3.1.2 Hungary: from pioneering transition to pioneering state capitalism

Miklós Szanyi

Introduction

Hungary is a land-locked small country located in East-Central Europe, in the Carpathian basin. Its area is 90.530 square kilometres, mostly suitable for agricultural production. The country is relatively poor of mineral resources due to the lack of mountains, moreover its known natural gas and oil reserves were exhausted during extensive production periods between 1930 and 1970. Its population was 9.778.371 inhabitants in 2018, out of which 18.9 % was aged less than 15 years and 14.5% – over 65. Total population increased until 1980 and peaked with 10.71 million. Since then the country witnessed declining demographic trends and constant aging of the population that was only partially balanced by immigration. Most people live in towns (71.06 % in 2017), but the country has only one real metropole, the capital city Budapest (1.756 thousand inhabitants, together with its suburbs cca. 2.300 thousand). The main economic and political process in the country after 1990 was transition from centrally planned economy to market economy. This process fundamentally influenced business conditions, macroeconomic performance, institutions and the way of life in the country.

1. Political context and quality of institutions

Transition to market economy enjoyed widespread social and political consensus during the 1990s in Hungary. Therefore, the establishment and reintroduction of liberal market economic institutions as well as a democratic political system was rather quick and straightforward. The achievements in the process were earmarked by Hungary's accession to the OECD (1996), NATO (1997) and the European Union (2004). The country gained also economically from the systemic change: the level of GDP increased very significantly between 1995 and 2007. The robust

development process lost steam already before the 2008 crisis and recovered only slowly.

In the transition process of the 1990s, Hungary has become a fully-fledged market economy with institutional system comparable to the classic continental model of capitalism. It can be noted that the institutional background has not been imbedded deeply in the society and also the democratic political system elements remained fragile. Hence, with the world wide advance of state capitalism (Musacchio, Lazzarini 2014; Nölke 2014) Hungary's democratic political institutions as well as liberal market economy structures were rolled back considerably after the 2008 crisis (Voszka 2013). Thus, the concept of competition state (democratic competition in politics, free market competition in the economy) was pushed to the background (Szanyi 2016). These changes diverted the country's development path from the set of transatlantic models described by the well-known contributions of the Varieties of Capitalism (VoC) literature (e.g. Hall and Soskice 2001; Amable 2003; Nölke and Vliegenhardt 2009) towards a system which resembles the Latin-American clan state model. (Phillips 2004). The current Hungarian government made efforts to change some elements of the international environment too, especially within the EU institutions. The most recent worldwide advance of state capitalism supported these ambitions by certain parties and governments not only in "classic" etatist regimes like Russia, but also in other EU member states (Poland, Italy, France).

Hence, the Hungarian variant of capitalism is a rather peculiar hybrid that also changes over time rather quickly. The basic market economic institutions are present but since the rule of law is weak, their effect is very limited. This gives way to a new type of crony capitalism. The process of Hungary's sinking down to political and economic chaos that was experienced in many countries of Latin America is nevertheless blocked by several factors. Firstly, Hungary became a workbench of the European economic space, most importantly of Germany. Germany can effectively press the Hungarian governments not to go too far in rolling back liberal economic institutions that would endanger German economic interests. Secondly, also the European Union has an anchoring role since Hungary

signed many of the important treaties that constitutes the EU's acquis. Thirdly, political rent seeking is bound to a properly performing income generating economy. Rolling back of market economic institutions could seriously endanger dynamism of the economy which can become fatal if external growth sources (EU-transfers, FDI) dries up. In this sense, the Hungarian model is a symbiosis of the FDI-led economic model and a crony model of capitalism.

This process is reflected in deteriorating regulatory efficiency, increasing corruption, declining rule of law, suppressed voice and accountability. Institutional shortcomings of Hungary's development deteriorated most recently. Five out of six aggregate measures in World Bank's Worldwide Governance Indicators show decline between 2000 and 2017. Voice and accountability declined from 85th to 58th position (on the scale 1 – worse to 100 – best). This is a clear reflection of the authoritarian measures of the Hungarian government after 2010. Government effectiveness changed from 82 to 70, regulatory quality from 83 to 73, the rule of law from 81 to 70, control of corruption from 78 to 59. After steady decline from 78 to 69 in 2012, the measure political stability and absence of violence indicator improved to 74. While even the lower values of the measures are above average (over 50), the trend is rather worrying. There is a rapid decline of governance quality in Hungary despite of EU membership. In fact, the Hungarian government's most recent policies openly query the importance of many values reflected in the good governance indicators. Thus, even if unintended, the deterioration is triggered in many cases by government action.

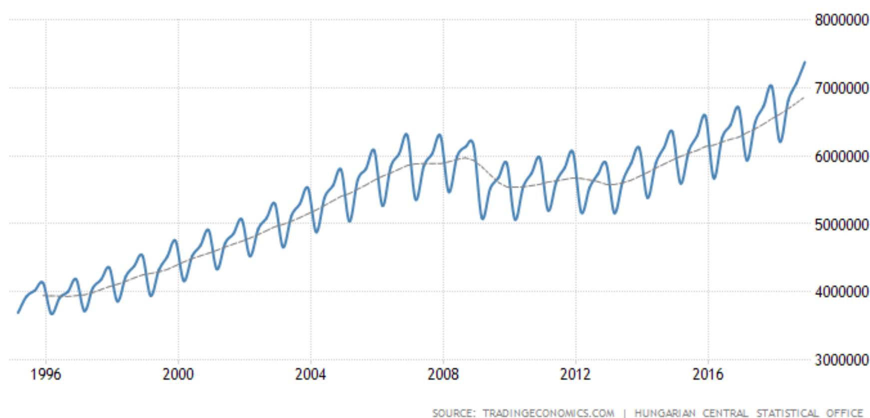
2. General economic outlook

Economic growth of the country was significant after the period of transition crisis. Between 1990-1994, the level of cumulative GDP dropped by 30%, and the economy recovered to the pre-transition level only in 1998 (Kornai 1994). The then achieved relatively high growth rates (2-5% GDP growth) could not be maintained throughout the 2000s mainly due slower growth in the main trading partner of the country (Germany) and the mounting government debt that called for austerity measures in 2006-7. This together with the negative effects of the global financial crisis in 2008

resulted in negative growth in 2009 (-6.6%) and also in 2012 (-1.6%). Thereafter economic growth was significant ranging between 2.1% (2013) to 4.9% (2018). Average GDP growth between 2010-2017 was 3.1% compared with the 2.1% average growth rate of the EU28. This was achieved with the help of successful macroeconomic policies and the significant stimulation effect of financial transfers from the European Union. But the 10-year average growth rate was only 1.0% in 2018 (reflecting also the impact of the 2008/9 crisis).

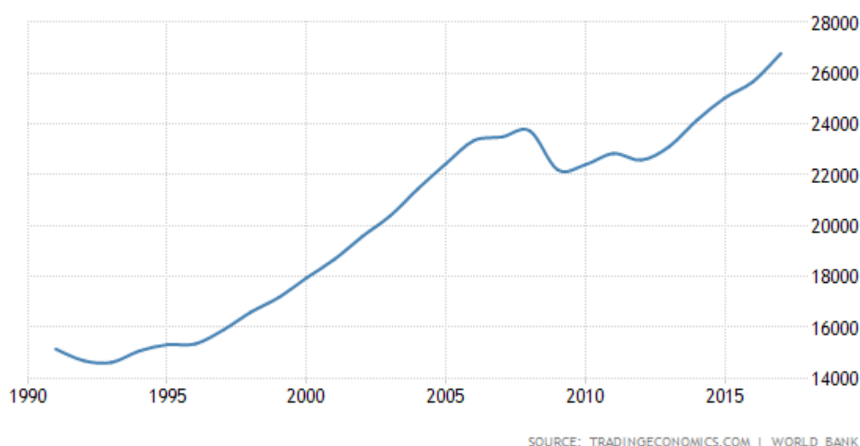
GDP growth rates

GDP HUF million, constant price



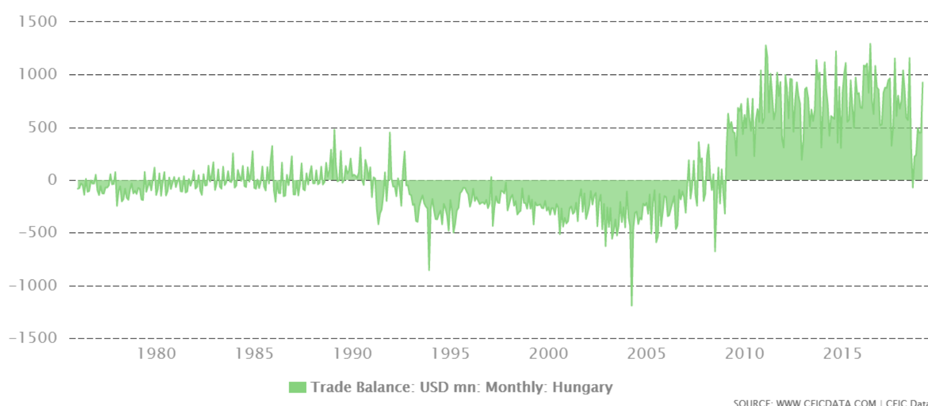
Hungary's relative level of development (GDP per capita) almost doubled from its lowest level in 1993. Yet, it is fairly low compared to the average of the EU28. It was 61% in 2006 and increased to 68% by 2017 (Eurostat) mainly due to above average economic growth but also due to declining population figures (smaller denominator).

GDP/capita (USD, PPP)



Industrialisation up till the 1990s and deindustrialisation afterwards shaped the economic structure of Hungary. The role of agriculture in employment declined from post second world war levels to 5.4 % in 2018. The low employment level together with relatively high agricultural output indicates increased productivity in the branch which is due to concentrated land ownership and up to date technological levels. Deindustrialisation was deepest in the transition crisis period (1990-1994). The liquidation of obsolete industrial capacities was only partially offset by new industrial investments carried out mainly by foreign companies. Employment in industry reached 26.9% in 2018 showing a 2% point increase over the low of 2012. The increase was also due to reindustrialisation efforts taken by the Hungarian government. The 2018 67.7% level of services (private and public) employment reflects the results of many post-transition processes: a quick recovery of the previously underdeveloped personal services sector,

the penetration and aggressive expansion of multinational services firms, strong specialisation of the labour force on low-end business services (call centres). Significant part of the GDP is realised in net goods and services exports. From 2007 onwards but especially after 2009, Hungary achieved substantial surpluses in the trade balance. Trade statistics show a very high level of openness of the country. Among the EU28, Hungary had one of the highest share of exports and imports as percentage of GDP (86.5% and 81.7% respectively in 2018 according to data of the Central Statistical Office).



Labour market conditions have been regarded as rather flexible in Hungary. For many years also wage costs were low, and the rather quick rise in labour productivity produced falling unit labour costs in the country, especially during the 1990s. After the year 2000 and especially after the EU accession wages started to increase in real terms. The process was also intensified by negative demographic changes, aging and significant outmigration. After 2010, labour shortage emerged in various market segments, most importantly in blue collar manufacturing employees (skilled workers). In response to changes in the labour market Hungarian government decided in 2018 to amend laws regulating employment conditions. Employers were entitled to increase possibilities of overtime work hours with relative minor excess compensation (Slave Law). The new regulation called for protest demonstrations. Also, major strikes were launched in some important industrial facilities (Hankook, Audi) that were successful and could enforce increases in employees' wages.

The share of wages in GDP was 36.3% in 2017. All employee compensations plus employer's social contributions made up 50.7% (Eurostat). The flexibility of the Hungarian labour market was largely achieved due to the weakness of labour organisations in the country (they were slashed on political reasons during the early years of the transition period). The trade union density rate was a mere 12% in 2010, and the share did not increase significantly ever since. The potentially accessible labour force could be increased in labour shortage situation by an increase of the activity rate to 71.2% by 2017. Also, unemployment rate went back to an all-time low level of 3.7% which is probably below the natural rate of unemployment. The significant reduction was achieved through the introduction of social works in the most depressed rural regions. This construction cannot be treated as regular employment but rather as social aid. Very much worrying is the total slowdown of productivity growth in Hungary. Between 2010 and 2018 labour productivity increased only slightly by 5.5% while all other transition economies scored double digit figures, many of them over 20-30% (Eurostat). This figure clearly shows that economic progress stalled in Hungary. No new, more productive investments were carried out and we can suspect that unproductive employment forms are also reflected in this figure. Last, but not least, the quality and skill ability of the employed might have deteriorated too. Significant outmigration occurred after the labour market liberalisations in more developed EU countries luring away rather the competent workforce especially in the blue collar segment. Estimations count with 300-500 thousand active people to move, and there is another significant share of the population in Western Hungary that commutes mostly to jobs in Austria.

Dynamics and structural development of the Hungarian economy was largely determined by the new role of the country in international labour division controlled by multinational corporate networks. The Hungarian economy was successfully integrated in global world economy. Yet, the process was rather extensive, quantitative: existing production input sources were reorganised in new global business models based mainly on the usage of available unskilled labour. Hungary has been regarded as a

classic example of dependent market economy (Nölke and Vliegenhart 2009): dependent from multinational business decisions.

3. Quality of entrepreneurship

The four decades of communist rule and central planning exercised a deep impact on social attitudes to and experience with entrepreneurship. Hungary was called the showcase country of the communist bloc. This meant a relatively loose Soviet control over the economy. Hungary was simultaneously also a test lab of economic and social reforms in the soviet bloc. Starting as early as in 1968, Hungarian governments experimented with economic reform initiatives in order to introduce performing price system, collective and personal incentives and more direct links to the non-communist world economy. However, these reform steps did not change the basic character of the economy. 70-80% of production remained under direct government control and central planning. Prices and salaries were also largely kept under control. During the 1980s, Hungary accumulated a high foreign debt.

Yet, under the debt pressure Hungarian government made new efforts at improving economic performance of the country in 1988. Key market economic institutions were introduced in the legislative: Company Law and Commercial Law were passed, two-tire banking system was created, price and wage controls were eased. These changes in the legal system proved to be important drivers of the transition process already in 1989 (privatisation through asset tunnelling) and in 1990 when the first free elections were held and the first government of the new Hungarian Republic was formed. High foreign debt, accumulated experience with some market economic institutions, corporate managers' contacts to Western businesses were the main determinants of the transition policies of the new Hungarian government. Another important driver was of course the international advising community.

Hungary applied the gradual approach in the transition process (Roland 2000). There was no big bang. Priority was given to speedy institutional development, the creation of basic market economic institutions. At the same time, serious efforts were made to continue increasing efficiency on

the micro level that could also contribute to the reversal of the transformational recession and the macroeconomic stabilisation of the economy (Szanyi 2016). The establishment of credibility of economic policy and breaking the inherited paternalistic linkages of firms to polity was also high priority (Szanyi 2002). Hence, microeconomic transformation was urged in several ways. The government decided to slash company and market subsidies from 1992 onwards. Liberalisation measures were introduced relatively quickly, price control was lifted almost entirely, imports were liberalised rather quickly, exclusive business licenses were withdrawn.

The quickly intensifying pressure of competition was not accommodated by any measures (e.g. by currency devaluation), companies were encouraged to solve their problems through the privatisation process, mainly relying on foreign companies' investments. Thus, privatisation policy preferred sales to foreign investors and FDI was encouraged also by many other advantageous regulations. At the same time companies were legally forced to manage the new challenges. Unfortunately, the "supply side shock therapy" called for a massive wave of bankruptcies (Szanyi 2002). Approximately one third of the previous state ownership stock was eliminated, a further one third was privatised to foreign companies. The remaining stock either was kept in state ownership or privatised through other tools (vouchers, employee-management buyouts, insider actions).

Against this background it is not very surprising that the entrepreneurial class has not been particularly strong in numbers or in skills and capacities up till the 2000s. Several studies confirmed these deficiencies (Laki 1994, 2002; Stark and Vedres 2012). Instead of technological and business innovations Hungarian entrepreneurs continuously put efforts in accumulating network capital: good connections with policy makers. Instead of targeting economic rents stemming from innovation and leadership they concentrate on rents stemming from political connections (Kolosi and Szelényi 2010; Laki 1994, 2002). Therefore, analytical measures of entrepreneurship are fairly disappointing and show no sign of improvement in Hungary.

The Global Entrepreneurship Monitor (GEM) provides a rather mixed picture about the conditions and capabilities of entrepreneurship in the country. The GEM spider chart shows that the level of physical infrastructure is ranked highest (around 4 on the 1-5 scale), and this is equal to the regional average, meaning that East-Central Europe has an overall good quality infrastructural background. Adequate levels were shown in higher level entrepreneurial education (with numerous internationally recognised universities and business schools), commercial and legal infrastructure and internal market dynamics. Entrepreneurial finance received somewhat lower score but was still very much in line with the regional average score. Going backwards on the ranking we see internal market burdens and entry regulation and R&D transfer at even lower level and below the regional average. The worse performing features with figures around grade two and below regional average scores were government entrepreneurship programs, governmental policies both from the aspects of support and relevance moreover taxes and bureaucracy. The bad scores of the three government policy related indicators calls attention to serious problems in formulating coherent and supportive strategy for business and entrepreneurship promotion. But the situation is even worse in the case of social and cultural norms which is in connection also with the complete lack of entrepreneurial education at the school stage.

On the list of WEF's Global Competitiveness Index (GCI) Hungary scored 48th out of 140 countries. The ranking has improved from the low 62nd position in 2008 steadily, mainly because of improved macroeconomic indicators (rank 115th out of 134 countries in 2008 and 43rd of 140 in 2017). The other main pillars of the GCI did not change so dramatically, and they are roughly at the level (usually somewhat below) of the high-income group average or the Europe-North-America average. In pillar 1 (institutions) "efficiency of legal framework in challenging regulations" is ranked 134 (from 140!), but several other measures were over 100: "judicial independence", "property rights", "conflict of interest regulation". Burden of government regulation scored 95, future orientation of the government 96. Thus, several key institutions especially in the area of property right enforcement are weak thus hindering business

performance. Some other relatively weak points of Hungarian competitiveness were also shown in pillar 6 “Skills”.

The business freedom measure of Heritage Foundation declined in Hungary most recently (2019). Now the country is only moderately free and countries like Kosovo and many others are ahead of it. The score is 65. Especially telling is the explanation of the decline. “Hungary made important reforms from a centrally planned to a market-driven economy, but the government has become more interventionist in recent years. The government plans to use sectoral taxes to manage the budget deficit and public debt to avoid renewed European Union sanctions under the EU’s excessive deficit procedure. Systemic economic challenges include pervasive corruption, labour shortages driven by demographic declines and migration, widespread poverty in rural areas, vulnerabilities to changes in demand for exports and a heavy reliance on imports of Russian energy." These are the most important flaws and challenges.

4. Modernisation based on FDI

During the mid-1990s up till the 1996/7, sale of public utility service networks and commercial banks FDI penetrated the Hungarian economy through privatisation deals. The modernisation of the newly acquired facilities soon begun, and the improved performance of firms was also reflected in more macroeconomic stability and economic growth (Szanyi 2016). Thereafter also major greenfield FDI projects were launched. Capital investment activity in the country became increasingly controlled by multinational companies’ local affiliates. Complete new industries were established (electronics, automotive). On the other hand, many of the traditional flagship branches and firms of Hungary shrunk or disappeared providing much fuel to intense discussions even many years later. Hence, the restructuring process established facilities that were shaped in the then already prevailing GVC concept of labour division. This meant that Hungarian affiliates carried out only certain segments of the production process and were highly specialised mainly on labour intensive activities. The country’s main FDI attraction potential was access to cheap skilled labour force alongside with opening up new market potential (Nölke and Vliegenhart 2009). Thus, by the year 2000 Hungary became leader in FDI

attraction in East-Central Europe and accumulated a rather significant stock of FDI.

After conducting a substantial amount of research on FDI and the work of multinational firms in Hungary, most researchers reached a kind of general consensus in the issue. Firstly, FDI and foreign penetration in the transition process was not only unavoidable, but definitely the best option to restore competitive economic structures in the economy. Hungary's economy became highly competitive internationally. On the other hand, Hungarian business could not keep pace with this quick development, due mainly to its own shortcomings and the counterproductive regulatory system that did not support its effective modernisation in times of increased competition. Hungarian capital owners were crowded out from big business. Therefore, today there is no match or adequately strong counter weight in the economy: large parts are dominated by multinational companies (Szanyi 2016). According to data included in UNCTAD's World Investment Report the officially registered share of FDI in total fixed capital formation ranged between 7 and 38% in the period after 1990 up till 2018. The total stock of inward FDI of Hungary was 22.870 million USD in 2000 and 93.332 million USD in 2017 (UNCTAD). By 2017, Hungary also increased its outward FDI stock from 1.280 million USD to 28.611 USD.

During the 2000s this leader role faded out with the advance of investments in other countries of the region. Hence, the Hungarian economy lost somewhat in dynamism. Due to opportunistic behaviour of the various governments in this period foreign debt started to accumulate again, growth was fuelled by state-sponsored private and public consumption. Another feature was the increasing direct influence of succeeding Hungarian governments over the economy. Partisan firms participated in public procurement tenders enjoying unjust advantages in the procedure. Also, market regulation changed several times favouring political insiders. To some extent re-nationalisation also occurred in order to support certain political goals (e.g. slashing public utility prices). These tendencies intensified after the 2004 accession to the European Union, and especially after the 2008 crisis (Szanyi 2016). Most recently, the still considerable economic growth has had three main drivers. EU accession and successful

applications to various EU funds provided stimulating cash transfers to the tune of around 5% of the GDP. FDI promotion was spread to expansion of already existing facilities that maintained investment momentum of the foreign-owned sector of the economy. Thirdly, despite of long-term development and economic stability risks many policies of the current government successfully stabilised the economy. Also political stability increased.

Concerning financial sector data, we can see that Hungary has a continental type system with a strong influence of commercial banks and relatively weak capital markets. The stock market capitalisation was only 12.31% of the GDP (2015), and there are only a handful of listed companies in the country. The security market is dominated by government papers. The level of domestic savings has increased significantly after 2010 from 26% to 30.36% of the GDP in 2017. This may give some credit to the National Bank's conversion plans. The stock of domestic credits to private sector declined greatly between 2010 to 2017 from 60.8% to 33.4% of the GDP (Hungarian National Bank data). The reduction of private sector debt was achieved mainly by the write-offs of non-performing foreign currency mortgage loans held by the banks. After the 2008 crisis and the rapid appreciation of the Swiss franc, a big share of the mortgage loan stock failed causing serious tensions in the banking sector but also creating political debates over the case. Because of the political importance of the issue the Hungarian government provided assistance to cover the costs of the elimination of the bad loans.

The figures show that investments do not use up all of the private savings, thus, there is a significant amount of liquidity that can be channelled towards government securities. The investment rate was 22.41% in 2017. Just like it is usual in the German type economic model, banking sector's overall economic influence is also supported by a high concentration ratio. The largest 3 banks concentrated 66.5% of total banking sector assets (OECD).

5. Knowledge sector

Dynamic efficiency and future growth potential can be evaluated with an overview of the situation of innovation and entrepreneurship. Science and education has enjoyed high priority in Hungary during the late 19th and early 20th century. At that time compulsory primary education was introduced, some universities enjoyed worldwide reputation due to their scientific activities (Nobel Prize winners). The soviet-type political and economic system eliminated the incentives and decimated the financial resources especially for high quality scientific research. At the same time the US-led technology embargo cut off the country from vital technology transfers. Thus, science and education was weakened, though the basic infrastructure for high quality work remained in place. Unfortunately, the crony-type capitalist model that evolved after the 1990 political transition in Hungary did not increase incentives for developing the knowledge-based economy in the country. The quality of output in all levels of education started to decline. Business remained rather immune to innovations: the development of network capital remained the primary source of business development and not innovation (Laki 2002).

The EU Innovation Scoreboard collects important comparative data (27 indicators) about the quality of innovation infrastructure, innovation performance and innovation support. Hungary's overall ranking declined very slightly between 2010 and 2017. The country was 21st of the EU 28 and belonged to the low section of moderately innovating countries. Two measures have stood out permanently: employment in fast growing enterprises and medium and high tech product exports. This later indicator however does not really mirror high tech local value added: in many cases the low segments of high or medium tech production (e.g. assembly) is carried out by multinational firms' affiliates in Hungary. In further two measures (international scientific co-publications and broadband penetration) Hungary could substantially improve its scores. At the same time, in half of the measures deterioration was observed. This was especially marked in the case of small firms' innovativeness. R&D spending increased from around 1% of the GDP during the late 1990s to 1.2 %, but this is still far behind the EU average or the highly innovative

countries' expenditure figures. The government's new strategic plan targets 2% R&D spending in the medium term.

Despite of advances in some areas of digital economy and society (e.g. improved access to broadband infrastructure) Hungary is ranking rather low in the Digital Economy and Society Index (23rd out of the 28 EU member countries in 2018). The DESI Country Report also highlights improved connectivity in the country and also the resulting increased usage of internet services. Measures of both of these aspects are slightly above the EU average. However, in the three other dimensions Hungary lags far behind. The level of human capital (enabling knowledge and skills) is already significantly lower than the European average, but integration of digital technology and especially digital public services have dramatically low level. In case of digital public services Hungary is only 27th in the list of 28 EU member countries. This is despite of the effect of the National Info-Communication Strategy 2014-2020. Nevertheless, DESI improved also in Hungary from 35 to 45 between 2014 and 2018.

Hungary is a moderately innovating country with some strengths and many weaknesses. Good quality education used to be one of the key factors of Hungarian success in the area, looking back to very significant government efforts during the modern history of the country. This system started to erode due to several reasons but mainly because of the lack of government attention. Hence, output from the various levels of education have sharply deteriorated during the past 20 years. Another weakness is the low level of interest in innovations, which has also been a problem already during the times of central planning and thereafter. The main problem is here the lack of stable economic and regulatory environment and cronyism that provides easier and more countable business options for entrepreneurs. Therefore, most indicators in this section are not very good, except of the share of high-tech exports (13.8% in 2017). This fairly high share is mainly due to multinational companies' activity, but the real knowledge intensive value added content in this turnover may be significantly lower. R & D expenditure was 1.21% of the GDP in 2016, a figure mostly reflecting multinational firms' local activity. Indigenous business has negligible share, and state's share is also lower than in other countries, around 40%

of total spending. Public expenditure on education was 9.24% of the GDP and declining (true, school-age population is also falling), the higher education rate was 26% in 2016.

6. Public opinion attitude towards transformations

Hungary had been a reform-communist country during the 1970s and the 1980s. The Hungarian "goulash communism" not only meant slightly higher living standards, but also relatively looser political and economic control. Some freedom of decision was provided to company managers, citizens were also allowed to travel or to launch small businesses. The experiments with "economic reforms" served as a social valve: Hungary became "the happiest barrack" in the communist camp. At the time of the political transition and throughout the 1990s, Hungary enjoyed the benefits of these premises. Hungary was the eminent scholar in the establishment of the structures of the competition state in the ECE region. The society hoped that the quick implementation of the institutions of the most competitive transatlantic capitalist models will catapult the country to similar levels of development very soon. At that time a kind of euphoria characterised the country, which was also fuelled by the newly won political independence and the strong support of advanced countries (mainly Austria, Germany and France in terms of economic integration and the US in entering NATO). This process clearly had a very strong political charge against the Soviet Union and later the Russian influence in the ECE region. This process was supported by strong consensus in the society and among political parties.

Some details of the transition process were discussed already during the 1990s. Right-wing politicians for example criticised the FDI dominance and the lack of effective support of the domestic business. The privatisation process stalled during the first Orbán-government (1998-2002), but by that time majority of state owned enterprises were either privatised or went bankrupt (Szanyi 2016). That government started to work against the Euro-Atlantic orientation of the development path of the country. While cronyism during the 1990s targeted mainly the privatisation process, during the 2000s also parallel with the advance of EU-membership negotiations the main source and vehicles of (political) rent seeking changed. The main

objective was to create partisan business in branches that received large-scale cash transfers from the European Union (e.g. all types of construction). This process earmarked the policies of both left- and right-wing governments, but was pushed to the extreme by the second FIDESZ government after 2010 (Szanyi 2016).

Parallel with this political and economic process public opinion was also massively influenced by the governments and after 2010 by the government-controlled mass media. Consequently, public support of the flagship development projects (NATO-membership, EU-membership) lost substantial public support. Strong criticism of the European institutions and policies was very frequently supported by populist argumentations in the social campaigns that delivered massive support of the government's domestic and international policies. A new element in this game of winning the sympathy of the public was the strong emphasis on xenophobic sentiments against refugees and migrants, and also against social and ethnic minorities. These campaigns changed the attitudes of the less educated social strata especially. The results of this campaign are clearly seen in changes of Eurobarometer survey results. The 2017 survey data indicated that Hungarian people are much more worried by immigration and terrorism than the European average (58 and 45% against 39 and 38%). These figures stand against the facts that after the really troublesome peak of immigration in 2015 the process lost steam completely (as the government argues, this is due to the successful countermeasures). It is also known that the majority of people scared of migration live in small villages and in the countryside, where basically no migrants were seen even in 2015. Another fact: the total number of terrorist attacks conducted by immigrants in Hungary was zero during the last 5-10 years. Surprisingly, trust in the European Union was higher in Hungary than in the EU on average (49% versus 41%). The same surprisingly high level of trust was shown towards the media in effective state monopoly (49%) and the Hungarian government (48%) (Eurobarometer 88). These figures show the deep split of the society: despite of rather obvious lack of tangible evidence in some public matters state media effectively influence the public opinion. As comparison, the first three worrying issues in 2004 were economic problems, terrorism was only 9th on the list (5% against the EU average

16%). Trust in the EU was also much higher (64%) but not in the government (40%) (Eurobarometer 62).

Conclusions

The socio-economic model of Hungary is a mixed one. Loosely embedded market economic institutions provide a rather instable economic environment. This has negative effects on FDI and also on domestic business development. High and increasing political corruption requires capital owners to spend time and efforts with networking with government officials instead of increasing their competitiveness through new investments. The other part of the economy consists of highly efficient multinational affiliates. They have contributed to the overall modernisation process of the Hungarian economy. Unfortunately, their local embeddedness is not always strong. They moved substantial parts of their GVC-s to the country, but also the main suppliers are foreign owned. A relatively new problems is the lack of skilled labour. This shortage has also pushed up real wages. Consequently, price competitiveness of Hungarian locations has eroded. Due to lack of labour but also because of hostile policies of the Hungarian government confidence in Hungarian investments has eroded. Economic growth was maintained through strong growth effects of EU transfers. Unfortunately, the transfers have only temporary stimulation effect. Mainly because they are spent on the development of infrastructure which only has indirect and lagged longer term growth effects besides the current spending effect. It is rather worrying that the economy and social system of the Hungarian crony capitalism undermines also the institutions which are important for long-term development. Education, national health system, is deteriorating very quickly. The mounting problems are also reflected in the still rather modest but significand outmigration and worsening demographic trends.

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