



ISSN: 2036-5438

Hungary and the European Union: the drift towards disintegration

by

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Perspectives on Federalism, Vol. 15, issue 1-2, 2023





Abstract

By the autocratic transformation of its political system (with the establishment of the System of National Cooperation), then by its fierce promotion of national identity, and furthermore by the unorthodox action it has taken against the Union's federal policy of closing ranks in the face of the Russian-Ukrainian state of war, the Hungarian government, which achieved a two-thirds majority, sufficient to alter the constitution, in 2010, has turned away from the European Union. For a considerable length of time the EU's existing mechanisms for dealing with crises were insufficient to respond effectively to the behaviour of its Hungarian member state, which not only endangered the Union's fundamental values and the rule of law, but also posed a high risk that the use of Union funds would be affected by corruption. Finally, in 2022, following several attempts and a decade after the first report of the European Parliament on the decline of democracy in Hungary, by activating the 'rule of law conditionality regulation' for the protection of the Union budget and by prescribing the fulfilment of 'horizontal enabling conditions', the European Commission suspended Hungary's access to a wide range of Union funds, and made such access subject to the implementation of reforms restoring the rule of law. In consideration of the theoretical questions that can be raised relating to the case study of the deteriorating Hungary-EU relationship this paper focuses on the conceptual explanation for the measures taken by the Union in response to the decline of democracy in Hungary and Hungary's failure to maintain adequate rule of law. Moreover, in the concluding section, we will attempt to outline possible scenarios for the future development of the conflict.

JEL codes: F02, F51, F53, P20.

Key-words

multi-speed Union, sanctions, disintegration, political economy of international organisations, post-socialist transformation, autocratisation

The authors would like to express their gratitude to Bálint Ablonczy, Péter Magyari and the anonymous reviewer.





Introduction

In this paper we examine the Hungarian government's growing political separation from the European Union, which started in 2010 and has already been manifested in repeated confrontations since 2022, and the responses given by the EU. Although we share the point of view of those researchers who claim that the decline of democracy in Hungary and the simultaneous decline in Poland were not independent of one another, our analysis is limited to the relationship between Hungary and the European Union.^{III} In our paper, of the concepts concerning EU integration and the analytic conclusions, we rely mainly on the following: a) the European Union “*will be truly forged through crises – as a result of the solutions adopted for those crises*” (Monnet [1978] p. 416); b) according to the economists of the World Bank, after the Eastern-Central European countries joined the EU, a so-called “convergence machine” emerged in Europe (Gill-Raiser [2012]); however, the Union had to face the fact that the successful catching up of Eastern-European countries was accompanied by democratic backsliding and autocratisation in two countries: Hungary and Poland (Kornai [2015], Sadurski [2019], Holesch-Kyriazi [2022]); c) the European Union, which we have so far considered – using Jacques Delors’ terminology – as a political system incomparable to anything else, which can only be interpreted in itself, a so-called ‘unidentified political object’ [...], has lately become even more differentiated, and so the existing theoretical explanations are often out of date. (Koller [2019] p. 61).

Towards the end of his life, János Kornai articulated his diagnoses about the decline of democracy in Hungary in his public and academic essays (Kornai [2011], [2015], [2016], [2017]). With a few years’ delay, various institutions and bodies of the European Union arrived at similar evaluations concerning the transformation of the Hungarian political system. Seeing how these changes clash with the fundamental values of the European Union (Tavares [2013], Venice Committee [2013], Taylor [2015], Sargentini [2018], European Commission [2020]), with long reaction times certain ‘immune reactions’ of the EU also kicked in. The Hungarian government’s increasingly confrontational stance towards the EU further encouraged the EU to deploy counter-measures, which were brought into being with great difficulty.

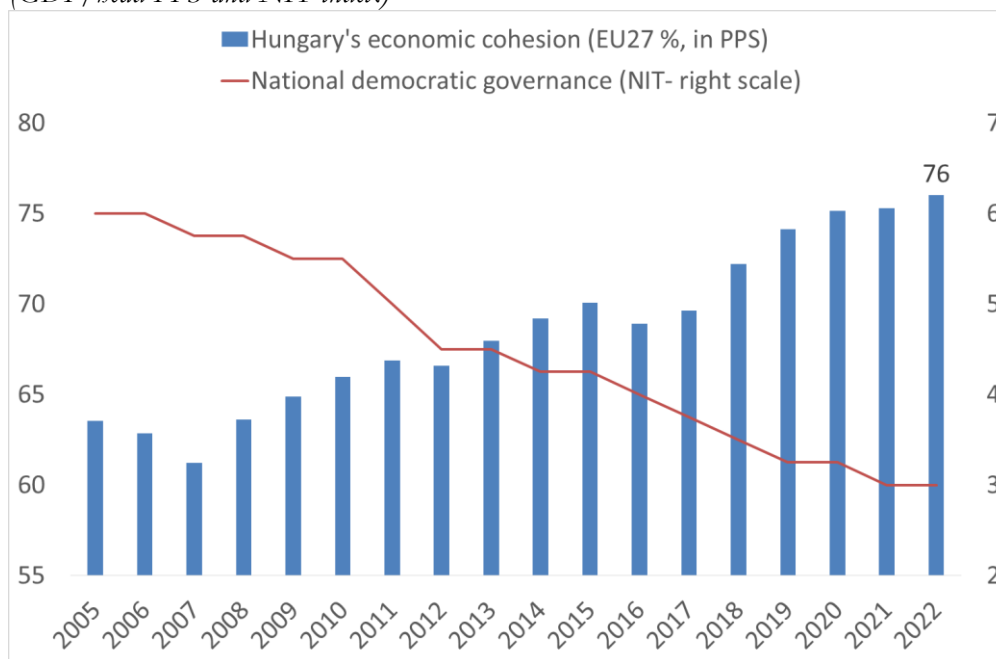


1. The economic convergence of Hungary and the deterioration of the democratic features of its political system

The paths taken by countries joining the Union as it expanded eastwards, first in 2004, then in 2007 and 2013, follow two basic patterns. In the great majority of cases vigorous economic development was accompanied by a slight erosion of the level of democracy that prevailed at the time of accession. In the cases of Hungary and Poland, however, economic development was accompanied by serious degradation of political democracy. (Holesch-Kyriazi [2022])

Figure 1 provides a graphic representation of the dual nature of Hungary’s development in the 2010s: after 2012 economic development was rapidly approaching the EU27 average, while the democratic nature of its governance was declining year by year.

Figure 1. Hungary’s economic catching-up and the decline of the democratic aspects of its governance (GDP/head PPS and NIT-index)



Source: Authors’ own figure based on the combined indices of Eurostat [2023] and Freedom House [2023a].

Following the wasted decade between 2002 and 2012, the Hungarian economy, like that of other countries in the region, set out on the fast track towards Union convergence, as is indicated by the gross national product measured against purchasing power parity per head

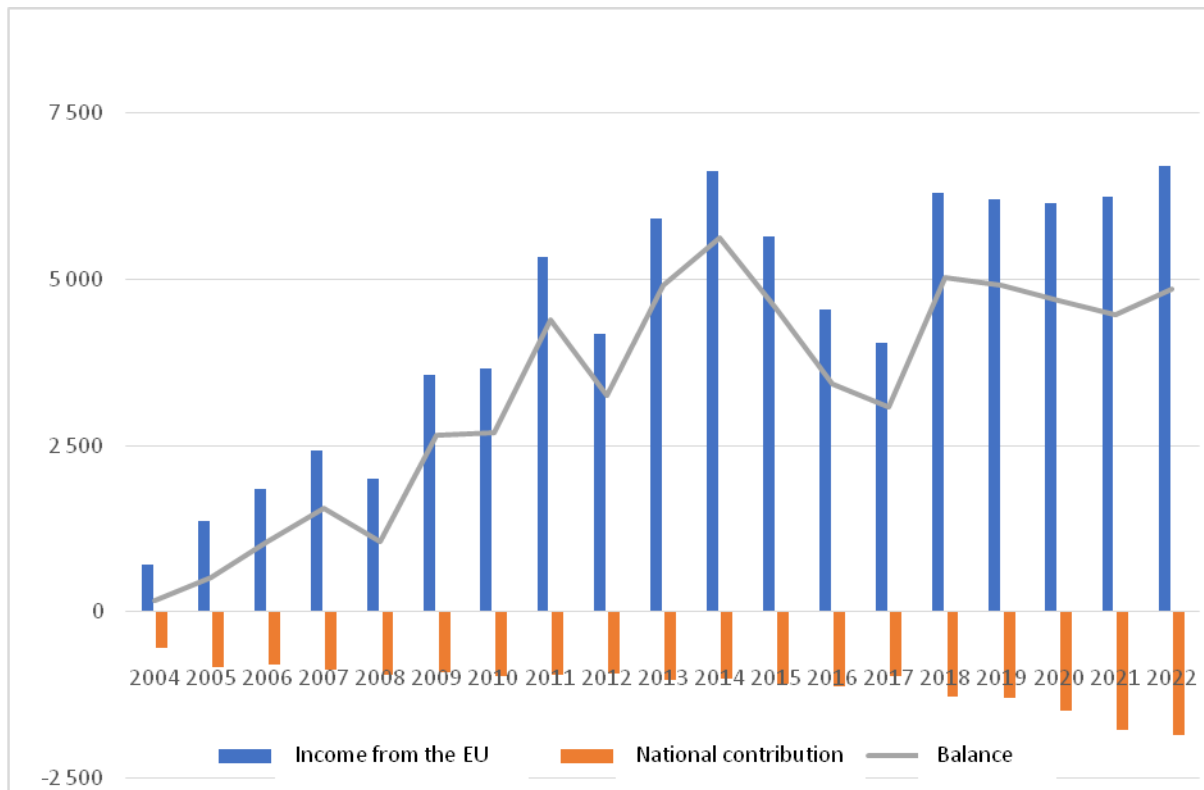


in the EU27 average. The government, having applied unorthodox measures as well, completed the stabilisation of the macro-economy between 2010 and 2012, reduced the budget deficit, then drew all the available Union support funds that could be distributed. Furthermore, it took advantage of the unusually favourable opportunities provided by the boom in the world economy to import working capital and expand employment. Thanks to internal growth and hundreds of thousands of Hungarian guest workers finding employment in EU countries, as well as the large number of people employed in public works schemes, unemployment was reduced to a minimum.

Union membership created a double convergence machine for the Hungarian economy. On the one hand, the single market of the Union attracted investments – based on labour arbitrage - that boosted employment. On the other hand, the EU budget provided Hungary with funds equivalent to 2.4-5.3 percent of the annual Hungarian GDP. In the period under investigation, between 2010 and 2022, as a net beneficiary, Hungary received the third largest net sum of Union funding.^{IV} In this period stretching over 13 years, the EU assisted Hungary with an average annual transfer of 4.3 billion Euros, for a net total of 56 billion Euros (*Figure 2*), a fund of economic-historical significance comparable to the recovery aid provided for post-WWII European countries within the framework of the Marshall Plan.



Figure 2. Hungary's balance in the annual budget of the EU (million euros)



Source: Authors' own figure based on data from the of the European Commission Representation in Hungary

The ‘convergence machine’ pushed all the countries which joined after 2004 forward on the path of convergence. In this group of countries Hungary did not excel in achieving catch-up: the only country that did worse was Slovakia. Furthermore, when describing the Hungarian path to growth it should also be noted that the elements which make up the structural changes of the real economic catch-up, which took place between 2012 and 2022, were usually exhausted in the industrial assembly capacity which required living labour and Shared Service Centres, established by foreign working capital. In the 2020s, however, the internal labour resources dried up, and the macro-economic balance was upset yet again by the Corona virus epidemic and the new version of an unorthodox economic policy, the pro-cyclical, so-called ‘high-pressure economy’. With regard to the Maastricht Convergence Criteria on financial stability, a transitional phase of convergence was followed by a predominantly divergent phase, and the country shifted further away from joining the economic and monetary union (EMU) and the introduction of the Euro (Kertész [2022], Medve-Bálint et al [2022], Oblath [2013]).



The 2010 elections proved to be a watershed, and in their wake, unlike in economic matters, there were no more changes in direction in the Hungarian political sphere. Having secured a two-thirds majority, the victorious coalition of FIDESZ and Christian Democrats immediately launched a far-reaching transformation of the political system: the establishment of the System of National Co-operation (in Hungarian *Nemzeti Együttműködés Rendszere*, or *NER*), which was, by its own standards, unequivocally successful (Orbán [2023b]). The main stages of the transformation of the Hungarian political system have been documented frequently and in great detail; here we only allude to the following relevant papers: *Ádám* [2019], *Ágb* [2019], [2022], *Bárd* [2023], *Bottoni* [2023], *Bozóki–Hegedűs* [2018], *Bugarič* [2014], *Buzogány* [2017], *Buzogány–Varga* [2019], *Fleck et al.* [2022], *Halmi* [2015], *Kornai* [2017], *Körösényi et al.* [2020], *Krasztev–Van Til* [2015], *Schöpflin* [2017]. In the following section, we will summarise only the international evaluations of these changes.

Regarding the normative view of this study, it must be emphasized, that Hungary joined the European Union having reinforced the parliamentary decision with a referendum, so as long as it remains a member state of the Union, the most important international evaluations are those which apply the value system of the Union. Such are the independent surveys in which the main aspect of evaluation and international comparison is the democratisation of the system. Naturally, the reports drafted by Union organisations themselves belong here as well (*Tavares* [2013], *Venice Committee* [2013], *Sargentini* [2018], *European Commission* [2020]).

From 2010 onwards, the annual reports of organisations evaluating the democratic features of political systems in the international context: Freedom House and the V-Dem Institute at the University of Gothenburg (Nations in Transit; Democracy Reports), identified the decline of democracy and an unambiguous autocratization as the main tendency in Hungary. According to their criteria, by now the Hungarian political system has drifted a very long way from the liberal democratic systems of the European Union.



Table .1 Data regarding Hungary between 2005 and 2022 from Nations in Transit

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
National Democratic Governance	6.00	6.00	5.75	5.75	5.50	5.50	5.00	4.50	4.50	4.25	4.25	4.00	3.75	3.50	3.25	3.25	3.00	3.00
Electoral process	6.75	6.75	6.25	6.25	6.25	6.25	6.25	5.75	5.75	5.75	5.25	5.25	5.00	4.75	4.50	4.25	4.25	4.25
Civil society	6.75	6.75	6.50	6.50	6.25	6.25	6.00	6.00	5.75	5.75	5.50	5.50	5.25	5.00	4.50	4.50	4.25	4.25
Independent media	5.50	5.50	5.50	5.50	5.50	5.25	4.75	4.50	4.50	4.50	4.25	4.25	3.75	3.50	3.25	3.25	3.25	3.00
Local Democratic Governance	5.75	5.75	5.75	5.75	5.50	5.50	5.50	5.50	5.25	5.25	5.00	5.00	5.00	5.00	5.00	4.75	4.25	4.25
Judicial Framework and independence	6.25	6.25	6.25	6.25	6.25	6.00	5.75	5.25	5.50	5.50	5.25	5.00	5.00	5.00	4.75	4.75	4.25	4.25
Corruption	5.25	5.00	5.00	5.00	4.75	4.50	4.50	4.50	4.50	4.25	4.25	4.00	3.50	3.25	3.25	3.00	2.75	2.75
Democracy score	6.04	6.00	5.86	5.86	5.71	5.61	5.39	5.14	5.11	5.04	4.82	4.71	4.46	4.29	4.07	3.96	3.71	3.68

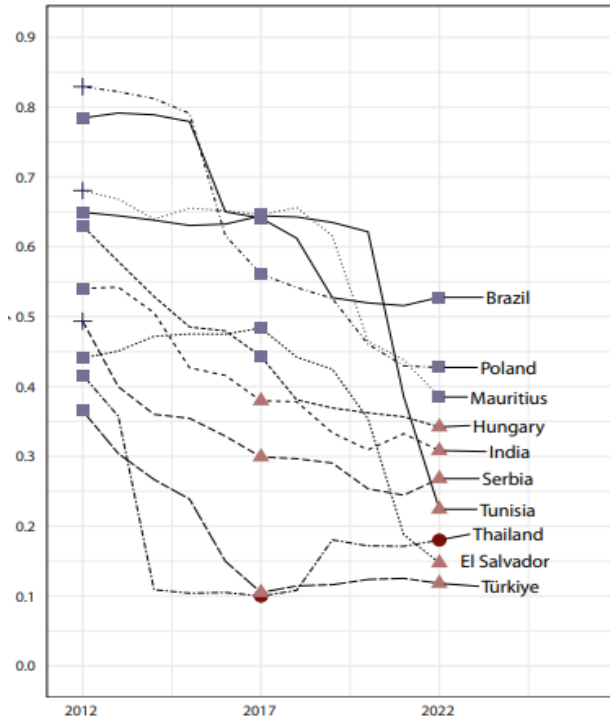
Source: Freedom House [2023a]. Note: The ratings are based on a scale from 1 to 7: the higher the rating, the more democratic the conditions are. Between 5.01 and 7 the status is labelled ‘Consolidated Democracy’, between 4.01 and 5 ‘Semi-Consolidated Democracy’, between 3.01 and 4 it is called a ‘Transitional/Hybrid Regime’, between 2.01 and 3.00 a ‘Semi-Consolidated Autocratic Regime’, between 1.00 and 2.00 it is a ‘Consolidated Autocratic Regime’.

The above table, based on the “Nations in Transit” reports from Freedom House illustrates how, step by step, Hungary achieved “autocracy” status in the various sub-categories. In 2020 Hungary was already placed in the group of autocracies in terms of the corruption sub-category. According to the 2022 figures, Hungary has sunk to the same level in two more sub-categories (national democratic governance and independent media); however, the so-called ‘democracy score’ still appears in the transitional/hybrid category.

The composite index of the Democracy report issued by the widely recognised V-Dem Institute (University of Gothenburg) indicates a similar tendency; however, according to their terminology Hungary in 2023 is no longer a ‘hybrid system’, but an ‘electoral autocracy’. The 2023 Democracy report published a table of the countries where in the last ten years autocratization has taken place in the most significant way. In this somewhat unedifying list, of EU member countries Hungary and Poland appear; among the candidate countries Türkiye and Serbia. (Figure 3)



Figure 3.



Source: V-DEM Institute (2023) p.23. Note: In this figure Thailand appears as a ‘Closed Autocracy’, Hungary and Turkey as ‘Electoral Autocracies’, and Poland as an ‘Electoral Democracy’.

In the next section we will review the debates and conflicts that were caused in the European Union (Commission, Parliament, Council) by the democratic decline/autocratization of the Hungarian political system after 2010.^v

2. A short chronology of conflicts between the post-2010 Hungarian government and the EU

The relationship between the Hungarian government formed after the 2010 elections and various institutions and individual member states of the European Union quickly became laden with conflicts.

May 2010 – April 2015

The first serious clash took place immediately after the 2010 change of government. The European Commission turned down the new Hungarian government’s petition to increase



the 2010 budget deficit. By this time, Hungary had been under the excessive deficit procedure for six years. Its budget had to be drafted under the strict control and prescriptions of the Commission, which submitted its evaluations to the Economic and Monetary Council (Ecofin), and if the prescribed deficit targets were exceeded, the Commission could even propose withholding cohesion funds. The deficit procedure was the only real means of coercion in the hands of the EU, which normally directs through consultative channels. Thus, it is hardly surprising that the second Orbán government subjugated its economic policy to the need to escape from this situation. It brought harsh, so-called unorthodox measures intended to balance the state budget; these included introducing special sectoral corporate taxes declared to be temporary, reducing subsidies, freezing prices, levying taxes retrospectively, directing savings from private to state pension funds, etc. As a result of these, the Economic and Financial Council abrogated the excessive deficit procedure against Hungary in June 2013 (*Laczkó* [2015]).

At the beginning of 2011, Hungary, then holding the rotating EU presidency, received “sharp criticism from France, the United Kingdom and Germany over the passage of a law which placed the dissemination of public news under the supervision of a state authority [...], according to which private media organisations can be fined heavily for not reporting current events in a ‘balanced’ way. But at this point [...] due to pressure from European diplomats [...] the Hungarian prime minister, Viktor Orbán said that he would be willing to modify the law, should the executive power of the EU oblige him to do so” (*Reuters* [2011]), although, according to the prime minister “it does not contain a single element which would not occur in some EU member states” (*Bruxinfo* [2011]).

As for the Union, the European Parliament was the first institution that put the issue of the decline of democracy in Hungary on the agenda and as early as *February 16, 2012 it adopted a resolution on the ‘latest political developments in Hungary’*, which both sounded the alarm and set certain tasks. (*European Parliament* [2012])^{VI}

In response to this, next year the European Parliament’s Committee on Civil Liberties, Justice and Home Affairs (henceforth LIBE Committee) indeed drafted a report on the situation of fundamental rights in Hungary, (this is what we call the *Tavares Report: Tavares* [2013]).^{VII} *Observing the provisions of the Treaty on European Union (TEU), it reached extremely critical conclusions on the issues under discussion, and made recommendations to the European Council (the European Council “cannot remain inactive”), to the Commission and to the Hungarian*



authorities. Finally, it initiated the setting up of a new mechanism to enforce Article 2 of TEU effectively.

In summer 2014, the Hungarian Prime Minister gave a speech, which then became notorious, in which he put his criticism of the European Union, something he had never tried to hide, into a political framework, causing international outcry. This was because the examples he set for Hungary to follow were no longer EU countries, but ‘internationally more competitive’ illiberal states (‘Singapore, China, India, Russia, Turkey’), which, according to him, were not only not liberal, but ‘maybe not even democracies’ (V. Orbán 2014). By marking out this target, a new fault line, which had been unimaginable up to that point, emerged between the EU member states with liberal, democratic establishments, and Hungary, soon to be accompanied in its rejection of liberalism by Poland.

Finally, by the middle of the decade, the view that something was amiss with how Union funds were used in Hungary was reinforced among institutions responsible for the Union Budget and net contributor countries. On the basis of the conclusions drawn by the Union audit (noting the systematic irregularities and shortcomings of government supervision and documenting the overpriced tenders (*Vitéz* [2018])) and some events which received great publicity,^{VIII} they evaluated the risk of corruption as unacceptably high and they criticised the lack of efficiency in the use of Union funds.

May 2015-April 2022

In 2015 a serious migration crisis erupted, which found both the Union leadership and the Hungarian government unprepared. For a while, member state governments (including Hungary) and EU leaders only followed the escalation of the crisis passively, but then they arrived at sharply conflicting points of view. *The Hungarian government considered the issue as one of public security, while the German government and the Commission tried to manage the crisis as a humanitarian affair.* The Hungarian government executed a significant about-turn compared to their previous migration policy, in which nothing serious was at stake. It implemented a legal and physical border closure, it rejected the plan to distribute and take in refugees according to quotas; furthermore, it organised a blocking minority from the Visegrád Group (V4). *It was at this point that the Hungarian prime minister’s sense of mission - against migration - in the Union was formed, something that placed him in direct confrontation with the views held by the union’s majority.*^{IX}



The year 2015 proved to be a watershed from another aspect as well. In the autumn of that year PIS, the leading right-wing populist and national-conservative political party in Poland, which had promised a nationalist turn, won a decisive victory at the elections. Although they came nowhere near a majority strong enough to modify the constitution, PIS quickly got down to weakening the democratic system of checks and balances. In its conflict with the EU, the Hungarian government gained its strongest yet supporter among member states with the PIS-led Poland. A year later, the leaders of the two countries did indeed proclaim a cultural counter-revolution to transform the EU at their first joint public appearance. Viktor Orbán, describing the strength of their alliance, said that together they could even steal horses, to which Jaroslaw Kacynski added that there were some stables from where horses could be stolen, the EU being an especially large one (*Foy at al* [2016]). This announcement rang alarm bells in Brussels, where it could not be considered a mere innocent joke (*Pawlak-Strupczemski* [2016]).

While its political struggles ‘against Brussels’ were intensifying, from 2015 onwards, as a result of unfavourable Union audits, the Hungarian government implemented several damage-limitation modifications to its arrangements for using EU funds. The Elios projects^x were taken out of the Union funding package, the outsourcing of the supervision of public procurements stopped, and more attention was paid to the development of some corruption risk indicators (e.g. the high proportion of single-tender public procurements). However, one thing that did not change was that companies owned by ‘chums’ had far better chances of winning public procurements than other companies (*Tóth* [2016])^{x1}. Furthermore, the new Union audit also pointed out that the winning tenders were overpriced (*Vitéz* [2018]).

In 2018, after the Commission had revised several drafts, the motion of the LIBE Committee (the *Sargentini* report) was brought before the European Parliament. It called on the European Council to *declare that Hungary was seriously jeopardising the basic values that the Union was founded on, and to launch the procedure set out in Article 7 of the TEU in order to restore democracy*. On September 12, 2018 the motion was passed by the required two-thirds majority (disregarding abstentions) in Parliament.^{xii} After the Parliamentary vote, however, the procedure according to Article 7 was suspended indefinitely, because in order to impose sanctions the unanimous decision of the European Council would have been necessary. Poland and Hungary, both involved in the procedure according to Article 7, each made it very clear that they would veto a resolution in the Council against the other country.



Having recognised the lack of instruments for protecting fundamental values and the accountable use of union funds, the Commission started to develop new measures and institutions as early as the first half of the 2010s. After several attempts and the introduction of legal means of questionable efficiency, by 2020 new instruments for defending budgetary interests by setting conditions were ready for adoption. As the first step in the introduction of these, the European Council issued its ‘Conclusions’ in a special session in July 2020 (*European Council [2020a]*), in which it stated that a “regime of conditionality shall be introduced to protect the 2021-2027 budget and NextGeneration EU,” and for this purpose “the Commission shall propose measures in case of breaches for adoption by the Council by a qualified majority.”

One of the new instruments consisted of *institutionalising* the so-called ‘*horizontal enabling conditions*’. As a precondition for the implementation of the 2021-2027 shared management Union programmes, it was prescribed that only those member states can receive their full share from the Union budget which, while using these funds, meet the four horizontal conditions^{XIII}, which include, crucially, meeting the requirements of the EU Charter of Fundamental Rights (the legal system and the way in which the authorities operate must respect EU fundamental rights and ensure the independence of the jurisdiction). This was published as a joint regulation of the Parliament and the Council in 2021 (*EU [2021]*).

By this time, in a parallel initiative, the Commission’s draft regulation on the rule of law procedure had been known for two years. (*European Commission [2018]*). This specifically recommended the institutionalisation of the available actions against member states whose problems with the rule of law endangered the financial interests of the Union. The draft regulation provoked the Hungarian and Polish governments into heated protests and indirect threats of veto, which the Council, consisting of member state representatives, could only overcome by promising a judicial review and compromises postponing practical implementations.^{XIV} In the end, on December 16 2020, *the resolution of the European Parliament and Council on a general regime of conditionality for the protection of the Union budget* (*EU [2022]*) was ready for publication. Soon enough Hungary and Poland initiated procedures for the annulment of the resolution, but on February 16, 2022 the Court of Justice of the European Union fully dismissed their actions. Simultaneously, the Committee elaborated the directives on the rule of law mechanism, and *following the Hungarian parliamentary elections*, on April 5,



2022 Von der Leyen *announced officially that the rule of law procedure against Hungary would be launched.*

After April 2022

Following the activation of the rule of law procedure, at the request of the Commission, the Hungarian government drafted remedial measures to restore rule of law. The Commission found that these measures proposed by the Hungarian government did not meet the requirements. In November 2022 it proposed the suspension of funding for 65 percent of *three operative programmes* for the 2021-2027 budget cycle. At the same time, it proposed the adoption of a plan of restoration, but yet again within the framework of the enabling conditions. After inter-governmental discussions, where several issues were negotiated in one package, the rate of suspension of the operative programmes was reduced. First the *Council* insisted that *the funds (5.8 billion Euros) for the adopted Hungarian restoration plan be released only after the 27 so-called super milestones were passed (European Council [2022a])*. Then, a country specific subset of the horizontal enabling conditions (restoration of the judicial independence) were introduced as general prerequisite for all Hungarian cohesion program payments. And ultimately, in the Council Implementing Decision of 15 December 2022, on measures against breaches of the principles of the rule of law in Hungary, as its primary element, it suspended 55% of the budgetary commitments under three operational programmes of the 2021-2027 cycle (6.3 billion Euros), and made its release conditional on completing further reform measures to meet rule of law regulations and to decrease the corruption risks connected with the utilisation of EU funds. (European Council [2022b], *Czjina* [2023]). As a further consequence, the Committee sent a letter to the national authorities appointed to manage funds, informing them that based on the Council's implementation decision of December 15, former state universities which had been transferred to so-called public interest trusts, could not be granted legal commitments related to the Horizon and Erasmus+ programmes until rule of law conditions were met (*Halmai* [2023]).

Finally, a brand new battlefield opened up between the Hungarian government and the EU when, with respect to the Russian invasion of Ukraine which began on February 24, 2022, the Hungarian government implemented a very unconventional policy, which was *in sharp contrast with the concerted foreign policy adopted by the other member states*, who implemented a



series of anti-Russian sanctions, while supporting Ukraine with shipments of weapons. *This hindered and delayed common European decision-making. According to the Euronews summary, between 2016 and 2022 Hungary was responsible for 60 percent of all Union vetoes. During this period, there were 30 vetoes concerning foreign affairs, and of these in 18 cases it was Hungary that made a common decision impossible (Gál [2023]).*

To sum up, by 2023 a wide range of support mechanisms included in the treaties between the Hungarian government and the EU – except for agrarian support and the final financial items concluding the previous budget cycle - had been suspended as Hungary failed to meet conditions for rule of law. While the Hungarian government is continually working on fulfilling the horizontal enabling conditions and reform measures to restore rule of law, in the cases of migration, national identity policy and the Russian-Ukrainian War it exacerbates the conflict. The Hungarian Government's relationship with the European Union is now characterised by mutual lack of trust.

Having provided a summary of the situation that has emerged, we can form our questions more precisely.

- Which behavioural patterns exhibited by member states trigger integration conflicts, and how does the EU handle these? Where do we place the conflicts concerning Hungarian rule of law among conflicts generated by member states?
- What were the challenges in response to which the treaty clauses and institutional solutions protecting the fundamental values of the Union emerged? In the case of Hungary, how did the EU arrive at these countermeasures?
- How much of a fall in the standard of living of its member states might be caused by the disintegration of the Union?
- What are the main scenarios for the conflicts between Hungary and the EU?

In the following sections we will seek answers to these questions.

3. Behavioural patterns exhibited by member states which trigger integration conflicts, and how they are handled in the EU

Handling a variety of conflicts was an integral part of the European Union's daily affairs. In order to place the integration conflicts caused by the new direction which Hungarian



politics took and to understand their nature it is worth looking briefly at the complete spectrum of conflicts caused by member states.

As shown in Table 2, conflicts generated by member states can be divided into three groups:

Table 2. Recurring EU-Member state conflicts involved in the functioning of the Union, with typical conflict management strategies.

Types of member state–EU conflicts	Specific member state-EU conflicts	EU responses
Recurring conflicts manageable within the existing framework	In cases requiring unanimous decisions, veto or threats of veto (e.g. vetoing the common budget)	Compromise
	Member state legislation and measures that are in conflict with EU legislation	Launching infringement procedure
	Violating macro-financial limits	Launching excessive deficit procedure
	High risk that member state projects with EU funding will not be accountable	Reducing support by not funding non-accountable projects
Member state behaviour endangering EU integration, requiring special measures	Distinctly non-conformist policy going against the majority (e.g. the French ‘empty chairs’)	Council negotiations, settling conflicts among core countries
	Immediate danger of bankruptcy of EMU member state (e.g. Greece)	Bailout programmes for member states conditional on austerity measures to ensure stabilisation
	Announcing intention to leave the EU (e.g. Brexit)	Negotiating terms of exit contract with strict conditions
Conflicts stemming from member states related to differentiated integrations	Member state decision to opt out of EMU	EU-member state agreement on exemption from obligation to join
	Delay in fulfilling conditions for EMU accession or indefinite postponement of obligation to join	Maintaining obligation to join without deadline
	A member state preventing the addition of new countries to the Schengen Area	EU fund to create the conditions for becoming part of the Area and repeated application to join

Source: Author’s own table

Recurring conflicts manageable within the existing framework

Of these, the so-called infringement procedures are the most numerous, and it is in these cases that the Commission fulfils its most important role as the ‘guardian of treaties’, since



indeed it regularly takes steps against each and every member state, without exception, to enforce the single market and rule of law.

According to the statistics of the European Union available online, up to August 2023 nearly 22 thousand infringement procedures had been launched. Of these, 716 were started against Hungary (almost 3 percent of all procedures, and in the group of states that have joined since 2004 Hungary and Poland are almost at the top of the list, preceded only by Czechoslovakia).

Infringement procedures are the oldest and most effective means that the EU has at its disposal to oversee member states' compliance with Union law. However, they are not directly linked to the protection of democracy and the fundamental values of the EU, and the Commission "was not over-keen either to take the procedure further in this direction" (it can be applied in cases of specific infringement of laws; if it is taken to court, it takes a very long time; and sanctions involving fines are not an appropriate way to protect fundamental values). Furthermore, some member states failed to act on rulings of the Court of Justice of the European Union which were the result of infringement procedures (e.g. Poland, in the case of the ruling on reforms to the judiciary system), or they acted in such a way that the original conditions could not be restored (e.g. Hungary, in the case of the forced termination of judges' contracts of service), or they created a floating legal situation (e.g. Hungary in the case of transit zones). (*Czina* [2023] p. 8.)

The composition of infringement procedures launched against Hungary by the *Commission* is shown in Table 4.



Table 4. Infringement procedures against Hungary up to August 2023 (number, %)

Department	Infringement procedures	
	number	%
Health and Food Safety	160	22%
Internal Market, Industry, Entrepreneurship and SMEs	138	19%
Environment	104	15%
Mobility and Transport	103	14%
Taxation and Customs Union	53	7%
Energy	36	5%
Home Affairs	31	4%
Fundamental Rights and Union Citizenship	22	3%
Communication Network, Content and Technology	21	3%
Financial Stability, Financial Services and Capital Markets Union	16	2%
Employment, Social Affairs and Equal Opportunities	15	2%
Climate Action	7	1%
Agriculture and Rural Development	4	1%
Competition	2	0%
Other	2	0%
Economic and Financial Affairs	1	0%
Defence Industry and Space	1	0%
Total	716	100%

Source: Authors' own table based on https://ec.europa.eu/atwork/applying-eu-law/infringements-proceedings/infringement_decisions/.

Among the infringement procedures launched against Hungary, the proportion of those concerning rule of law was very low, but all of them involved the basic features of the emerging NER's political system. (Table 5).



Table 5. The most important infringement procedures concerning rule of law initiated against Hungary between 2010 and 2018

No.	Date of launch of procedure	Infringement procedure	
		Title	Law(s) triggering procedures
1	December 2010	Media regulation	Act CIV of 2010 + Act CLXXXV of 2010
2	January 2012	Independence of the Central Bank	Hungary's Constitution ('Fundamental Law') + CCVIII of 2011
3	January 2012	Independence of the judiciary: age of retirement for judges, prosecutors and public notaries	Hungary's Constitution ('Fundamental Law')
4	January 2012	Infringement of the independence the Data Protection Authority	Hungary's Constitution ('Fundamental Law')
5	April 2017	Infringement of EU law with modification of the law on higher education in Hungary	XXV of 2017 ('Lex CEU')
6	July 2017	Infringement of EU law on transparency of foreign funded organisations	LXXVI of 2017 ('NGO Law')
7	July 2018	Infringing EU law by passing certain regulations concerning measures against illegal immigration, and the 7th amendment of the 'Fundamental Law'	7th amendment of the Hungarian Constitution ('Fundamental Law') + VI of 2018 ('Stop Soros')

Source: Authors' own table based on Anders-Priebe [2021] p. 240

Besides the infringement procedures, among EU-Member State conflicts which can be managed within the existing frameworks, more significant cases were already appearing. These included the use of veto, much favoured by the Hungarian government, or budget disagreements over the increasing risk that funds earmarked for Hungary would not be properly accounted for. These in themselves, however, did not require responses from the Union which would have gone beyond the existing framework.

Member state behaviour endangering EU integration, requiring special measures

However, the next group of conflicts requires coordinated responses: when the behaviour of a member state directly endangers EU integration. Such were the French policy of 'empty chairs' in the 1960s,



which paralysed the functioning of the Union for a year, the Greek financial collapse, and Brexit.

Can we consider the decline of rule of law in Hungary as a crisis which endangers the Union directly? Such a decline of democracy and non-compliance with the rule of law has never happened in the history of the Union. Were the Hungarian and Polish cases to be classified as member state behaviour directly endangering integration, it would not be possible to co-exist with those states. In a year or two these cases would have to be dealt with in some way.

Conflicts stemming from member states related to differentiated integrations

Finally, there is a set of disputes generated by member states which is connected to the fact that the Union became differentiated (multi-speed).

Differentiated integration means that besides participating in the basic integration system of the European Union, further European integration systems can also emerge, which do not include all member states (for more on differentiated integration see *Csaba [2019a]*, *Csaba [2019b]*, *Halmai [2019]*, *Palánkai [2019]*). Examples of such further integrations are the Schengen Area with 22 members, or the EMU with 20 members (Eurozone). These integration systems have their own conditions of accession, and in return for delegating member state competences to Union institutions, those who join are rewarded with extra benefits (for example, when a member state places its monetary systems under the ECB and in return the Union ensures the stability of the banking systems states belonging to the EMU).

Applying a permanent EU rule of law mechanism, introduced to manage Hungary's failure to comply with the principles of rule of law, could even lead to these member states finding themselves in another differentiated integration position; in their cases they would not receive *extra benefits for deeper integration*, but the opposite. They might lose out on a wide range of Union funds for failing to comply fully with the European rule of law regulations, and as this situation could persist permanently, they might be put in a differentiated integration status which would be better called 'disintegration'.

Consequently, Hungary's democratic backsliding and non-compliance with the rule of law might constitute a conflict which directly endangers EU integration, which cannot be sustained and/or could entail a drift towards inclusion in differentiated integration, with



implications of disintegration. *In order to find out which concept is appropriate to describe and interpret the European Union's response to Hungary's non-compliance with the rule of law, it is worth comparing the possible scenarios resulting from different ideas.*

4. The EU's attempts to reinforce the protection of the fundamental values of the Union (means, efforts and achievements) and of the Union budget interests

Article 2 of the Treaty on the European Union declares that the Union is founded on the values of respect for human dignity, freedom, democracy, equality, the rule of law and respect for human rights. However, *according to reports adopted by the European Parliament, several steps of the degradation of democracy in the Hungarian political system violated these fundamental values, which were embraced by all member states, especially that of rule of law.* Besides, the EU had to face the anomaly that a member state was using Union funds to reinforce the economic background of an autocratic regime. Consequently, the European Union was forced to respond.

There is no precedent that tells the European Union what it must do in such cases. The question is: does it have the appropriate means at its disposal; furthermore, are the various union organisations united and determined to enforce the restoration of democracy?

The European Union also developed the means to defend fundamental values in response to challenges and crises. We shall highlight three attempts that were made in the course of this development: elaborating the criteria for accession, developing the procedure according to Article 7, and institutionalising of the rule of law mechanism based on conditionality.

Accession criteria as a way of protecting union values by regulating membership

As early as the beginning of the 1990s, the European Union was already considering the integration challenge posed by large-scale enlargement towards the East, which, due to the candidate members' inability to compete economically and their unstable democratic governance, might in the future cause integration problems on an unmanageable scale. In order to prevent this, a set of criteria for accession was adopted at the 1993 Copenhagen session of the European Council.^{XV}

At the Madrid meeting in December 1995, the European Council added more demands: a candidate country has to lay the foundations for gradual and harmonious integration,



especially by developing a market economy, adjusting administrative structures and creating stable economic and monetary conditions. The EU set a condition for itself as well: it must be ready and be able to admit new member states. (Losonczy, [2023]).

Drawing up the Copenhagen accession criteria *basically fulfilled* its purpose in directing the preparation of candidate states in the course of the Eastward expansion after 2004. *However, soon they had to face the fact that their effect would last only up to the date of the member state's admission to the EU. These measures were incapable of managing any deterioration that might take place after accession; thus, among other things, they were also inefficient at protecting the Union's fundamental values.* Nevertheless, as a result of the challenges posed by the European Union's further expansion to the Balkans and the East, defining and implementing accession criteria has yet again become a matter of central importance in recent times. This is well illustrated by the news that in the wake of the European Council's last session, the leaders of ten member states held a separate conference on the subject (Brzozowski [2023]).

Procedure according to Article 7

The procedure according to article 7 of TEU is a basic defensive mechanism against member states violating fundamental EU values, in which as a final sanction the Council can suspend the rights of the member state in question. This first appeared in the Treaty of Amsterdam, which came into effect in 1999. This was complemented with a preventive mechanism in the Treaty of Nice, effective from 2003. So far, only the first part of this process has ever been activated, and only against Poland and Hungary. The process was initiated against Poland in 2017 by the Commission, and against Hungary by the European Parliament in 2018. However, both procedures were halted, as in order to declare the serious and ongoing violation of fundamental values and to proceed with the imposition of sanctions, the unanimous decision of all the member states except the one under accusation would have been necessary in the European Council. However, at this point both Poland and Hungary had already made it clear that each of them would veto the adoption of a resolution against the other in the Council. Procedures cannot be completed if two procedures according to Article 7 are launched against two cooperating countries, if a unanimous decision is required.



Legal mechanisms protecting the budgetary interests of the Union by imposing rule of law conditionality

Above, in our description of the conflicts between the Hungarian government and various EU bodies, we have already outlined the events directly preceding the drafting of the resolution on rule of law. However, we still need to mention several important stages along the path towards the resolution, examined from a broader perspective.

In September 2013, Viviane Reding, vice-president of the European Commission and Commissioner for Justice, summarised the challenges facing the EU with regard to rule of law in a comprehensive speech (Reding [2013]). The starting point of the speech was the less acknowledged fact that the “*Union is a unique construction, as it is not bound together by force, by a common army or a common police force, but only by the strength of the rule of law.*” From the commissioner’s speech, in which she assessed the situation and offered a wide range of recommendations, here we will only highlight the fact that she drew attention to the initiative intended to protect fundamental values, which appeared in the final report of the body called ‘Future of Europe’, established with the participation of 11 foreign ministers, in September 2012. The group of ministers declared it a prioritised task for the Union to establish a new mechanism, which would authorise the Commission to compile reports on obvious violations of fundamental values according to Article 2, including rule of law, by member states, and to draft proposals in connection with these for the Council.

The European Commission tried to fulfil this task. In 2013 they introduced the Justice Scoreboard, in 2014 the so-called ‘rule of law dialogue’, in 2018 the ‘European Semester’, and in 2019 the annual Report on Rule of Law. About these we could say that great efforts produced instruments of only limited effectiveness. *They cannot be used effectively against member states which deliberately violate rule of law, as they do not follow the logic of coercion, but rather that of consultation and direction* (Czżina [2023], Łacny [2021]).^{XVI}

Consequently, the pressure on the Commission did not decrease. In response to this challenge, finally, between 2018 and 2021 the above-mentioned legal instruments protecting the budgetary interests of the Union by imposing rule of law conditionality were completed: the ‘rule of law conditionality regulation’ enables action against member states that repeatedly violate fundamental values, and the regulation institutionalising ‘horizontal enabling conditions’ applying to all shared-management Union funds.^{XVII}

While the Commission implemented the suspension of funds with reference to horizontal enabling conditions for the 2021-2027 funds assigned to both Poland and



Hungary, so far the only member state against which the rule of law conditionality regulation has been activated is Hungary (in April 2022, *ten years* after the first resolution of the European Parliament on the situation in Hungary).

The legal mechanisms protecting the budgetary interests of the Union by imposing rule of law conditionality have structural weaknesses: *linking concerns about rule of law together is a bold step, but at the same time it has a gravely restrictive effect*. It is not clear which measures that the member state might take with a view to correcting rule of law deficiencies will be acceptable, and in the case of this instrument it is not the law-violating government that will suffer but its citizens. However, at its first application “*the conditionality mechanism unquestionably proved to be more effective than other ways of protecting rule of law.*” The strong authority vested in the Commission made the procedure faster and simpler (Czina [2023]).

Attempts at protecting rule of law and achievements

Now we can move on to our second question. Daniel Kelemen worded a vitriolic criticism of the effectiveness of rule of law protection in various EU organisations. (Kelemen [2020], [2023]). This had two main elements. On the one hand, he criticised the EU for attempting to develop ever-newer instruments, and as it lacked the appropriate means – but we have seen that the EU had no appropriate weapons against those who violated the law intentionally – it did not dare to stand up to protect rule of law. On the other hand, he criticised the fact that the commitments of various EU organisations to protect fundamental values and rule of law were very varied. It is the Court of Justice of the European Union that gave the most unwavering support to the defence of the basic values of the Union. The European Parliament also contributed a certain amount, but up to the adoption of the Sargentini report it was its largest grouping, the People’s Party, that was divided over this issue. Daniel Kelemen expressed the most damning opinion about the European Council, as the governmental members of the member states prioritised their own issues, and because in the 2010s it always focussed on different serious crises of the Union (the crises of the Eurozone, migration crises, Brexit, the crisis brought about by the Russian invasion of Ukraine). Finally, he complained that the Commission behaved more like servants than guardians of fundamental values and the rule of law.

However, drafting and announcing the legal mechanisms protecting the budgetary interests of the Union by imposing rule of law conditionality and launching the first



procedures to suspend funds for rule of law deficiency all indicate that the EU, at least in issues concerning the protection of the Union budget, has become more united and determined to protect rule of law.

Suspending funds, on the other hand, might turn into a retrograde step towards the disintegration of the Union, so it is reasonable to have an overview of the possible economic consequences of such a disintegration.

5. The damage caused by Brexit and the modelled losses to member states resulting from the hypothetical disintegration of the Union

Before Brexit, any work analysing the economy of the EU focussed almost exclusively the various aspects of the development of integration. Brexit, however, increased interest in studying the damage and expenses that disintegration might cause.

Three years after the British exit, the first calculations on the economic balance of Brexit were published. Today, there is a consensus that the uncertainties surrounding Brexit slowed down investments, breaking from the single Union market reduced commercial openness, and these combined to set growth back in the UK (*Berend [2021], Halmai P. [2020], Losonczi [2020]*). *Compared to the EU27 average, in the pre-exit transitional period the per capita GDP in the United Kingdom took a nose dive, falling to the EU average by 2020.* Interestingly, this index did not worsen in 2021 and 2022, but this was the time of the pandemic, when the Union market also suffered, as many internal commercial obstacles were temporarily revived.

Economic analysts were not surprised by these developments, as the decision to leave was not founded on careful considerations of expected economic advantages. On the contrary, to quote László Csaba's summary: "According to those who understood the situation best, the real question was not whether traditional opposition would lead to break-up in the conflict between the practice of increasingly close cooperation and English unconventionality. Rather, when and in what form would this break-up materialise? Unquestionably, the fact that the British political class misread the situation, and that social media and the significance of proportionate voting and of communication based on fake news were underestimated all played important roles in the turn of events. (*Csaba [2019a]* p. 167)." As Olivér Kovács sceptically put it: "Arguments in favour of Brexit had nothing to



do with reality. Consequently, there is not much point in investigating the causality matrix of Brexit.” (Kovács [2021] p. 575.)

Even if there is not much point in investigating the causality matrix of Brexit, it is worth drawing the conclusion that communication based on false information is of great significance. The only means to argue professionally against false information referring to the exit of a member state or to some other type of EU disintegration is to introduce the results of model-based calculations which are verifiable in their methodology (supposing of course that in the course of a debate professional arguments count for anything). In the following, we will outline the notable results of such a disintegration model calculation.

In order to simulate Union disintegration scenarios, Felbermayr et al. – applying the gravitation model already used – constructed a new model, using data on the 2014 goods turnover and the average net transfer in the European Union between 2010 and 2014. They published their results in various forms (here we refer to *Felbermayr et al.* [2022]). They simulated the following scenarios:

- collapse of the European customs union (S1),
- dismantling of the single market (S2),
- dissolution of the Eurozone (S3),
- break-up of the Schengen Area (S4),
- undoing regional trade agreements in force in 2014 between the EU and third countries (S5),
- complete collapse of all above-mentioned agreements and steps towards European integration (S6),
- complete EU dissolution and additionally termination of all net fiscal transfer payments between EU member states (S7).

The results of the simulation are shown in Table 5.



Table 5: Agreement-specific and aggregate losses in real private consumption as a result of reversed European integration (as a percentage of 2014 values)

		Scenarios						Total	Total w. transfer
		Customs Union	Single market	Eurozone	Schengen	Regional agreements			
Member states		S1	S2	S3	S4	S5	S6	S7	
AUT	Austria	-0.04	-5.60	-0.88	-1.55	-0.02	-7.76	-7.57	
BEL	Belgium	-0.15	-7.06	-0.99	-2.53	-0.04	10.20	10.61	
BGR	Bulgaria	0.03	-6.92	-0.08	-1.50	-0.05	-8.30	14.54	
CZE	Czech Rep.	-0.31	-7.40	-0.16	-2.33	-0.04	-9.86	12.88	
DEU	Germany	-0.12	-3.55	-0.65	-1.04	-0.05	-5.23	-5.00	
DNK	Denmark	0.00	-4.27	-0.03	-1.56	-0.04	-5.71	-5.66	
ESP	Spain	-0.05	-2.53	-0.34	-1.02	0.09	-3.69	-4.50	
EST	Estonia	-0.10	-7.22	-1.00	-4.23	-0.05	11.79	15.52	
FIN	Finland	0.00	-3.72	-0.35	-2.32	-0.04	-6.07	-5.97	
FRA	France	-0.02	-2.96	-0.44	-0.75	-0.02	-4.07	-4.03	
GRC	Greece	0.31	-2.67	-0.30	-1.04	-0.14	-3.72	-8.27	
HRV	Croatia	-0.08	-5.12	-0.10	-1.41	-0.01	-6.51	-7.63	
HUN	Hungary	-0.17	-8.24	-0.16	-3.48	-0.07	11.53	19.23	
IRL	Ireland	-0.37	-6.94	-0.86	-1.11	-0.09	-8.97	-9.45	
ITA	Italy	-0.06	-2.69	-0.46	-1.02	-0.03	-4.09	-4.28	
LTU	Lithuania	-0.27	-5.91	-0.03	-3.03	-0.02	-8.82	15.51	
LUX	Luxemburg	-0.25	13.47	-2.53	-2.86	-0.20	18.06	18.71	
LVA	Latvia	0.10	-6.32	-0.73	-3.47	0.00	-9.85	14.89	
MLT	Malta	0.18	14.56	-2.45	-3.90	0.13	19.38	22.62	
NLD	Netherlands	-0.23	-5.11	-0.70	-2.03	-0.06	-7.70	-7.75	
POL	Poland	-0.25	-5.11	-0.08	-2.03	-0.03	-7.18	12.09	
PRT	Portugal	0.18	-4.29	-0.59	-1.95	-0.01	-6.34	-9.19	
ROU	Romania	0.00	-4.70	-0.10	-0.08	-0.08	-4.94	-9.44	
SVK	Slovakia	-0.11	-8.11	-1.09	-2.83	-0.03	11.57	14.40	
SVN	Slovenia	-0.26	-6.76	-1.13	-2.32	-0.06	-9.99	13.40	
SWE	Sweden	-0.05	-4.26	-0.04	-2.23	-0.02	-6.29	-5.89	

Source: Felbermayr et al. [2022] p.15

The most serious losses would be caused by the dismantling of the European single market; this would be followed by the termination of the Schengen treaty, then by the total collapse of the other achievements and agreements of integration. In a narrower circle of member states, in the case of countries who joined after 2004, losses caused by the termination of Union net transfers would also be significant.

Figure 4 illustrates the condensed results of the model calculations, dividing the net losses of the EU member states resulting from the cessation of integration into two components:



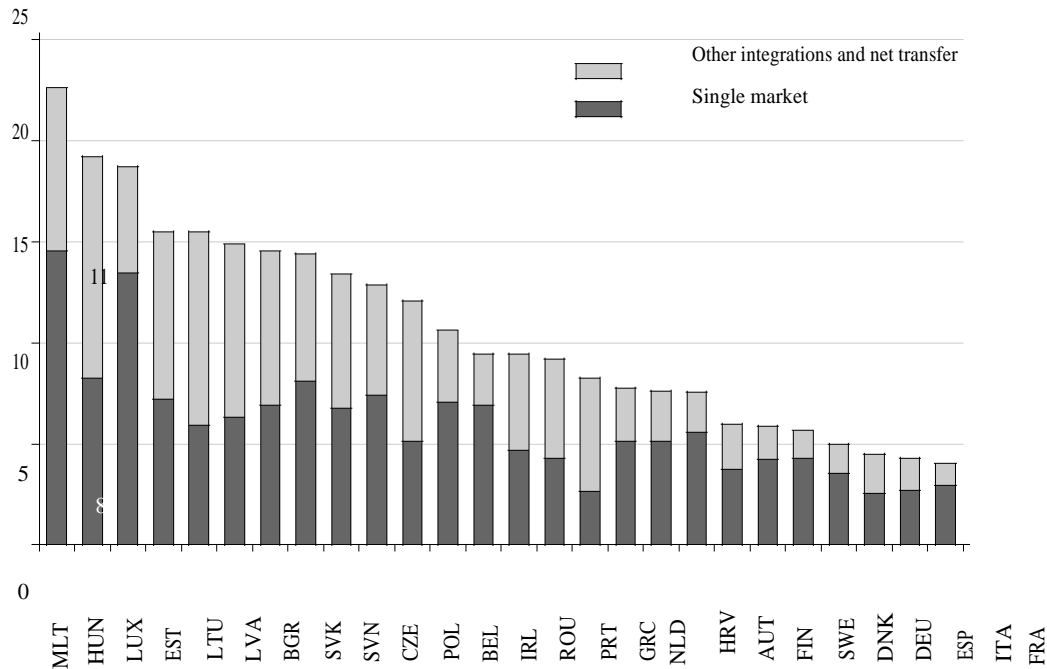
- the combined effects of the dismantling of the Single Market and the Schengen Area,
- the effect of the ending of all other EU treaties (net budget transfers, Customs Union, Eurozone, EU regional trade agreements).

If we suppose that all steps and agreements related to integration were to end, then, as a result of the dismantling of the Single Market and Schengen all EU member states would suffer severe losses. To put it another way: the existence of a unified single market and being part of the Schengen Area make Union membership a win-win situation, even for net contributors. Countries with small internal markets profit especially.

The balance of the effects of other types of integration for different member states, on the other hand, is less straightforward, as some member states are net contributors in the EU budget, while the others are net beneficiaries. In the case of net contributor member states (Northern and Western European), the sums spent on contribution more or less neutralise the benefits of integration, apart from those resulting from membership of the Single Market and the Schengen Area. What is more, for Sweden and Denmark – which, in spite of being highly developed member states are not part of the Eurozone – the balance for other types of integration is slightly negative. For net beneficiary (Central and Southern European) member states, however, the received net transfers represent in themselves a significant benefit of Union membership, so in a hypothesized dissolution of the EU the loss of net transfers would cause further damage.



Figure 4: Losses in real private consumption resulting from the collapse of EU integration (percentage)



Source: Authors' own graph, based on Felbermayr and et. al [2022] p. 15.

For Hungary, the losses resulting from a counterfactual, hypothetical disintegration would be especially great. Losing the surplus from net transfers (which between 2010 and 2014, measured against the GDP, was a record sum) would barely be responsible for one third of the effect of the 19.2 percent fall in Hungary's real consumption. Almost two thirds of the fall would come from not belonging to the Single Market or the Schengen Area. Consequently, *Hungary could lose out on much more than the net transfers – which in themselves are very significant.*

In order to estimate the scale of the regulatory chaos that would follow the dismantling of the single market, or any country leaving it, it might be helpful to recall the statistics of the infringement procedures. This is because in order to have a single market it is not enough to have uniform Union regulations; the regulations must actually be enforced. By launching infringement procedures, the European Commission performs this - Sisyphean - task. It is worth recalling especially the statistics introduced earlier on procedures initiated against Hungary. They clearly illustrate that the majority of the Hungarian cases concern health and food safety, internal market, environmental protection and mobility procedures, all vital to the maintenance of a single market.



Among the costs of dismantling the single market, customs-duty-like costs would appear immediately, as well as losses due to trade restrictions that are not related to customs duties, the extra costs due to the dissolution of uniform regulations within the Union and of accommodating to the tangled skein of national regulations and permissions, not to mention the cost of the disintegration of corporate value chains and logistics networks. Besides the costs of leaving the single market, it is very easy to see how leaving the Schengen Area would cripple European mobility.

Although the costs would affect all member states, it must be emphasised that the greatest losers in a hypothesized disintegration would be the states which joined after 2004, all of which have small internal markets which are open, and receive the majority of cohesion funds. *A hypothesized disintegration would quickly put an end to the Eastern-European convergence machine.*

Obviously, this too is only a calculation based on a simulated model, with its own limits (for example, using data which recorded the state of affairs between 2010 and 2014), but it clearly indicates the disappearance of which elements of integration would cause the greatest damage, moreover it sets high professional standards for disintegration and exit debates.

6. Is there a way back to the EU for Hungary if NER is sustained?

In its relations with the EU, in the early 2010s the Hungarian government was only performing the ‘peacock dance’. It avoided open conflict, using effective tactics and coming up with legalistic arguments (it searched for other examples from the past of EU member states in order to defend measures that violated fundamental values and came in for criticism; see *Világgazdaság* [2012]), but basically it followed a sort of ‘free rider’ strategy.^{xviii} In practice, the government completely failed to adapt to the goals and values of integration, while at the same time taking maximum advantage of short-term Union support mechanisms and using them to reinforce the power pyramid.

From 2015 onwards, the Hungarian government’s peacock dance withered away, and by this time, while drawing on as much EU funding as possible (some of which was spent on the transformation of NER’s fund allocation system, in an attempt at damage limitation), the government was engaged in a confrontational anti-migration and anti-LMBTQ campaign



intended to preserve national identity (*Kerner [2020b]*, *Éltető–Szemlér [2023]* – befittingly: instead of performing a peacock dance it was already ‘game of chicken’).

Why did the Hungarian government end up having its funding suspended? In the wake of the 2015 change of government in Poland, and by forming the anti-migration bloc of the V4, the Hungarian government gathered a number of supporting member states, and reduced the risk of the procedure according to Article 7. However, making the government’s confrontational anti-migration stance an issue at Union level was a miscalculation (*Pawlak–Strupczewski [2016]*), and by the end of the decade its former supporters had dwindled (due to Brexit, the suspension of Fidesz from the People’s Party, then its exit, and changes in the German, Slovak and Czech governments).^{XIX} By 2021, in its rejection of deeper integration, the Hungarian government went as far as to declare that “the expression *ever closer union* must be erased at the first possible opportunity from the Fundamental Treaty of the EU” (*Orbán [2021]*). The Hungarian government took no heed of warnings from various sources, and underestimated the determination and ability of the EU to protect rule of law and the unity of the alliance of the EU. Thus, having lost its defenders, it ran head first into the activation of the rule of law mechanism without braking.

So far, the EU Commission has only activated the rule of law procedure against Hungary. There were two reasons for this. On the one hand, the process of autocratisation increasingly raised questions about Hungary’s respect for the fundamental values of the EU treaty. On the other hand, the EU was beginning to doubt whether the way Union cohesion funds were being used was appropriate to the targets that had been agreed, and whether the way rule of law functioned in Hungary properly ensured the accountability of the use of EU funds.

In spring 2022, the Russian invasion of Ukraine and the activation of the rule of law procedure against Hungary created new battlefields. In the rule of law procedure the Hungarian government is attempting damage limitation by combining reluctant accommodation to rule of law with threats to veto the budget (which has already been done several times). Following the Russian invasion in Ukraine, it placed itself in opposition to the EU over the question of supporting Ukraine with weapons and imposing sanctions on Russia, escalating its non-conformist foreign policy with a series of vetoes.

Questioning the perspectives of Hungary’s European Union membership has by now become a common topic of conversation in Hungarian politics. Government politicians talking about this tend only to look at the macroeconomic effects of Union transfers (non-



refundable net funds from abroad), either promising to obtain resources from direct foreign working capital investments (*Nagy* [2023]), or already proposing that once we become net contributors, we will have to re-examine the arguments that justify our membership (*Csubaj* [2021]).

As it transpired from modelling the costs of disintegration, the economic advantages enjoyed by EU members cannot be simplified to the net transfers inversely proportional to their level of development. The combined benefits of belonging to the single market and to the Schengen Area bear far greater economic significance. Taking a step further back, besides economic effects, socio-political effects should also be taken into account. We shall consider whether there is a way back towards the EU if certain major political trends are continued which ensure the sustainability of NER and its identity. We will also discuss whether these policies could be continued if NER leads to a break with the European Union.

Sovereignty

The basic condition for joining the European Union and for the Union itself to function is to share specific national competences (notions of national sovereignty) with the Union (in case of intergovernmental decisions of the European Council) or to transfer these competences to supranational Union organisations (for example, the final review of judicial decisions at the Court of Justice of the European Union).

In a speech in June 2021 (*Orbán* [2021]), however, the Hungarian prime minister – elaborating on his thesis about the future of the European Union – unequivocally turned against the basic principle of ‘ever closer union’, and criticised the supranational, ‘overly politicised’ functioning of the Commission and the Parliament, pointing out that “there is no European demos, only nations.” He added that the EU should be transformed in order to protect the national and constitutional identity of the member states. In a speech in July 2023, (*Orbán* [2023*b*]), he outlined how the EU’s next period would be marked by the struggle between sovereigntists and federalists. In this coming struggle the Hungarian government would fight against the federalists (whose main forces are not even supranationalist EU institutions, but leading member states: Germany and France). The main battlefield of the coming times would be sovereignty in foreign policy: in terms of content, either foreign policy in agreement with the Western allies (= shared sovereignty with the EU and NATO) or non-conformist policy towards Russia and China. In terms of procedure: either keeping



to unanimous decision-making by member states or shifting to decisions brought by qualified majority. In addition to that in the NER system today, fulfilling the obligation undertaken at EU accession that the Hungarian government would introduce the Euro, is utterly inconceivable, whatever prognosis the Hungarian National Bank might make about this. This is because becoming a member of the Eurozone would mean the Hungarian government conferring monetary management powers on the ECB, to supranational level, which is not compatible with the proclaimed struggle for sovereignty.

National identity and international struggle for identity

The fundamental policy of the NER is to reinforce national identity based on ethnic and historical components, and to raise this high above all other identities. Hungarian minorities living beyond the borders were granted dual citizenship, extensive identity-boosting programmes were launched inside and outside the country, with significant financial support. Within NER, boosting Union identity was absolutely not an aim, unlike in Slovakia, where this was one of the motivations for introducing the Euro (Koller [2021], Gál-Malová [2021]).

On the other hand, the approach which can be considered most widely-accepted in Western European countries is one where the content of national identity is basically citizen identity, and its multiple nature is taken for granted (personal, family, small community, citizen, multicultural and EU identity) (see for example Kálnoky [2022]). As for the Union, it considers the development of European identity, also meaning mutual acceptance (uniform European citizen's rights, EU symbols /flag, hymn/, Euro, the European Capital of Culture projects, Erasmus programme) as its own task. The supranational institutions of the European Union are indifferent to the Hungarian government's policy of encouraging and protecting the identity of Hungarian ethnic minorities living outside the borders, which is given great priority. Only some of the member states (France, Spain, Slovakia, Romania) take a stand on measures supporting the minorities (one of rejection), because they are afraid that raising the support of ethnic minorities to European level would reinforce separatist movements within their own countries. Consequently, a latent conflict of identity policy has existed between the post-2010 Hungarian government and the European Union (on the other hand, it must be mentioned that in connection with the Minority Safepack Initiative, MSPI, the European Parliament passed a resolution that supported it with a three-quarters



majority. The initiative was backed by the German Bundestag, the Dutch upper house and numerous regional parliaments)^{XX}.

From the mid 2010s, the Hungarian government complemented its traditional policy on identity with a new role: the identity of the fierce opponent of migration, then as flag-bearer of international neo-popularism (embracing imported identity themes such as anti-migration, taking action against woke identity and LMBTQ). But this already led to an open political clash between the Hungarian government and the EU, a clash which offered to the NER the easy task of taking steps against the risk of ‘endangering families’, without real opponents at home. Since this identity struggle has become NER’s policy, backed up by relentless propaganda, the authors do not see a way back without loss of face^{XXI}.

Protecting the lower middle class, which forms the voting base, and state of emergency governance

An essential part of NER is the protection of the endangered lower middle class with unorthodox official intervention aimed at generating the greatest possible publicity.^{XXII} For this, on the one hand a state of emergency is needed (or if this is lacking, an effective sense of state of emergency must be created); on the other hand, those deemed worthy need to be identified and protected by state intervention, even if this means infringing the Union framework of rule of law. Furthermore, since the beginning of 2020, on the grounds of preventing emergency situations, the government has been demanding and receiving unlimited authorisation to issue decrees in order to overrule laws.

Situations that needed defensive action requiring extraordinary interventions included the taxation of energy, telecommunications and multinational banking companies that made ‘extra profit’ in order to avoid taxing families in the early 2010s, then utility cost reduction, defence against migrants, defence against the Corona virus, defence against inflation caused by sanctions and against war, and finally defence against LMBTQ. The identifiable ‘group in need of defence’ is the petite bourgeoisie (families, employees, pensioners and small entrepreneurs) making up the majority of the party alliance’s electoral base of 2-3 million voters and the core of ‘work-based’ society. Typical means of defence include fixing arbitrary official prices,^{XXIII} issuing decrees on pricing and stockpiling at micro-management level,^{XXIV} implementing official ‘it costs what it costs’-style procurements,^{XXV} fining producers for raising prices by levying extra tax on them,^{XXVI} levying retroactive sectoral extra taxes,^{XXVII} obliging service providers to include prescribed information on utility cost reduction as part



of the bills they issue, spending millions on ‘national consultations’, furthermore constant propaganda about states of emergency and about how the state defends the people, in the government-controlled media.

These measures clash with fundamental EU values and rule of law requirements at numerous points. For example, with a two-thirds majority there is no need to vest the government with unlimited authority to issue state of emergency decrees. But even the formalities of the drafting process of laws (e.g. the amount of time it takes and social consultation) are considered a nuisance by the government. For instance, the credibility of the budget is utterly undermined by government decrees which often overrule it. There is no reason to believe that NER will refrain in the future from overstepping the framework of EU rule of law in these policies. At the same time, as a result of the unavoidable devaluation of the Forint, the rise in interest rates and runaway inflation, a Huxit would cause uncontrollable damage to the situation of the petite bourgeoisie, which forms the voting base.

The control of development programmes by the NER hierarchy, the selection and recapitalisation of a new business elite, ‘crony capitalism’ and nepotism

In the case of local development projects, for which funding can be requested from centralised development programmes, the key issue for NER is that the pro-government representative of the region (chosen by the prime minister himself) should control the funds granted to the region (*Stumpf* [2022]), and send out unambiguous messages about funding being dependent on voting loyalty (*Körösényi* [2023]). Another important criterion connected to the implementation of development programmes, required by the NER, is that the contractors for programmes financed from both EU and Hungarian budgets should belong to a select group of new, major entrepreneurs, and the construction should serve their recapitalisation (see for example Péter Mihályi’s theory on establishing the NER business elite; *Mihályi* [2023]). As András Láncki, the former president of the government consultancy Századvég Foundation commented: “*What is called corruption is in essence the main policy of Fidesz. What I mean by this is that the government’s aim is to establish a stratum of Hungarian entrepreneurs, and the construction of strong pillars for Hungary in the provinces or in industry (Láncki [2015]).*” This aim was met successfully: ‘Connections to NER increase the chances of winning public procurement sevenfold.’ (*Tóth* [2022]). However, within NER the



selection of the new elite and ‘crony capitalism’ are not mutually exclusive. On the contrary, they are closely intertwined (and even include elements of nepotism).

Following 2015, especially after 2022, the situation became more complex. As a result of more exacting EU supervision, the indicators of the corruption risks of EU-funded projects have significantly decreased, while those of projects financed from the Hungarian budget have not improved at all (CRCB [2023]). Furthermore, nepotism is rampant outside EU circles (real estate affairs, state subsidies for private capital funds, transferring resources with dividend preference shares).

After the reduction of EU funding, the control exercised by pro-government members of parliament over government-funded regional development programmes would only grow stronger. The loyalty of the major entrepreneurs with NER links, who have been recapitalised by state commissions, would not be lost either, as those not ‘playing by the rules’ would risk saying goodbye to their suddenly accrued corporate assets. Their ties could not be loosened by lessening EU support, nor by an exit from the EU. Naturally, they will need to continue receiving manifold government compensation (capital injection, bond programmes, targeted bail-outs, concessions, recovering new economic segments from foreign ownership).^{xxviii} However, large agrarian enterprises receiving single area payment schemes from the EU (and the whole agrarian sector) would immediately face a crisis if funding were reduced.

Attracting direct foreign capital investment to establish industrial and shared service centre capacities

In the NER system, one of the main sources of GDP increase - expanding investments and employment - and technological development is to attract direct foreign capital investment into Hungary to establish industrial assembly and supply and shared service centre capacities by offering state subsidies and low taxes. The countries in the region are in vigorous competition in this field. These investments, however, do not target the Hungarian market, so their pre-requisite is to be part of the single market and the Schengen Area. Consequently, NER cannot break with the Union, as it would risk a recession incomparably worse than that caused by Brexit. And the latest political development of the Hungarian government, which considers the attraction of industrial working capital a priority, is the prime minister announcing that “in the next one or two years, the Hungarian economy will need 500,000 new workers,” and part of this need has to be met with migrant workers



(*gastarbeiter*) entitled to limited rights (Orbán [2023a]). So for the sake of foreign investments, the government is prepared to betray the identity struggle against migrants that it has been so consistently promoting since 2015.

To sum up: while carrying on with NER's basic policies makes it politically impossible to find a way back to the European Union, at the same time, breaking with the EU would shake the very foundations of the Hungarian economy.

7. What changes in Hungary could the EU achieve by applying the rule of law mechanism to protect budgetary interests? What further steps might it be forced to take?

We uphold our starting point: the European Union has taken a course of differentiated integration (Halmai P.), and a multi-speed Europe is not a danger, but a fact (Csaba [2019]).

What changes can a differentiated and multiple-speed EU achieve in Hungary by applying instruments that impose rule of law conditionality for budget protection?

It can restrict the open violation of fundamental Union values, and can, up to a point, reinforce the accountability of the EU budget. By monitoring the integrity of the use of funding, it can limit the improper acquisition of EU funds. Finally and most importantly, it can, by systematically applying conditionality, isolate autocratic member states.

What are the changes that the differentiated and multi-speed Europe does not wish to (or cannot) achieve by applying instruments that impose rule of law conditionality for budget protection?

The procedure according to Article 7 launched against Poland and Hungary for continual violation of fundamental Union principles has come to a halt. In the wake of the Polish elections in October 2023, quick remedial actions to restore rule of law are to be expected, which will bring about the termination of the procedure against Poland. The procedure against Hungary, on the other hand, is ongoing. What is more, should the conflict between the Hungarian government and the EU escalate, and without the protection of the Polish veto, moving the procedure according to Article 7 into its second phase is a realistic threat. However, until the procedure according to Article 7 is moved into the second phase, the EU in itself cannot hope to coerce the essential transformation of NER by implementing instruments that impose rule of law conditionality for budget protection. This is because being tied to the budget significantly restricts the scope of action of the instruments. For example, certain key features of autocratic transformation, such as taking control of the



media, reducing the sphere of competence of local governments or distorting the conditions of election campaigns are utterly beyond the scope of authority of these instruments. Thus, for the time being, a country with an autocratic regime will remain a member of the integration of liberal democratic countries. Consequently, rule of law reforms tied to the implementation of the budget may become interventions that remedy a few symptoms, but bring no real cure.^{xxix}

What further steps might the differentiated and multi-speed EU be forced to take?

In order to ensure that the EU's foreign policy remains functional, a group of ministers of foreign affairs has already initiated the further reduction of member states' right to veto (Baerbock *et. al* [2023]). Besides this, with the involvement of a select circle of member states, evaluation of the challenges posed by the EU's next expansion has begun (Brzozowski [2023]). Should the EU make concessions in terms of meeting the Copenhagen accession criteria – for geostrategic reasons – at the accession of the next candidate states (Spirk [2023], Michel [2023]), it can only do so if it first implements some changes within the Union as well (Macron [2023]), and creates systems that are able to force member states permanently violating fundamental values to correct their behaviour (new regulations that can be adopted without right of veto, effective sanctions, implementation by the Commission).

8. Scenarios for the future development of conflicts caused by Hungary's growing political separation

Having taken into account the path to the *application of instruments that impose rule of law conditionality for budget protection*, the perspectives relating to NER's main policies, and the steps that the EU is likely to take, let us return to our basic question: in its conflict between the Hungarian government and the EU over the rule of law, is Hungary demonstrating a kind of member-state behaviour which directly endangers the Union and as such cannot be allowed to continue for long, or is this the beginning of a process of disintegration taking place within a differentiated system of integration; a process which due to shortcomings in the rule of law entails the partial suspension of funding?

Officially, the European Union has never had a fallback plan to deal with a member state's failure to meet the fundamental values of the Union's founding treaty, resulting in the integration process suffering a setback.



The Commission's White Book, issued in 2017 and outlining the Union's visions of the future up to 2025 (*European Commission* [2017]), contained five scenarios, but only two of these included disintegration, and neither of them referred specifically to a member state. None of the five scenarios in the White Book yet included scenarios for Union expansion. Nowadays, however, if we extend the horizon of the visions of the Union's future up to 2030, we cannot avoid including further expansion.

A report drafted at the request of the French and German ministers of state for Europe by an international working team of 12 members and published in September 2023 (*Costa et al.* [2023]) received a great deal of publicity. This document outlines comprehensive reform proposals in response to the challenges imposed by the expansion of the Union. Considering Hungary's prospects within the Union, two packages of proposals in the document must be highlighted. One refers to reinforcing the maintenance of rule of law and to measures intended to defend it. They recommend the extension of budgetary conditionality, so that its applicability should not be limited to the protection of the EU budget, but in case of a member state violating the rule of law, they should be applicable in a wide range of cases. Furthermore, the limitations of the procedure according to Article 7 would be removed by the introduction of a four-fifths threshold for Council approval and the obligatory closure of launched procedures within five years. The other package of proposals to be highlighted refers to the creation of a more differentiated European Union. It is recommended that member states aspiring to an enhanced degree of integration should establish formally, within the existing Union, an inner circle of integration. A second circle would be composed of the existing members who do not wish to participate in the enhanced integration. However they would have to accept the loss of most of their current rights to veto. Outside this, a circle of associate Union members should be established, who are already part of the single market, and a fourth circle of countries, the European Political Community, should be set up to serve as a forum for European political dialogue. And although this is only an expert report, it is still a document which elaborates on the vision of the Union's future as seen by the two most significant member states of the European Union.

If we are looking for the various scenarios referring to the conflict between the Hungarian government and the EU, covering the period up to 2030, then we must bear in mind, apart from the most important recent developments – the Franco-German EU reform proposal, and the October 2023 Polish elections, which resulted in the termination of the



democracy backsliding collaboration between Hungary and Poland. We must consider the following main factors:

- will there be a further expansion of the EU by 2030?^{xxx} (In which case the accession of Ukraine would pose a serious challenge from the point of view of the EU budget, while the accession of the Balkan candidate would be problematic from the point of view of the EU's decision-making and governance systems),

- will the EU's commitment to reinforcing integration be maintained after the next national and EU elections? (In which case there will not be any setbacks in the application of instruments that impose rule of law conditionality for budgetary protection; indeed, further steps are possible),

- will the NER system be maintained in Hungary in the long run? (In which case there is no political way back to the European Union.)

Taking these issues into account, *from the point of view of Hungary's position up to 2030*, we will have to consider the following basic scenarios.



Table 6. Scenarios for the EU-Hungary conflict up to 2030 from the point of view of Hungary's position until the end of the period

	Scenario	Basic conditions for the scenario and its development	Consequences for Hungary in the EU	Probability
1	Hungary is placed in quarantine in the current, but differentiated Union, with fewer rights and benefits.	The expansion and reform of EU27 are not launched, the EU does not abandon rule of law procedures against Hungary, but Article 7 is not applied	<u>Union decision-making:</u> Both in EU27 and the expanded EU, the range of decisions requiring unanimous approval is reduced, the strength of the Hungarian veto is reduced. <u>Union decision-making:</u> using indirect methods, the range of decisions needing unanimity is reduced, the strength of the Hungarian veto is reduced. <u>Net benefits from the EU budget:</u> Reduction of the sum of net Benefits in EU27.	Relatively high (approx. 50 percent)
2	EU disintegration begins, The EU abandons rule of law procedures against Hungary.	The expansion and reform of EU27 are not launched, EU-sceptic parties win majorities at the European parliamentary and national parliamentary elections.	<u>Union decision-making:</u> decision-making becomes chaotic, being paralysed by member-state vetoes. <u>Net Benefits from the EU Budget:</u> the net contributor countries immediately reduce their contributions, leading to a crisis in the financing of the EU.	Low (between 20 and 30 percent)
3	In an expanding and reformed EU Hungary remains at a basic level of integration without power of veto.	In order to expand EU27, the EU is reformed, budgetary and foreign policy decisions are brought with a qualified majority.	<u>Union decision-making:</u> Hungary loses the power of veto. <u>Net Benefits from the EU Budget:</u> an expanded EU about break even point.	Low (between 20 and 30 percent)
4	Launching Huxit ^{xxxI}	In EU27, Poland returns to the EU fold, and with Polish protection removed the EU pursues the procedure according to Article 7 against Hungary, but before EU rights and benefits are withdrawn, the Hungarian government launches Huxit.	<u>Union decision-making:</u> the continuation of the procedure according to Article 7 annuls the Hungarian power of veto. <u>Net benefits from the EU budget:</u> Procedure according to Article 7 threatens Hungary with total loss of legal rights.	Very low (under 10 percent)
5	Hungary returns to the EU fold	NER ceases to exist, a change of government takes place, and even the leaders of state institutions independent of the government ('checks and balances'), who have been 'cemented' in place for up to 9 years by laws passed with two-thirds majorities, are unable to prevent a return to EU values. ^{xxxII}	<u>Union decision-making:</u> constructive participation. <u>Net Benefits from EU Budget:</u> Massive sum of net benefits in EU27, the expanded EU will break approximately even.	Very low (under 10 percent)

Source: authors' own table



In the most probable scenario the conflict over rule of law between the EU and Hungary continues. The Union refraining from strict implementation of rule of law regulations or Hungary with less veto power in the basic level of an expanded and enhanced Union are both scenarios with a considerably lower probability. Hungary's reconciliation with the Union, and the Huxit — both are unlikely. Although the possibility of Huxit is already being openly discussed in Hungary, it would cause for Hungary, a country with a small internal market and with an economy deeply integrated into the EU, unbearable losses (devaluation of the Forint, introduction of agricultural customs tariffs, massive price-rises in foodstuffs, the paralysis of economic mobility and so on). What is more, the economic interests of the EU would also suffer more from a Hungarian exit than if the country were to remain inside. Thus – in case of rational scenarios – a prolonged conflict is most likely; Hungary and the Union will remain permanent thorns in each others' sides. In a more differentiated Union, Hungary will be confined in a sort of quarantine which offers less support and fewer chances to participate. At the same time, this will not be a stable situation, but a drift towards disintegration, with occasional heightened conflicts involving both parties (e.g. for the Hungarian government, launching a new anti-Brussels national consultation, “law on sovereignty” and strengthening its non-conformist relationships with Russia and China, while the EU might attempt media regulation and question the Hungarian presidency of the Union). Although the economic base of EU after the successful operation of EMU is more stable than ever and the disintegration would be a very damaging scenario for every member country (see Felbermayr et al. [2022]), the destructive strengths of the irrational claims of the EU opponent “sovereignist” parties must not be underestimated.

Summary

In this case study we analyse the development of the Hungary-EU relationship since 2010.

In the 2010s, the economic catching up process took place in Hungary was accompanied by the autocratic transformation of its political system. This entailed the violation of the fundamental values of the European Union as laid down in treaties, especially the rule of law requirements, and Union budgetary interests were also infringed by the way in which funds were used. The Hungarian government marginalised the long-term optimisation of



member state benefits and obligations, and subjugated it to the preservation of the power of the party alliance which had obtained a sufficient majority to alter the constitution.

Very soon, the EU also had to face the deterioration of Hungarian democracy and rule of law. It was primarily the European Parliament that urged counter measures. However, it transpired that the instrument the EU had at its disposal to deal with such situations (the procedure according to Article 7) was not effective. By the end of the decade, in the wake of various efforts of questionable efficacy, the European Commission proposed new instruments involving a novel approach to safeguard EU budgetary interests by setting rule of law conditionality, to apply ‘horizontal enabling conditions’ and the ‘rule of law conditionality regulations’. The Hungarian government aggravated the latter step by launching an international struggle to preserve national identity, which began with the 2015 migration crisis, and by pursuing a non-conformist policy over the Russian-Ukrainian war. The European Union “accepted the challenge,” and following the Hungarian elections it made access to a whole range of Union funds conditional upon meeting the horizontal enabling milestones and rule of law conditionality.

We do not anticipate a further escalation of the conflict, the completion of the procedure according to Article 7, or Huxit. Based on the experience gained during Brexit and models of disintegration scenarios, total disintegration would be accompanied by very heavy costs. Consequently, the implementation of budgetary conditionality would most likely end in a temporary cease-fire. Naturally, in EU27 this is a situation that cannot be legalised at treaty level. However, if the EU is expanded, the Union shall be further differentiated, where Hungary remain in the basic level of membership with less veto power and less benefit. In our view the case of the worsening Hungary-EU relationship can be explained by the upgrading of the conception of the differentiated EU. Until the 2010’s the differentiation of the EU meant upward differentiation only (enhanced cooperation; Schengen and EMU). In contrast, the EU’s answers on the illiberal transformation of the Hungarian political system have launched a new type of differentiation, a downward differentiation (less benefit, less participation, a kind of disintegration) in the EU for the member state concerned.

Although most probably there will be a set of legal modifications correcting rule of law shortcomings in Hungary, as a result of which a substantial part of the EU funds might be released, the democratic deficit of this member state of the European Union, and the confrontational style of the Hungarian political system, will remain. In a Union which is



becoming increasingly differentiated, Hungary will be set apart in a sort of quarantine, with less access to funding and fewer opportunities to partake in decision-making, drifting on and on, though with occasional moments of stability, towards the maelstrom of disintegration.

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^{III} In Poland, the erosion of constitutionalism can be seen to have begun with the change of government in 2015. After that year, the decline of democracy took place simultaneously in Hungary and Poland, a process during which the governments and dominant parties of the two countries not only learned from each other, but also collaborated in countering the steps taken by the European Union. (Democratic backsliding as a collaborative project: *Holesch-Kyriazi* [2021], [2022]). As a result of the October 2023 elections in Poland, this collaboration came to an end.

^{IV} Without discussing the theoretical questions of the economic convergence and divergence in the EU single market we have to note, that both mentioned drivers for the convergence of the new, less developed EU members are transitional ones. When their internal labour resources dried up, the labour costs will be closer to the EU average and the state of development of their regions above 75% of the EU average, these drivers will not work anymore.

^V The selection and description of these conflicts are closely related to the normative view of this study. In a possible - but so far not existing- “sovereignist” overview the conflicts connected with the corruption risks in the use of EU funds would not be mentioned, and the reports, requests and suggestions of EU would be interpreted as illegitimate interventions.

^{VI} The alarm referred to the question of whether the new Hungarian constitution adopted on April 18, 2011 and the provisions of the ‘cardinal’ acts following it were in accordance with the Union treaty, with special focus on the fundamental rights of the Union. The tasks were, for the European Commission, its own Committee on Civil Liberties, Justice and Home Affairs, the European Council and the Venice Commission, to evaluate and monitor whether the above-mentioned Hungarian legislation was in accordance with the fundamental rights of the EU (*European Parliament* [2012]).

^{VII} The report examines in detail the issues it considers critical: the Fundamental Law and its implementation, the democratic system of checks and balances, the independence of the judiciary, electoral reform, pluralism in the media, the rights of people belonging to minority groups and freedom of religion and thought, as well as the recognition of churches.

^{VIII} Two chains of events were especially widely discussed: the overwhelming success of the companies of NER’s leading oligarch, Lajos Simicska at public procurements, and the successes achieved by Elios, partly owned by the prime minister’s son-in-law, at tenders – something which led to legal complaints being filed.

^{IX} In order to obtain internal support for this, the government launched mass communication campaigns (The “If you come to Hungary, you cannot take the jobs of Hungarians” campaign, as well as the Soros-Juncker campaign). Its policy of promoting national identity was upgraded to fighting to protect national identity, and finally it organised state-run collections of signatures of consultations’ (*Mráz* [2023]) and an anti-migration referendum (*Éltető-Szemlér* [2023]).

^X The project was transferred to the state budget, while the police dropped their investigation into the charges of budget fraud, stating that no crime had been committed.

^{XI} A good example of how the selection of winners of public procurements was manipulated in NER’s system of fund allocation is the case of Lajos Simicska, who in the first half of the 2010s was one of the architects of NER’s economic background. After he turned against the prime minister in 2015, his main company, Közgép, which up to that point had collected public procurement contracts, was excluded from public procurements from one day to another, and his companies were replaced by, for example, selected companies belonging to Lőrinc Mészáros.

^{XII} The motion was supported by the majority of the representatives in the European People’s Party (EPP), the political group in the Union to which Fidesz belonged. In March 2019 Fidesz’s EPP membership was suspended, and in March 2021 Fidesz left the People’s Party

^{XIII} The four conditions were the following: (i) applying effective monitor mechanisms in areas of public procurements (ii) implementing the necessary instruments and capacities for the effective application of regulations on state support (iii) effective mechanisms to ensure the implementation of the programmes



compliant with the Charter and (iv) implementing and applying the UN convention on the rights of persons living with disabilities.

^{xiv} In case of deficit in the state of law, the draft included the suspension of the acceptance of commitments to provide support and of actual payments as measures to be taken by the Commission. Furthermore, it stated that these measures regulated financial management concerning the implementation of the Union's budget, consequently these could be passed by the European Parliament and the Council with a qualified majority. As a result, the Hungarian and Polish governments in alliance could not have prevented the approval of the draft resolution. However, at the end of 2020 the 2021-2027 budget and the Council's approval of the directives of Next Generation EU, a life-line for the Southern states, were being discussed at the same time, and these did require a unanimous decision. The Hungarian and Polish governments declared their intention to veto these, unless a softened rule of law resolution was adopted. However, net contributors of the Union (such as the Netherlands), found any softening unacceptable (*Kerner [2020a], [2020c]*). Following this, as a result of an informal deal with the Council (it was agreed that the state of law mechanism would not be applied until the action for annulment at the Court was settled, and until the 'Commission's directives', including the specific rules for implementation, were worked out (*European Council [2020b]*), nor would they be applied before the next Hungarian elections (*Vörös-Abloncy-Magyar [2023]*). At this, the Hungarians and Poles gave their consent.

^{xv} The adopted directives specified and complemented the accession criteria by grouping them into four points. The first is acceptance of the political, economic and monetary aims of the union, and the establishment and stability of institutions guaranteeing democracy, rule of law, human and minority rights. In accordance with the second, the candidate countries must observe the obligations that come with membership: they must be capable of adopting and applying the continuously growing common achievements (union law, unlegislated basic principles, agreements, declarations, statements and practices etc.). The third criterion is establishing and maintaining a functioning market economy. According to the fourth, candidate countries must be able to bear the pressure of competition within the union.

^{xvi} A question may be raised here, by what economic theory can be explained this member state's behaviour which violate rule of laws. In our view the application of the theory of "moral hazard" can be promising, however we have to keep in mind that EU is an "UPO" (unidentified political object), incomparable to anything else,

^{xvii} The country-specific Recovery and Resilience Facility (RRF), an instrument complementing the 2021-2027 budget, intended to boost economic recovery after Covid, centrally supervised by the EU, may also have preconditions in order to reinforce rule of law. This is because the programmes must be in accordance with the relevant country-specific recommendations defined within the framework of the European Semester, which may include recommendations on rule of law measures.

^{xviii} "As a result of the dance of diplomacy, refusal must be presented as if we would otherwise like to make friends. These are manoeuvres belonging to the art of politics, so that out of seven proposals we nod to two or three (which we have done already, only they haven't noticed), and the remaining two, those we do not want, we refuse by adopting the majority in the end. This complicated game is a kind of peacock dance." (According to newspaper reports, Prime Minister Viktor Orbán uttered these now notorious words in connection with the EU at the Századvég conference, which was organised in 2012 for the second anniversary of the government's inauguration. There is no available transcript of the speech; it was referred to in the media (e.g. <http://nol.hu/velemeney/20120604-pavataanc-1312137>).

^{xix} Even the Hungarian prime minister finds the loss of one of his supporters particularly serious: "Empire or nations? Here we suffered a more serious punch in the guts when our English friends left the European Union with Brexit. That tipped the balance within the Union between supporters of sovereignty and federalism. It looked like this: on one side were the French and Germans, as federalists, on the other side it was the English and us, the V4. *If the English were still inside the European Union, then we would not have to learn expressions such as 'rule of law mechanism', 'conditionality' and 'economic governance'; they would not exist.* They can only be introduced in the European Union because the Brits opted out, and we, the V4 could not prevent this; what is more, the federalists launched an attack on the V4. We can all see the results. Basically, the Czechs have switched sides, Slovakia is wavering, only the Poles and Hungarians are holding out." (*Orbán [2023b]*)

^{xx} Reported by Bálint Ablonczy

^{xxi} At the same time, the fact that with the application of the rule of law mechanism the suspension of funds affected the Hungarian implementation of the Erasmus+ programmes at those Universities which were reorganised into public foundations, created a schizophrenic situation for the Hungarian government, which touched upon identity policy. Beyond its immediate training targets, Erasmus+ is one of the most successful programmes for enhancing Union identity. Although reinforcing European Union identity is by no means the aim of the Hungarian government, being left out of Erasmus+ would result in thoroughly negative feedback



from university students (and their parents), and would be politically very difficult to defend.

^{XXII} Targeting as the voting base ‘people’ (rather than ‘citizens’) who strive for security and the Kádár period-like boost in consumption, and obtaining continuous feedback from them by means of polls, was the gist of Fidesz’ pre-2010 socio-political turn (*Körömi* [2017]).

^{XXIII} For example, freezing the price of water and energy supplies since 2015 or introducing a price cap on fuel at the end of 2021.

^{XXIV} For example, prescribing the supply of a minimum stock of price-capped foodstuffs in each shop belonging to large retail chains, then obliging them to hold sales.

^{XXV} For example, the panic-driven decisions of the Ministry of Foreign Affairs in the Covid period to procure Chinese ventilators resulted in an extra expenditure of 300 billion Forints, while purchasing surplus gas when gas prices were at their highest meant an extra expenditure of 500 billion Ft. These together constitute almost 1.5% of the annual Hungarian GDP.

^{XXVI} For example, an extra-profit tax levied on 90 percent of the increase in prices in the building material industry.

^{XXVII} Retail, petrochemical and pharmaceutical industries.

^{XXVIII} Obviously, the reactions of other Hungarian entrepreneurs to an EU exit would be very varied. For those Hungarian industrial and service suppliers who do not depend on NER, who sell in European markets, an EU exit would cause economic damage and capital loss that would be impossible to compensate. And somewhere between these two groups are those small enterprises who depend on commissions from the local market and whose livelihood depends on tourism. A significant flight of capital is not implausible in these circles.

^{XXIX} According to the sharp standpoint of Daniel Kelemen, one of the leading researchers in this field: “if the EU leaders were to acknowledge that any one of the member states has turned into an autocracy, then they would be admitting that the European Council functions illegally. This is because the 10th Article of the Treaty on the European Union declares: ‘The functioning of the Union shall be founded on representative democracy’, and ‘Member States are represented in the European Council by their Heads of State or Government and in the Council by their governments, themselves democratically accountable either to their national Parliaments, or to their citizens.’ If the EU leaders were to acknowledge in the Commission or in the Council that the Council actually functions in violation of Article 10, as some of its members are autocrats, who are not democratically accountable, then arguably all legal acts that have been adopted by the EU in the past few years would be open to dispute. Consequently, silence rules, and not a single leader of the Council or Commission will openly speak about the dirty secret that Europe hosts a pet autocrat. The emergence of the government of at least one autocratic member state (Hungary), and presumably it will be followed by others, is a scandal and a tragedy at the same time for the EU. A scandal, since the appearance of an autocracy within the EU is a betrayal of the professed fundamental values of the Union. A tragedy, because it could have been prevented. What’s more, it is an ongoing tragedy, as the EU could still be doing much more about the spread of the cancerous growth of autocracy. However, the EU leaders refuse to use the instruments at their disposal. (*Kelemen* [2023] pp. 224-225)”

^{XXX} The present Hungarian government would certainly not take part in the further integration of the EU and in the establishment of an inner circle of member states (as we have seen, in the NER system even joining the Eurozone, an obligation undertaken at accession, is unimaginable). Thus, as far as the government is concerned, this is not a realistic option, but a ‘federalist’ initiative to be foiled. Consequently we do not include it among Hungary’s Union scenarios.

^{XXXI} A detailed, multifaceted analysis of the costs of a – counterfactual – hypothetical Huxit is given in the studies published in the 2019 special edition of *Külgazdaság* (*Csaba* [2019], *Csáki* [2019], *Deák* [2019], *Gálik* [2019], *Hornáth et. al* [2019]).

^{XXXII} The Hungarian prime minister’s view, in which the system of checks and balances is ‘Eurobabbled’, something that ‘a person with any self-esteem’ does not apply in the Hungarian political system (*Viktor Orbán* [2023d]) is in contradiction with such ‘cementing’ activities by NER. This contradiction can be resolved by supposing that these checks and balances (e.g. the State Audit Office, the Media Authority) in NER indeed do not have the function of supervising and restraining governance; on the contrary, their function is to restrain the opposition in its anti-governmental activities.

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