kaczynski-gosciem-konferencji-byc-polak Accessed on: 26.01.2020.

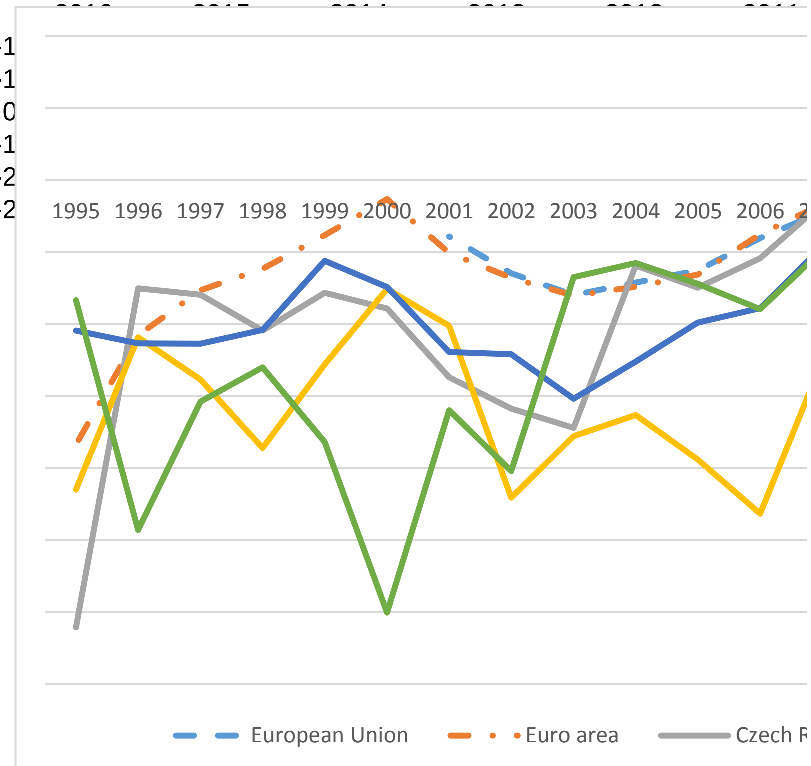
[xxii] In April 2019, Prime Minister Orbán argued against euro adoption mainly because no one knows where the European Union and the Eurozone will develop in the next period.

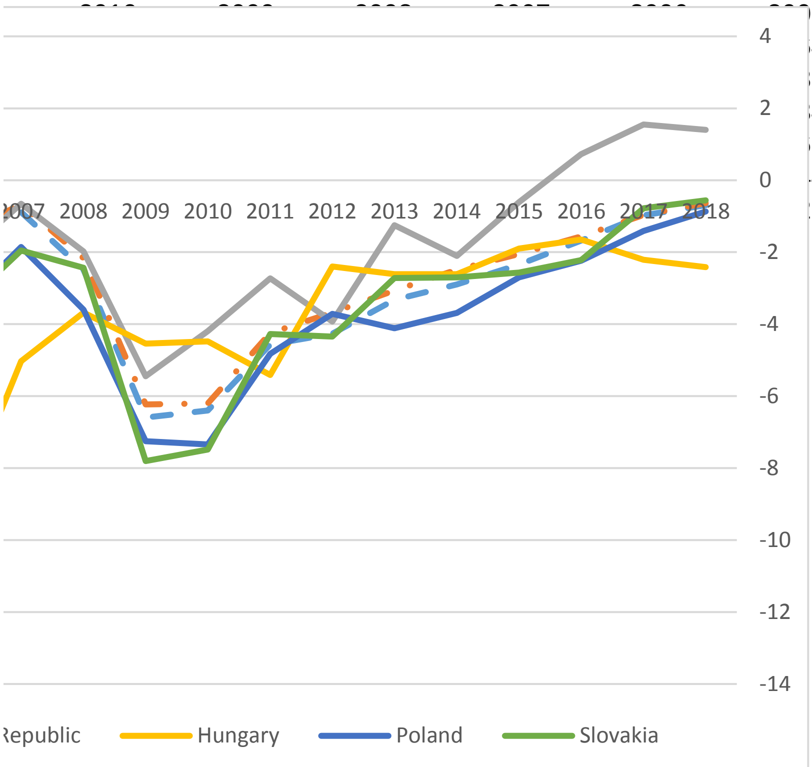
Figure

AMECO RESULTS

Net lending (+) or net borrowing (-): general government :- ESA 2010 (UBLG)

	2018	2017	
European U	-0.691166	-0.977314	-1
Euro area	-0.631028	-0.96367	-1
Czech Rep	1.405149	1.549893	0
Hungary	-2.410459	-2.214017	-1
Poland	-0.868313	-1.406425	-2
Slovakia	-0.557777	-0.777046	-2





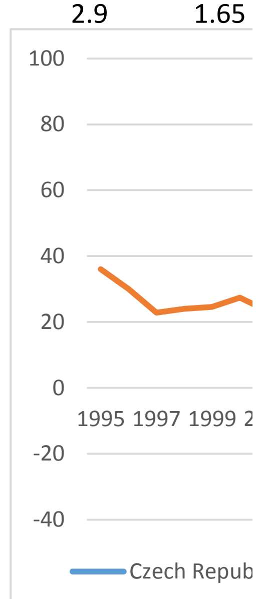
2004	2003	2002
-2.849443	-3.192804	-2.594729
-2.969224	-3.216087	-2.719344
-2.381268	-6.884545	-6.356287
-6.536303	-7.116332	-8.826821
-5.043824	-6.077099	-4.845692
-2.30847	-2.703025	-8.088044

2001	2000	1999	1998	1997	1996	1995
-1.565727						
-2.023653	-0.529976	-1.529946	-2.463142	-3.05967	-4.313149	-7.354193
-5.484971	-3.574525	-3.132022	-4.181628	-3.184316	-3.01225	-12.43269
-4.05085	-3.026972	-5.129453	-7.44903	-5.54862	-4.368601	-8.604876
-4.783358	-2.970957	-2.245402	-4.165532	-4.551596	-4.536411	-4.180073
-6.401313	-12.02343	-7.276231	-5.205436	-6.162656	-9.720844	-3.341702

Net external debt - annual data, % of GDP

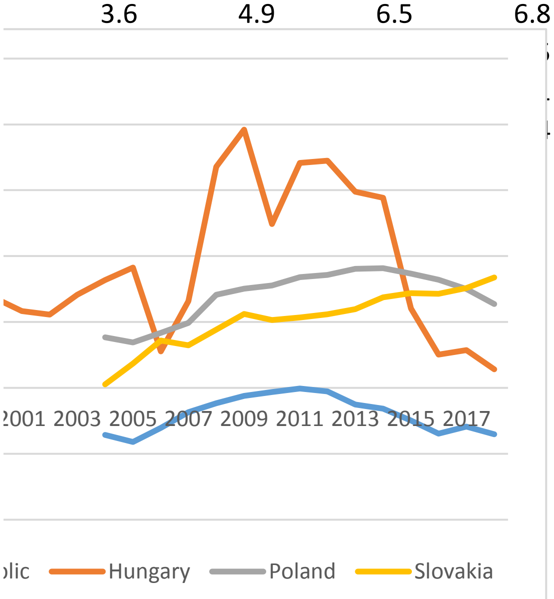
	1995	1996	1997	1998	1999	2000	2001	2002
Czech Republic								
Hungary	36	30	22.8	24	24.6	27.4	23.3	22.2
Poland								
Slovakia								

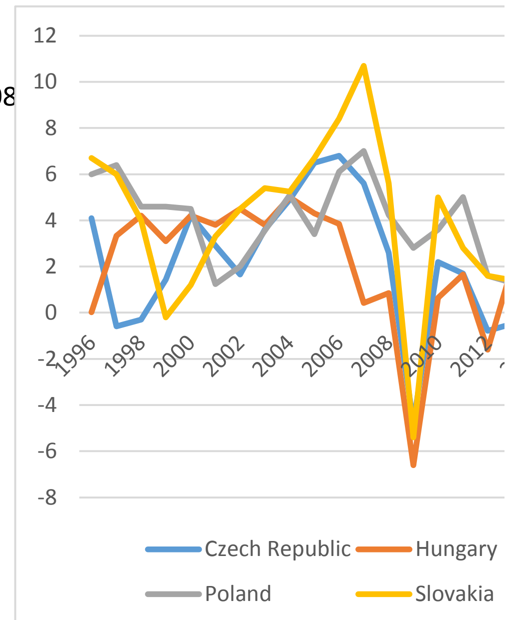
	1996	1997	1998	1999	2000	2001	2002
Czech Repu	4.1	-0.59	-0.3	1.43	4.2	2.9	1.65
Hungary	0.014	3.34	4.2	3.1	4.2		
Poland	6	6.4	4.6	4.6	4.5		
Slovakia	6.7	6	4	-0.2	1.2		



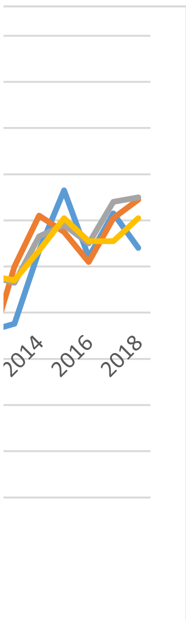
2003	2004	2005	2006	2007	2008	2009	2010	2011
	-14.3	-16.4	-12.1	-7.4	-4.7	-2.4	-1.3	-0.2
28.3	32.7	36.5	11.1	26.3	67.1	78.4	49.7	68.3
	15.3	13.8	16.7	19.7	28.3	30.1	31.1	33.6
	1.1	7.4	14.4	12.9	17.7	22.4	20.6	21.4

2003	2004	2005	2006	2007	2008
3.6	4.9	6.5	6.8	5.6	
				0.42	
				7	
				10.7	





2012	2013	2014	2015	2016	2017	2018
-1.1	-5.1	-6.3	-9.9	-13.9	-11.8	-14.1
69	59.6	57.7	24.1	10.1	11.5	5.6
34.3	36.1	36.3	34.7	32.8	30	25.5
22.3	23.9	27.5	28.8	28.6	30.3	33.5



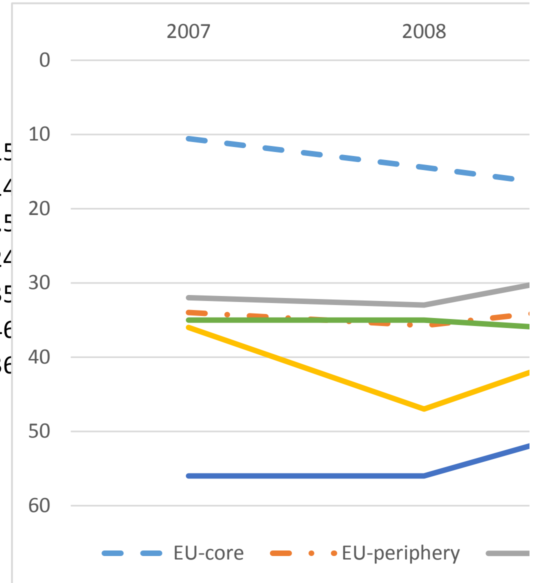
.3	2014	2015	2016	2017	2018
-0.48	2.7	5.3	2.4	4.3	2.8
2	4.2	3.5	2.2	4.1	4.9
1.3	3.3	3.8	3	4.8	5
1.4	2.7	4.1	3.1	3.1	4.1

			GII		
	2007	2008	2009/2010	2015	2018
V4	39.75	42.75	36.75	35.25	33.75
EU-core	10.57143	14.42857	18.57142857	14.85714	14.57143
EU-periphe	34	35.75	32.25	27.5	28
V4:					
Czech Repu	32	33	27	24	27
Hungary	36	47	36	35	33
Poland	56	56	47	46	39
Slovakia	35	35	37	36	36
EU-core:					
Germany	2	2	16	12	9
France	5	19	22	21	16
UK	3	4	14	2	4
Italy	24	31	38	31	31
the Nether	9	10	8	4	2
Belgium	15	18	17	25	25
Luxembour	16	17	15	9	15
EU-periphery					
Portugal	39	40	34	30	32
Ireland	21	21	19	8	10
Greece	49	54	46	45	42
Spain	27	28	30	27	28

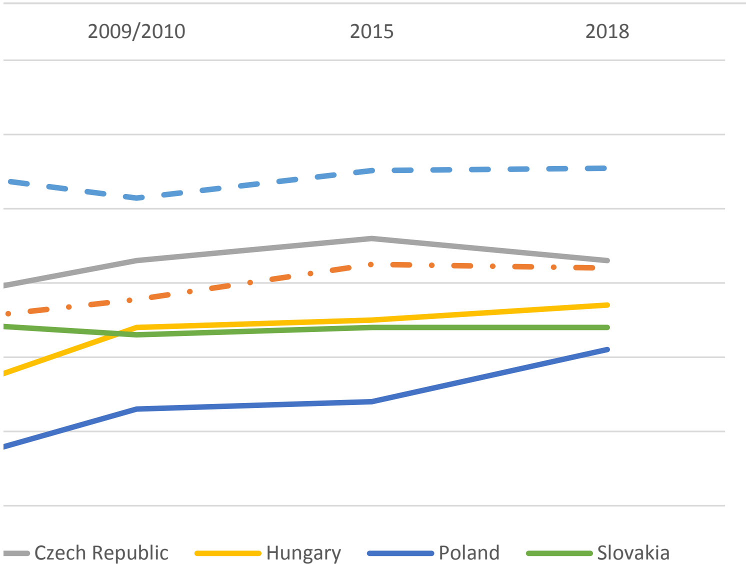
Sources: https://www.globalinn https://www.g https://www https://www.wipo.int/edocs/pubd

GII Rankings

	2007	2008	2009/2010	2015
EU-core	10.57143	14.42857	18.57143	14.85714
EU-periphe	34	35.75	32.25	27.5
Czech Repu	32	33	27	24
Hungary	36	47	36	35
Poland	56	56	47	46
Slovakia	35	35	37	36



ocs/en/wipo_pub_gii_2018.pdf


2009/2010
2015
2018
Czech Republic
Hungary
Poland
Slovakia

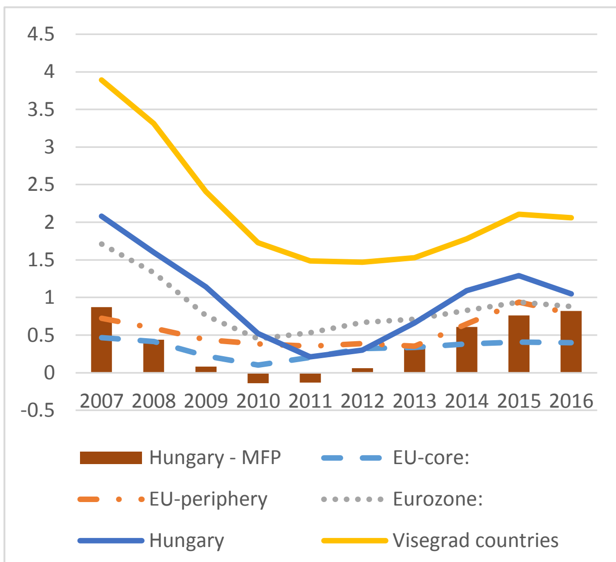
Trend labour productivity growth

	2007	2008	2009	2010	2011	2012	2013
V4:							
Czech Repu	2.58	1.8	1.1	0.76	0.69	0.72	0.91
Hungary	2.08	1.6	1.14	0.52	0.21	0.3	0.66
Poland	2.89	2.93	2.69	2.53	2.57	2.48	2.32
Slovakia	6.2	5.21	3.43	1.89	1.2	1.21	1.35
Eurozone:	1.71	1.33	0.76	0.45	0.53	0.67	0.71
EU-core:	0.465714	0.415714	0.222857	0.101429	0.201429	0.32	0.334286
Germany	0.64	0.64	0.56	0.35	0.4	0.41	0.34
France	0.85	0.89	0.79	0.61	0.61	0.63	0.58
UK	0.89	0.64	0.17	0.08	0.19	0.35	0.5
Italy	-0.18	-0.22	-0.41	-0.48	-0.45	-0.41	-0.48
the Nether	0.83	0.79	0.58	0.39	0.47	0.5	0.44
Belgium	0.7	0.7	0.51	0.34	0.37	0.48	0.45
Luxembour	-0.47	-0.53	-0.64	-0.58	-0.18	0.28	0.51
EU-periphe	0.725	0.59	0.4375	0.3825	0.3525	0.3875	0.3525
Portugal	1.12	1.26	1.19	1.17	1.03	0.65	0.41
Ireland	0.49	0.06	0.12	0.48	0.85	1.65	1.95
Greece	0.5	0.16	-0.24	-0.74	-1.14	-1.36	-1.41
Spain	0.79	0.88	0.68	0.62	0.67	0.61	0.46

2014	2015	2016
1.33	1.79	1.88
1.09	1.29	1.05
2.43	2.55	2.34
1.58	1.98	1.96
0.83	0.94	0.88
0.381429	0.405714	0.398571
0.33	0.31	0.36
0.51	0.45	0.41
0.55	0.61	0.62
-0.48	-0.46	-0.33
0.53	0.64	0.7
0.49	0.59	0.49
0.74	0.7	0.54
0.65	0.9375	0.785
0.35	0.36	0.37
2.69	3.59	2.92
-1.01	-0.86	-0.86
0.57	0.66	0.71

	2007
EU-core:	0.465714
EU-periphe	0.725
Eurozone:	1.71
Czech Repu	2.58
Hungary	2.08
Poland	2.89
Slovakia	6.2
Hungary - N	0.87
Visegrad cc	3.89

2008	2009	2010	2011	2012	2013	2014	2015	2016
0.415714	0.222857	0.101429	0.201429	0.32	0.334286	0.381429	0.405714	0.398571
0.59	0.4375	0.3825	0.3525	0.3875	0.3525	0.65	0.9375	0.785
1.33	0.76	0.45	0.53	0.67	0.71	0.83	0.94	0.88
1.8	1.1	0.76	0.69	0.72	0.91	1.33	1.79	1.88
1.6	1.14	0.52	0.21	0.3	0.66	1.09	1.29	1.05
2.93	2.69	2.53	2.57	2.48	2.32	2.43	2.55	2.34
5.21	3.43	1.89	1.2	1.21	1.35	1.58	1.98	1.96
0.44	0.08	-0.14	-0.13	0.06	0.35	0.61	0.76	0.82
3.313333	2.406667	1.726667	1.486667	1.47	1.526667	1.78	2.106667	2.06



No.	Criteria	Indicator
1	price stability	inflation rate
2	Sound and sustainable public finances	Government deficit
3	Sustainable debt management	Public debt
4	durability of convergence	Long-term interest rate
5	Exchange rate stability	Exchange rate developments in ERM II

Expected values	Current data for Hungary
A price performance that is sustainable and average inflation not more than 1.5 percentage points above the rate of the three best performing Member States	+2.97 percentage point (2019)
Maximum of 3% of the GDP	2.3% (2018)
Maximum of 60% of the GDP	68.22 % (September 2019)
Not more than 2 percentage points above the rate of the three best performing Member States in terms of price stability	+2.1 percentage point (December 2019)
Participation in ERM II for at least 2 years without severe tensions, in particular without devaluing against the euro	Hungary does not take part in the ERM II, but it meets the criteria

	HCIP	LTIR		
	2019	2019 december		
Ausztria	**1.5**	-0.04	-0.22333	
Belgium	**1.2**	0.01		**2.103**
Ciprus	**0.5**	0.433333		
Észtország	**2.3**	…		
Finnország	**1.1**	-0.04	2.97	
Franciaország	**1.3**	0.04		
Görögország	**0.5**	1.42		
Hollandia	**2.7**	-0.14		
Írország	**0.9**	0.04		
Lettország	**2.7**	0.16		
Litvánia	**2.2**	0.31		
Luxemburg	**1.6**	-0.23		
Málta	**1.5**	0.4		
Németország	**1.4**	-0.3		
Olaszország	**0.6**	1.37		
Portugália	**0.3**	0.41		
Spanyolország	**0.8**	0.44		
Szlovákia	**2.8**	0.13		
Szlovénia	**1.7**	0.02		