BEFOGADÓ NYILATKOZAT

Alulírott Dr. Arató Krisztina igazolom, hogy a *Routledge Books*-nál megjelenés alatt lévő, Dr. Koller Boglárkával és Pelle Anitával közösen szerkesztett *The Political Economy of the Eurozone in East Central Europe: Why In, Why Out?* c. kötet tartalmazni fogja Dr. Kovács Olivér István *Hungary and the Eurozone – From eulogy to neutrality and beyond?* című tanulmányát is.

Budapest, 2020.07.22.

………………………………………………

Dr. Arató Krisztina
Egyetemi tanár
Intézetigazgató
ELTE ÁJK
Politikatudományi Intézet
H-1053 Budapest
Egyetem tér 1-3.
Email: krisarato@ajk.elte.hu

THE HUNGARIAN EUROLESSNESS – FROM EULOGY TO NEUTRALITY AND BEYOND[1]

Olivér Kovács

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 (see Government of Hungary, 2018, 2019). The new criteria, introduced by the Hungarian Central Bank, namely that euro should be adopted when 90% of the average development level of the Eurozone is achieved (which is a matter of a minimum of three decades), is unequivocally signalling the unwillingness of the government to introduce the euro.[2]

In the next sections we will decipher the major trends and causes of such Hungarian path without forgetting influential global phenomena. *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. Phases of Hungarian Eurolessness – Eulogy, Neutrality and Beyond

2.1 EUlogy – More than Illusion

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.

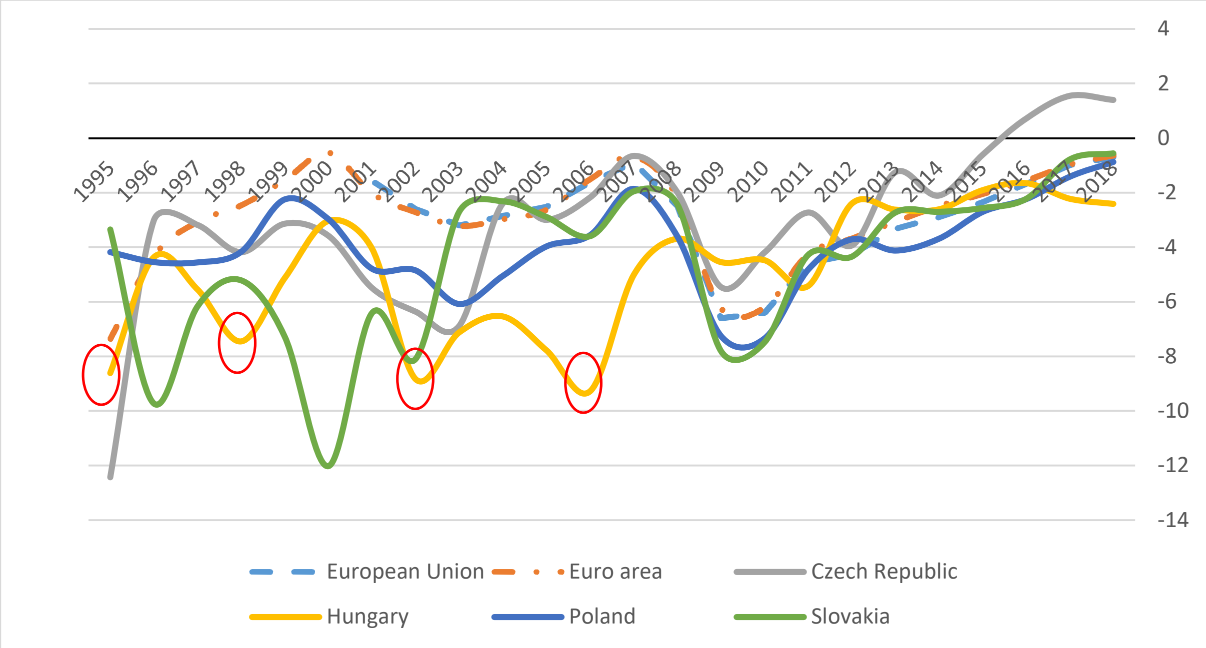
2.1.1 The Search for a Defending Clique – Becoming a "08/15" up to 2004

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 (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*).

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

[2] See: https://bbj.hu/economy/hungary-needs-new-euro-criteria-says-mnb-deputy-gov_138341 Accessed on: 11.11.2019

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 etc.) emerged, unfortunately only with a soupçon of lasting improvements[3], 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"[4] 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 in the temporariness of decisions, nothing can therefore runaway endlessly (e.g. 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.

---

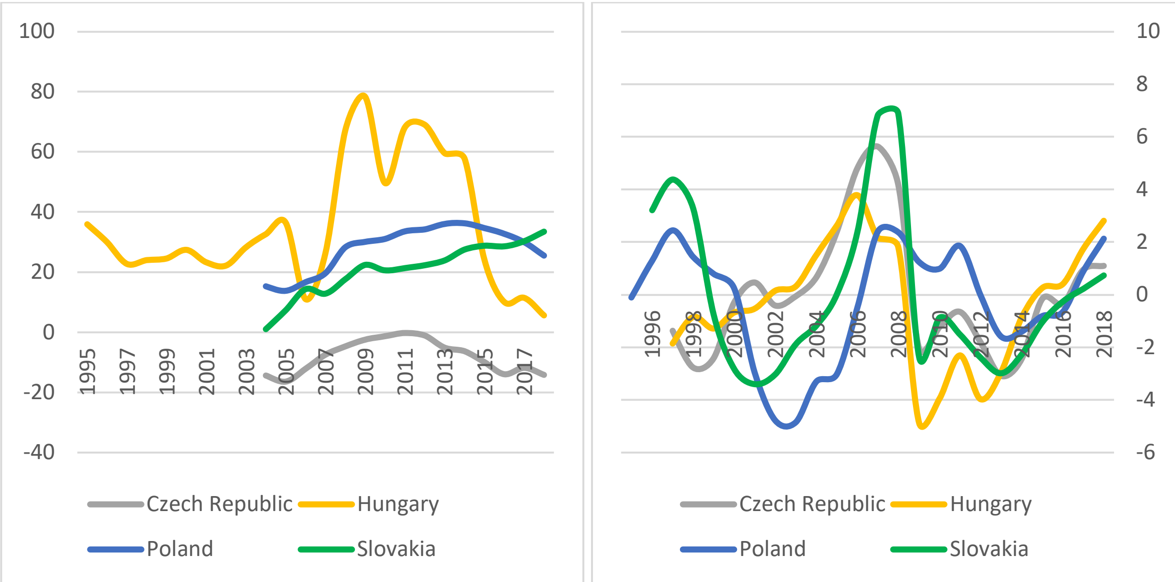
[3] The relatively prudent fiscal policy became lax after 2000: (i) new housing subsidy system initiated by FIDESZ government; (ii) 50% salary increase in case of public sector workers during the Medgyessy administration; (iii) one-off payment for pensioners; (iv) making the minimum wage tax-free; (v) 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.

[4] 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.

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 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 Visegrad 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. 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.

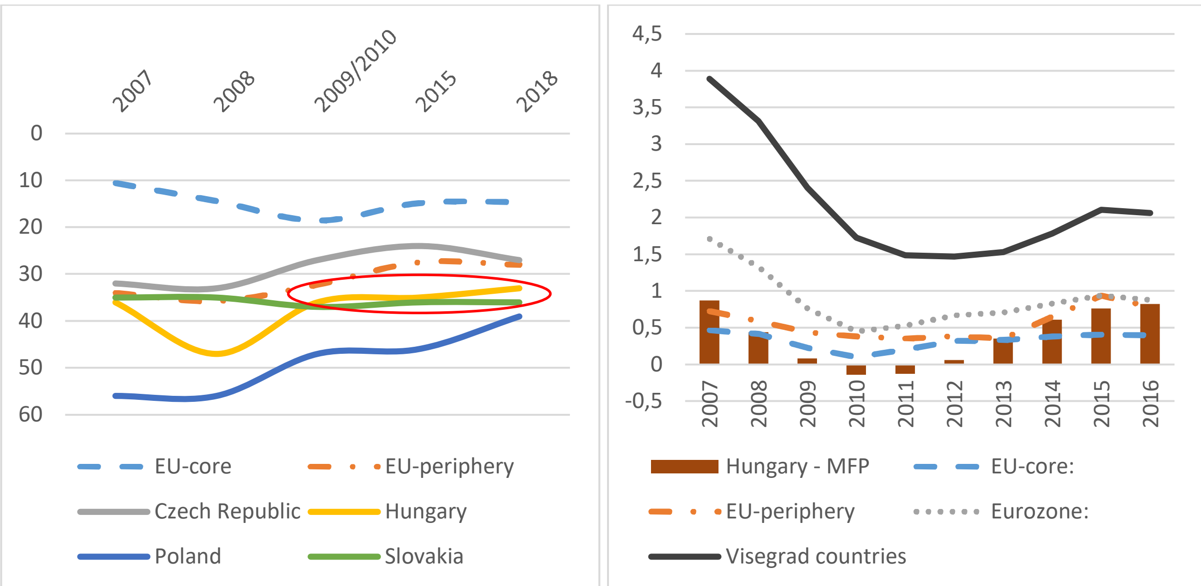
2.2 The New nEUtrality – More than Reclusion

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 (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 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 (*Chart 3*) as well as rehabilitating international competitiveness (i.e. check IMD World Competitiveness Yearbooks).

Chart 3. Innovation (left chart) and productivity (right chart) performance



Note: Left chart refers to the ranking positions, Global Innovation Index, while the right chart 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[5], the ever-more withering issue of exporting talents by causing huge shortage of (skilled) labour in Hungary has also become a hot topic.[6] 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 (e.g. debt-to-GDP ratio reaching an inflexion point, low inflation in 2014-2016, surplus in current account balance, relatively high GDP growth[7]), 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

[5] 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.

[6] 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.

[7] 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).

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.[8] 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.[9] 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. 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.[10]

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*.

[8] The number of people at budgetary institutions as well as the amount of the budgetary personal allowance more than doubled between 2010 and 2016.
[9] 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. 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).
[10] See Dandashly and Verdun (2018) about the *laggard by choice* mentality in case of Hungary.

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). 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), 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. On can therefore detect the runaway phenomena in the course of mainstream economics having merely a spurious 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 wicked 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 industry 4.0, AI revolution etc.).

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. 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 – 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.[11]

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*[12] 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 (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). 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 (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 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).

[11] Despite the warnings of Nobel laureates, see: https://www.theguardian.com/commentisfree/2019/jan/25/fight-europe-wreckers-patriots-nationalist Accessed on: 11.11.2019.

[12] 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.

Box 1. The rise of the Hungarian plebiscitary leadership governance

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 (see Urbinati, 2014).

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 (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[13]). 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.

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[14]). 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.

---

[13] See: https://freedomhouse.org/report/freedom-press/2017/hungary Accessed on: 11.11.2019

[14] See: http://www.europarl.europa.eu/doceo/document/A-8-2018-0250_EN.pdf Accessed on: 11.11.2019.

3. Conclusions

In this chapter 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[15], 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, 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 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:

[15] See Kovács (2019 – forthcoming).

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 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[16] 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.[17] 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[18], 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*.

By admitting that no one knows what the future has in store (especially because we are in politics not in business, as the first president of the European Commission, Walter Hallstein emphasised); 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 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). *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.

[16] 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.

[17] 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: 11.11.2019.

[18] 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.

References

Banai, Á. – Lang, P. – Nagy, G. – Stancsics, M. (2017): Impact Evaluation of EU Subsidies for Economic Development on the Hungarian SME sector. *MNB Working Papers* No. 8

Barrera, O. R. – Guriev, S. M. – Henry, E. – Zhuravskaya, E. (2018): Facts, Alternative Facts, and Fact Checking in Times of Post-Truth Politics. *CEPR Discussion Paper* No. DP12220

Central Bank of Hungary (2017): Felzárkózás az eurózónában – csakis megfelelő felkészültséggel teljesíthető. Available: https://www.mnb.hu/letoltes/nagy-marton-virag-barnabas-felzarkozasi-az-eurozonaban-frissitett.pdf Accessed on: 11.11.2019.

Chamberlain, N. W. (1960): The Need for a New Economic Unorthodoxy. *Business Horizons*, Vol. 3., No. 2, pp. 21-31.

Csaba, L. (2012): Hungary and the Crisis of the Eurozone: A Comedy of Errors? In: Visvizi, A. – Stępniewski, T. (eds.) (2012): The Eurozone Crisis: Implications for Central and Eastern Europe. Yearbook of the Institute of East-Central Europe, Volume 10 (2012), No. 5. pp. 33-44.

Csányi, V. (2003): Az emberi természet – Humánetológia. Vince Kiadó, Budapest.

Dandashly, A. – Verdun, A. (2018): Euro Adoption in the Czech Republic, Hungary and Poland: Laggards by Default and Laggards by Choice. *Comparative European Politics*, Vol. 16., No. 3, pp. 385-412.

European Commission (2018): Proposal for a Regulation of the European Parliament and of the Council on the Establishment of the Reform Support Programme. European Commission, Brussels, 31.5.2018. Available: https://ec.europa.eu/commission/sites/beta-political/files/budget-may2018-reform-support-programme-regulation_en.pdf Accessed on: 11.11.2019

European Economic and Social Committee (2017): The EESC calls for a long-term action plan for the Social Economy by 2018. Available: https://www.eesc.europa.eu/en/news-media/press-releases/eesc-calls-long-term-action-plan-social-economy-2018 Accessed on: 11.11.2019

Government of Hungary (2018): Convergence Programme of Hungary 2018-2022. Government of Hungary, April 2018. Available: https://ec.europa.eu/info/sites/info/files/2018-european-semester-convergence-programme-hungary-en_1.pdf Accessed on: 11.11.2019

Government of Hungary (2019): Convergence Programme of Hungary 2019-2023. Government of Hungary, April 2019 (in Hungarian only). Available: https://ec.europa.eu/info/sites/info/files/2019-european-semester-convergence-programme-hungary_hu.pdf Accessed on: 11.11.2019

Kajdi, L. (2018): Remittances – First Results of a New Survey. *Financial and Economic Review*, Vol. 17 No. 3, pp. 85-108.

Kornai, J. (2015): Hungary's U-Turn. *Capitalism and Society*, Vol. 10, No. 1, Article 2, 2015.

Kornai, J. (2017): Látlelet: Tanulmányok a magyar állapotokról. Budapest: HVG-könyvek, 2017.

Kovács, O. (2015a): Stabilitás és dinamizmus. Az innovatív fiskális politika alapjai. /Stability and Dynamism. The Fundamentals of Innovative Fiscal Policy/ Alinea Publishing, Budapest.

Kovács, O. (2015b): A magyar différance. *Köz-Gazdaság*, Vol. 10., No. 4. pp. 145-166.

Kovács, O. (2019 - forthcoming): Grounding Complexity Economics in Framing Modern Governance. Acta Oeconomica, Vol. No. pp.

OECD (2017): How's Life in Hungary? OECD Better Life Initiative, November. Available: https://www.oecd.org/statistics/Better-Life-Initiative-country-note-Hungary.pdf Accessed on 11.11.2019

Szalai, J. – Svensson, S. (2018): On Civil Society and the Social Economy in Hungary. *Intersections, East European Journal of Society and Politics*, Vol. 4., No. 4, pp. 107-124.

Tóth, G. Cs. – Virovácz, P. (2013): Winners and Losers. An Assessment of the Hungarian Flat Tax Reform with Microsimulation. *Public Finance Quarterly*, Vol. 58., No. 4, pp. 369-385.

Trichet, J-C. (2011): Tomorrow and the Day after Tomorrow: A Vision for Europe. In: Conference at Humboldt University, Berlin. 24 October 2011.

Urbinati, N. (2014): Democracy Disfigured. Opinion, Truth, and the People. Harvard University Press, Cambridge, Massachusetts.