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## Unorthodoxy in Hungary: an illiberal success story?

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### ABSTRACT

This paper offers a political economy perspective of Hungary under the Orbán regime (2010–18). What specific variety of capitalism emerged from the series of centralising measures pertaining to property, banking, fiscal management and the division among various policy fields? We provide a functional overview of the Hungarian model of the market applying the varieties of capitalism framework. How far did it all succeed? The two hypotheses to be tested are (a) that incremental change translated into a new quality in 2010–18; and (b) that it were the uniquely favourable external conditions rather than institutional and policy innovations that explain less than exceptional outcomes.

### KEYWORDS

Varieties of capitalism; macroeconomic performance; public works; fiscal position; European markets; unilateral transfers

In April 2018 Viktor Orbán has secured yet another landslide victory in the parliamentary election, attaining two-third majority again. This allows him to form a fourth government, an accomplishment comparable – under democratic conditions – only to that of Helmut Kohl, the chancellor of German unity. In intra-Hungarian terms his tenure is going to be comparable to Kálmán Tisza, the Hungarian Premier with the longest ever period in office, acting in the period of the dual Monarchy, in power between 1875 and 1890. The political success is not built on exceptional accomplishments, as the *Wirtschaftswunder* under Konrad Adenauer, or the re-unification of Germany under Helmut Kohl. Thus, we are faced with a puzzle, especially that Hungarian economic performance is satisfactory, but by no means exceptional. Government enthusiasts (Lánczi, 2018) also attribute the fourth victory to mostly non-economic factors, such as credible anti-communism, commitment to conservative values, a workfare rather than welfare state, and strong leadership.

Political changes-often improvised – translated into changes in the economic model, moving away from liberal to highly co-ordinated variety of capitalism.<sup>1</sup> The 2010–2018 period has shown a series of unconventional measures, both in the economy and in the broader political context. Analysts supportive of the line of the government (György & Veress, 2016; Virág, 2018) apply the term ‘unorthodox’ policy mix. They mean a series of measures that are contrary to conventional wisdom. We shall see in some detail, if and to what degree, ad-hoc regulatory interventionism, nationalisation followed sometimes by privatisation to friends, marginalising foreign ownership in banking, energy sector and trade, and super lax monetary policy together have indeed been successful in bringing about sustainable and high rates of growth, real convergence to the core EU.

## The heritage: liberal market model in global and local crisis

Hungary has long been the laboratory of economic experimentation. The 1953–1990 period saw a series of systemic changes which catapulted the medium-sized country with limited economic power into the focus of attention of analysts working on comparative economic systems. Monographic accounts of the time (e.g. Berend, 1990; Révész, 1990) have documented both the limits and the potentials of market socialist experimentation.

In the following decade, Hungary was a frontrunner of systemic change, a gradualist success story, leading the country into the safe haven of the European Union by 2004. However, both social and political support for transition has been running out of steam, and what is by now universally termed as ‘reform fatigue’ emerged. In the first decade of the new millennium little if any major institutional change was introduced, while macroeconomic policies tended to be lax and not very professional. The last major reform was that of pensions, launched back in 1997. Later on – contrary to expectations related to EU-induced further reforms – major re-tailoring of regional policies, of fiscal conduct, health care or education all failed to materialise, in stark contrast to experiences in neighbouring Slovakia and Romania (Csaba, 2011).

The consensual view of the second decade of transition tended to blame lack of governance, which was observable due to continued and public internal strife among those in power. It was coupled with the lack of social support for the centre-left government. This became manifest following the massive street demonstrations of September–October 2006 that followed the so-called ‘lie speech’ of then PM Ferenc Gyurcsány.<sup>2</sup> Thus, the general expectation, domestically and internationally alike, was that once the internally split Left will have gone, a new centre-right governing coalition with strong legitimacy will be apt to implement long overdue reforms, from health care via pensions to regional development.

The new government was formed in May 2010. Fidesz was – similarly to CDU-CSU – a broad coalition of various forces and different platforms, but united under a single hierarchy and one man leadership. Called as the ‘central sphere of power’ the idea was to collect all forces unused under the Left, to help orchestrate major changes in society and economy.

In Germany Angela Merkel, ever since 2004, had to balance among various fractions of her own party and the coalition partner, the Social Democrats. By contrast in Hungary, Viktor Orbán has never been forced to compromise with parties of fundamentally different worldview or social base, as Fidesz was turned into a monolithic vertical hierarchy, especially following their second electoral defeat of 2006. In all the three elections the Fidesz parliamentary club enjoyed – with some interruption – a two-third, constitution-building majority in the legislation, and increasingly also in the media and the ‘commanding heights’ of the private economy. The structure of both the governing party and its parliamentary club was super centralised. It did not follow an ideology, but the practical concern of keeping the Premier out of micro-managing various daily concerns. This structure – though changed in detail – survives in the post-2018 period as well.

This arrangement was in certain way successful. The PM was involved in strategy making, while the ever growing micro-management of economic, social issues (but not of personnel!) was in the hand of the ever changing person running the Office of the Prime Minister. Thus, all decisions were collective, but supervised by the first man. And it followed a clear line of centralisation, not only in terms of crisis management. Observers of details

were pinpointing that the logic of changes has been the same on all fronts, be that in banking, higher education or sports (e.g. Kornai, 2015; Mihályi, 2017). State control has been thus much deeper than formal percentages of change from private to public property would show. For instance, mass media, as the highly popular news portal *origo.hu*, or the market leading television TV 2, as well as the once highly esteemed and serious economic weekly *Figyelő*, have all remained private but re-located from leftist to close-to-government owners and management. But the size and scope of changes, and especially their irreversibility have not been clear from the very outset.

The first three years, 2010–12 were spent by and large on crisis management. The crisis was not home-made but in part inherited from the 2006–2010 period, in part, suffered as a spill-over from the Greek drama and the global financial recession of 2007–2009, triggering a double-dip recession in much of Europe.

The original platform of Fidesz was one of bold reforms (Szt. István terv, Széll Kálmán terv I and II).<sup>3</sup> However, these would have pre-supposed some fiscal laxity, as changes first are costly, and only later may yield results. The first visits of the PM thus – in May and June 2010 – were paid to Brussels and Berlin, where the reception was frosty. This was one of the several occasions of deep distrust and disenchantment over the subsequent unfavourable turn of the Greek crisis, with EU leaders – then Commission President Manuel Barroso and Chancellor Angela Merkel in particular – having felt deeply hurt and cheated by repeated slippages in adjustment programmes and open sabotage by Greek authorities (Visvizi, 2012). This was a time of anger, not a time of considering alternative options.

This was the time when the big debate on the (mis)uses of fiscal austerity versus structural reforms, revival of Keynesianism versus back to rules-based orthodoxy, North versus South, and disintegration of the Euro-zone were all put on the agenda (Brunnermeier, James, & Landau, 2016). Hungary was a marginal player. Still, with references to previous precedents especially on Italy, Portugal and also Greece, the Hungarian government attempted to play a ‘reform for money’ scenario in May 2010. But the reception, both in Brussels and Berlin, was frosty. Orbán had to observe in petty detail the conditions of a standby negotiated by his leftist predecessors with the IMF and the EU. It reflected the lack of credibility of both Orbán and Fidesz as a party in their capacity of guardians of fiscal prudence.

With the benefit of hindsight, it has been clear that EU leaders wanted to teach a lesson to someone perceived as yet another populist leader. The perception of Orbán was one of a populist leader whose only objective was to milk the Union. Furthermore, they were sending a signal to the rest of Europeans that softening up the EU conditionality is not an option.<sup>4</sup>

Being a participant observer and based also on interviews with insiders in the Commission it is no secret by now that the leadership of the EU, both top politicians and technocrats, were showing an unconventional degree of cold shoulder. In the preceding years it had been customary to be soft with incoming governments, allowing them to package past misdeeds – and even some forthcoming costs – in a temporarily weakening fiscal position, provided the working relationship was cordial. With previous Hungarian governments, but also in relation to Greek, Portuguese, French and Czech partners the above sketched mechanism was workable. But ‘this time was different’.

This was cold shower to the newly formed second Orbán government. It seemed that the Commission which was notoriously soft on the Socialist governments, was by then showing its new strength to the administration of the right, applying double standards. Also, it was pretty clear that major structural reforms do require some fiscal leeway – this was the official explanation why Germany, France and later the Netherlands could get away with above Maastricht deficits in 2003–2005, i.e. at times of growth, without being punished.

This has put the whole policy mix of Hungary onto a new path (Csaba, 2013). On the one hand, quantitative targets, such as keeping the deficit below 3%, or keeping debt/GDP ratios stagnant or even diminishing, have become absolute must for the government.<sup>5</sup> On the other hand, the ways and means of attaining those have become truly instrumental, in the sense of not following a master plan or even not the conventional coherence criteria.

This was a period when style has become substance. And that was the ‘need to act swiftly’ rather than along any strategy. Micro-managing the economy and society has thus become the *modus operandi*, although none of the previously cited, let alone the formally adopted, documents would have suggested such a turn. Priorities of the government, which followed from its electoral considerations – serving the national middle class – or value judgements – such as squeezing out foreigners from the banking and energy sectors – also followed this line. Most actions were rationalised only retro-actively and in an ad-hoc fashion. No operational policy packages comparable to say the Balcerowicz Plan in Poland in 1990 were ever adopted. Convergence plans were regularly produced for EU use only. These have never had any institutional relation thus no operational significance for current fiscal actions, thus could not mandate what to do or not to do on the ground.

While the second Orbán government wanted to free itself of what it has always considered to be the straightjacket of the IMF, that is the standby of 2008 inherited from its predecessors, under the pressure of the renewed drying up of financial markets in November 2011 it was forced to re-open negotiations with the IMF.

The Hungarian government followed the path of Turkey, where negotiations on the negotiations were followed until the liquidity problem actually went away by itself. By May 2012 it has become clear that Hungary did survive the crisis without a new standby and also without triggering suspension of EU funding despite the ongoing excessive deficit procedure. Hungary at this point tended to be a good pupil, including her joining the Fiscal Pact in May 2012, without being a member of the Eurozone. But the squeeze in 2011 translated in a GDP drop of 1.6% in the following year, eliminating the similar growth of the preceding year and turning into a double dip recession. But by the end of the year, the threat of immediate insolvency was gone.

### **Institutionalised improvisation rather than institution-building**

As soon as the threat of immediate dangers were gone, the Hungarian leadership could make some strategic choices. Following long and mostly un-publicised debates two options crystallised. One – represented by the administration and academic advisors – would have been a kind of return to pre-crisis normalcy that is less ad-hoc decisions, smaller state expenditures, less interventionism and attempt to introduce the single currency. This would have meant a return and radicalisation of the liberal market economy option(s).

The alternative views were represented by the post 2013 management of the National Bank rallying around its Governor György Matolcsy and a bunch of 'unconventional economists' and business representatives, calling for more rather than less interventionism and targeted assistance to the 'national middle class' to be strengthened against multinationals. As clear from their contributions cited in this article, this implied a conscious option in favour of co-ordinated market economy model, not a mere preference for a bit more *dirigisme*. While the latter is a temporary set of measures, style rather than substance, changes in 2013–16 meant new substance reflected in (old) style.

This new substance – resembling somewhat to Putin's Russia and Erdogan's Turkey – was the tendency to pre-select via political deliberation winners, rather than letting the economic game to breed them. In the given context it implied that decision-makers preferred to free themselves from any constraints set by foreign policy-makers, traditionally the IMF and later also by the EU Commission. Instead, they opted for targeted interventionism and selective preferences granted to big foreign firms that are friendly to the government.

In the case of Hungary, this implied a new focus. The previous emphasis of the Right on small business was replaced by 'strategic partnerships' signed by the government with the big multinationals like Coca Cola or Deutsche Telekom. These deals formalise mutual commitment to long-term co-operation, in exchange for lavish tax returns or investment subsidies. The size of the latter is mostly unknown, but in rare cases when those became available to the public, tax breaks or subsidies amount to 15% to 25% of the total investment costs – a non-trivial level and set of support.<sup>6</sup> This is often complemented by other protective measures, securing profits, markets or warding off any new entry, or sometimes even all the three.

One of the big debates of the period was on the role of industrial policy and generally re-industrialisation. While relatively high growth would have allowed an ambitious cut-back of public debt, the decision was to focus on industry. One of the surprising features of the period was the spread of public property (Szanyi, 2016), a feature which has become a region-wide phenomenon.

In short, this is a non-trivial development. While in the West, especially in old Europe nationalisation was often a measure of crisis-management, triggered by exigencies rather than ideology (Voszka, 2018a, pp. 301–322), in Poland and Hungary the growth of state property served multiple policy purposes. In the case of Hungary, the government decided to keep certain areas under national control whatever it may cost. This holds primarily to the energy sector, where the previous trans-nationalised provision of supplies secured lower prices at the macro level. However, by nationalising these areas, the government created an opportunity for itself to use the cutback of retail/consumer prices for energy as a policy instrument, which did play a role in the re-election of the government in 2014 despite its rather chaotic governing style.

The growth of public sector was crisis-induced in most of Western Europe. By contrast, Hungarian banks remained solid. No bailout, no big capital injection was needed during and after the global financial crisis. Advancement of the public sector in banking was a way to implement governmental priorities, which has declared the need to keep financial intermediation in national hands.<sup>7</sup> In other words: it was systemic, rather than policy-induced. In so doing it has been markedly different from the West European trends, where it was a trend, and even more so from American solutions, when state involvement was temporary only (Voszka, 2018b).

It is telling that we have nothing other than a policy statement as for instance a government document, a policy paper, a study by one or another ministry, or a quasi-academic article – which would have provided clarification of the deeper motives behind the nuclear option in energy policy. This is more than surprising, as legalism – that is the need to document any major decision for the bad times to come – has had a century-long tradition in the Hungarian state administration at all times, including the Stalinist period. This was also a period of secularly declining – relative prices for oil, gas and electricity on global markets.

It was all the more surprising to see that the Hungarian government rushed to sign a multi-year agreement including large-scale credit financing with Russia prior to the 2014 legislative elections. As the opposition was splintered, political calculus of the traditional brand could hardly have been invoked. Furthermore, the deal is peculiar in more than one respect. Paks One, the old nuclear power plant that has been in operation since 1980, is indeed running out and is in need of technological reconstruction. But the second Orbán government did something much more than that: it agreed to build Paks Two, a power plant of similar size and capacity, with a stroke of a pen.

I certainly am unfamiliar with any public or informal document of the usual size and depth that would have provided a detailed, comprehensive, technological and financial justification of this giant deal, shaping public investment patterns for many years to come. At the time of signing the energy strategy of the European Union was already clearly prioritising renewables and energy saving rather than supportive of the expansion of domestic energy use, be that coal or nuclear energy.<sup>8</sup> The latter has become an anathema for many EU members including Hungary's major ally, Germany and her neighbour, Austria. In Germany, the withdrawal from nuclear energy was declared immediately following the Fukushima disaster in 2011 and is being implemented in the 2017–2022 period.<sup>9</sup> In Austria, the transformation of the Hainburg power plant planned in 1984 into a National Park following a legislative decision in 1996 has been as symbolic for general policy line, as Hungary's abandonment of the Nagymaros Dam on the Danube in 1989, signalling the onset of post-communist change.

One of the arguments invoked at the time was the need for cheap energy, or as the PM repeatedly formulated, Hungary has to offer the cheapest energy in Europe to be competitive. This is hard to believe unless we presume a replica of the Chinese path of industrialisation built on heavy – and polluting – industries like steel. In the services sector, accounting for two-thirds of Hungarian GDP, energy matters but it is hardly a major concern. Furthermore, if one takes climate change as a fact of life, environmental sustainability would require lastingly high rather than artificially low – absolute and relative prices for energy. The energy strategy of the EU cited above is also built on the considerations we voice as criticism against the Paks decision. Actually, in the subsequent phase, the government did refrain from further artificially depressing energy prices despite the global market trends showing a decline for energy prices, not least owing to the emergence of US shale gas exports.

### **Vertical co-ordination becomes systematic**

Economic growth in Hungary recovered from 2013 on. The government could observe the improving economic data and decided to stabilise the set of measures, which were largely

improvised in the preceding periods. Professor Veress (2017) talks about a lasting trend when competition is becoming less and less relevant in capitalist economies, where interventionism and re-distribution grows in relevance. I think it is largely a misreading of events globally but it reflects Hungarian realities: intentions and outcomes alike.

Analysts have different takes on this development. János Kornai (2015), the doyen of the comparative economics profession talks about a U-turn in Hungarian economy, one which gives up basically everything that was of relevance in the post-1989 period in terms of economic pluralism, privatisation and liberalisation. He spots a grand master plan which is being gradually implemented, with a large degree of coherence, leading Hungary from a consolidated market economy to an autocratic regime. He describes as a politically induced turn that is by no means restrained to the economy, but covers all aspects of social life.

Two eminent sociologists, Szelényi and Csillag (2015) go even farther and draw a parallel of this overall turn to that of Putin's Russia, leading to a fully fledged illiberal model, i.e. political authoritarianism dominating the market order. A former member of the Constitutional Court, Imre Vörös (2015) documents in great detail the gradual and irreversible change in the system of checks and balances, which have invariably strengthened the executive and diluted most of constitutionalism.

Political scientists Körösi and Patkós (2017) highlight the role of leadership style, populist leanings and feel for the *Zeitgeist*. They attribute most of the changes to the personality of the prime minister and his vision of a modern and efficient leader, the cult of action against meditative and slow deliberative processes. Alas, this seems to reflect the priorities and expectations of the new generation of university leavers, young professionals, entrepreneurs and broad strata from among the middle classes. The latter associate democracy with drifting and inaction, as experienced under the left governments of 2002–2010.

Supporters of the government (e.g. Kolozsi, Lentner, & Parragh, 2017) also postulate retroactively a grand strategy aiming at state supremacy in public–private relations that allowed for streamlining public finance and also enhanced and improved governmental efficiency. However, they do not provide any indicators other than conventional macro-data. They also treat the 2010–18 period as a single phase of incremental improvements, aiming and also delivering upon a new vision of the state (whatever that may mean).

Finally, analysts of the *longue durée* (e.g. Benczes, 2016) attribute the changes to lasting structural characteristics of the Hungarian society, longing for redistribution and state paternalism. In this reading, this is the heritage of the Kádár period survived. They were consciously revived and even strengthened by the fears and shocks, uncertainties and injustices of the post-transition period in 1990–2010. It is worth noting that a recent collection of papers from all across the social science disciplines (Jakab & Urbán, 2017) comes to similarly pessimistic conclusions. Most authors argue in one way or another with long-term path dependence, lacking democratic values and longing for the strong hand. From among the most pessimistic accounts, we may list Péter Mihályi (2017) who dates back selective anti-market and re-distributive policies all across the history of the resurrected Hungarian state, i.e. ever since the 1920s. In his reading, Orbán simply reinvented what has been the undercurrent all across the changes of the past century.

We do not find the long-term path dependence argument fully convincing. Analyses of the economic and social history of Hungary (e.g. Tomka, 2019) do not substantiate the



lack of market and democratic roots. Also, a study of the managerial class (Kolosi & Szelényi, 2010) highlights considerable continuity in the managerial class with that of the interwar period. Empirical analysis of the generational change taking place from the first post-communist entrepreneurial class (Laki & Szalai, 2015) rejects the widespread myth of politics – either the *nomenklatura* heritage or later cosy relationships with governing parties as the dominant factors of success. Instead, inherited and acquired tacit knowledge and embeddedness in transnational networks that counted for the lasting good scores. Furthermore, transnationalisation is irreversible and the EU has created a largely binding set of constraints on what any government may or may not do in real-world situations as distinct from its propaganda.

Several innovations of the preceding two phases survived their originally planned life span. For instance, in 2011 the introduction of sectoral taxes – especially on banking and retail trade chains – was portrayed as a transitory measure. However, these are in effect even at the time of concluding this paper. Likewise, the growing role of the share of administered prices was first depicted as a short-term measure, say in the energy sector, in waste collection and many other areas including advertising and party finance. By now these measures have become constituting features of the new model.

The original Fidesz platform of 2009–2010 was more of the replica of that of German Christian Democrats, i.e. calling for the support of small business, advocating adoption of the single currency and generally a smaller state, not only cutting the current deficits. In reality, the 2010–18 period saw a by and large stagnant state quota oscillating about 51 pc of GDP, one of the highest in the European Union.

Not only state ownership increased, but state interventionism in general. It was usual for the state to acquire controlling and minority shares in a number of areas, from banking to the media. Also, as a sign of the previously mentioned new philosophy, nationalisation was often a prelude to privatisation to entrepreneurs close to the governing party. This was the case of casinos, of tobacco shops, media firms or of the Hungarian Foreign Trade Bank.

Conventional wisdom does not associate these type of interventionist policies, non-calculable regulatory environment and high levels of state redistribution with economic success. Still, Hungary could grow by 2.2% in 2016, 3.8% in 2017, 3.7% in 2018 (estimate) and 3.1% with inflation being just 0.4% in 2016, 2.4% in 2017, and 3.4% in 2018. Unemployment rate has declined below 3.8% in the second half of 2018 and labour market participation rate by end-2018 has climbed to 69.8%. Given that job creation counted among the major promises of Fidesz, the emergence of 800 thousand jobs during the period under scrutiny counted among the pluses for the population. After a temporary stagnation, the gross capital formation recovered and grew by 30% in the period, with construction taking the lead. The skyrocketing of wages – by 13.4% in 2017 and over 10% on top of that in 2018 – provide a partial explanation for the renewed electoral victory of governing parties.

However, recovery has largely been built on one-time factors, including low global energy prices, growth recovery in the EU, sustaining zero bound interest rate on global capital markets. Palotai and Virág (2016) have called attention to the fact that the foreseeable decline in EU transfers – which reached 3% to 3.5% on GDP in net terms during the years under scrutiny, will cease to act as a driving force. Likewise, growth of consumption and stagnant prices are non-replicable factors. Furthermore, limited

innovations and stagnant competitiveness also do not bode well for a future high growth trajectory. In the last convergence report of April 2017 the government bets on high growth, i.e. 4.1% in 2017, 4.3% in 2018, 3.8% in 2019 and 3.7% in 2020.<sup>10</sup>

A year later the National Bank has presented a much more cautious scenario. They forecast a deceleration of growth to 2.7% in a lasting trend by 2020 with inflation climbing to 3%, thus meeting the inflation target after a long last.<sup>11</sup> It is remarkable, that the fiscal report of the bank was last published in August 2017, half a year before elections. Seeing the strong electoral elements in the first quarter of 2018 and the ensuing soaring of deficit-close to 900 bn Fts, which if unchanged, would parallel to the scandalous Socialist practise of 2006 – are clear indications of the need for corrections. A part of these were instituted in October 2018 including a 20% cut of employment in public administration and freeze of pensions. Still, the EC Commission called for an additional adjustment of structural deficits, in the range of 450 bn Fts or 1.5% of GDP for 2019.<sup>12</sup> When the extra tax monetary policy, shadowing the practices of the European Central Bank, ceases to exist<sup>13</sup> and fiscal policy also need to be severed, the slowdown of growth is bound to be long lasting.

### Has the co-ordinated model succeeded?

In our sketchy analysis of the post-2010 developments, we could observe what Lenin used to term as ‘the primacy of politics’. This translated into an incremental but gradual turn away from the liberal market economy model of 1990–2010. What started as improvised measures of crisis-management, have gradually cemented themselves as lasting components of the new economic model. Focusing on the big picture we refrained from discussing individual contested measures, such as the public works programme, or the reshaping of education, or the flat tax rate for personal incomes. Alas, the latter *per se* could have fit into a liberal platform. But in reality, fitting into the regional picture presented in the broad-brush analysis of Appel (2018) – individual measures have lost their original partisan identity and have been shaped by the overall context of centralisation.

In conclusion, we should address the central issue of how the change to coordinated market model fared under Hungarian conditions. While the supporters of government describe it as an unconditional success story (Kolozsi et al., 2017), opposition and much of foreign commentators consider it as a total failure, leading to the exclusion of Hungary from global mainstream. For one Mellár (2018) attributes the derailment to inherent tendencies that follow from the primacy of politics, as if replicated from the 1950s.

We do accept many of the criticism, but must also appreciate the measurable improvements in the macro-economic numbers. We have shown the turn towards more centralisation and interventionism, without however documenting a full relapse into old-fashioned statism that rules in the New Independent States. Thus, contrary to the earlier cited assessment by Szelényi and Csillag (2015) while we also see attempts to create an increasingly authoritarian arrangement, we do not see much of those being implemented on the ground.<sup>14</sup> As we have documented above, much of the relative economic success is due precisely to the inability to restrict impacts of globalisation in the economy, society and flow of information, incapacity to buttress self-regulation, complemented with private networking transcending state borders and unimpressed by

governmental intentions. This holds both for the multinationals, accounting for the larger part of GDP creation and particularly two-thirds of exports, and also for the small business sector, accounting for over 70% of employment. Two-thirds of Hungary is not policy dependent.

As follows, we must invoke a rarely mentioned factor explaining the outcomes: the large and growing amount of unilateral transfers of the close to 500 thousand Hungarians working abroad. A detailed analysis of this process has shown Hungary to be the largest recipient of this financial flow, accounting for no less than 4% of the GDP, thus exceeding net EU transfers and the comparable value of Bulgaria and Croatia, two traditional sender countries of guest workers to core Europe (Csontos & Kóczyán, 2017, p. 22).<sup>15</sup>

Counter-factual assumptions that may validate the official claims for unorthodoxy laying at the root of relatively good performance. These could include improvement of allocational efficiency, innovation, improved competitiveness, or steep decline in debt servicing obligations. In reality none of these hold. Financial intermediation, according to the repeated criticism of the central bank, is one of the most expensive in Europe. Capital market has never been very deep, with about 40 titles traded and 4 of them accounting for 90% of the turnover. But the latter was disrupted, primarily by the Questor scandal in 2015, when one of the eldest investment houses collapsed overnight (Kasnyik, 2017). Thus the classical Gerschenkronian argument for the state replacing a fragmentary capital market seems to hold.

Stabilising features of the coordinated market and limits to a switch back to a liberal model thus follow from the emerging institutional setup. But allocation of resources along the preferences of the government, that include security of supply and national ownership in the major sectors, rarely bode well for efficiency of resource allocation. Thus, it is not fostering growth in a sustainable manner. Central control – primarily the old-fashioned picking winners – rather than enhanced efficiency is the major maxim.<sup>16</sup>

It is also hard not to see the close co-evolution of international and Hungarian trends. When the EU entered into a double-dip recession in 2011–12, Hungary followed. When Europe recovered in 2013–17, Hungary also recovered, not least owing to the open market and to the possibilities provided by the German growth potential.

We have cited several times earlier analyses of the central bank (Palotai & Virág, 2016) that called attention to the trends leading to the inevitable deceleration of growth rates in Hungary years ago. Improvement would need innovation, better allocation of resources, steep declines in public debt/GDP ratio and thus also that of crowding out. Hungary should strive at and enhancing the locational advantages of the country for foreign investors by better quality education and rehabilitating rule of law, fighting corruption and enhancing transparency.

These old suggestions have been re-stated in no uncertain terms by the experts of the central bank. Formulating their propositions in a media-friendly set of slides the forecast makes it clear that in the no-change scenario considerably declines in both growth rates and competitiveness are inevitable (MNB, 2018). This view is clearly at odds with the self-congratulating tone of the government and also with the highly optimistic forecasts embodied in the convergence plans for 2018–22.

The latter propositions of the staff of the central bank figure high in each of the regular country reports of the international agencies, such as of the OECD, of the World Bank, of the European Commission. However, not much has materialised from them. Close to official

analysts agree on the unchanged – focal – role of EU funded projects in sustaining economic growth (e.g. Gyöngyösi, 2018). But these are bound to contract in the years to come, not least owing to the reforms envisaged in the 2021–27 pluri-annual financial framework. Moreover, statistical analysis has shown a reverse causality for the workings of EU cohesion funds. It were more developed, higher growth regions which profited and laggards tended to continue to decline in the 2004–2017 period.<sup>17</sup> This has not deterred the fiscal authority to submit a convergence plan based on sustaining a growth rate of 4.5% until 2022, with public debt/GDP ratio declining to 60% or the Maastricht level – a project qualified as ‘close to adventuresome’ by official commentators (e.g. Rácz, 2018).

One potential policy answer to the challenge of growth acceleration was the attempt of so-called Eastern and Southern opening in 2014–17, aimed at reorienting Hungary’s trade to countries that register high rates of growth. In abstract terms, it may make sense, as anyone can draw up a model that would show that such a reorientation may be growth enhancing. However, what works on the computer screen may not work at all in reality. Penetrating the largely closed and administratively protected Chinese market is easier said than done. Entering the fast-growing African markets requires contacts, skills, logistical and financial capabilities usually not available to Hungarian firms. Thus, this attempt is seen, by now even officially, as a policy blunder.

In all, generating higher and sustainable rates of growth, more innovation and competitiveness is needed. A new Ministry for Innovation was created in May 2018. Still, it may be of little avail to remedy what is by and large a systemic weakness. Academic observers (e.g. Dallago & Rosefielde, 2016, p. 255) also voice their scepticism in terms of sustainability of growth, financial improvement and better living conditions. On the contrary: if the prevalence of political logic continues, as it seems to be the case, heterodoxy is likely to survive. But not in its alleged role as the foundation for economic success and convergence to West. As the former central bank governor (Bod, 2018, p. 154) reminds us, ‘the East Asian developmental state model is built on particularly strong and efficient administrative capacities, that are not available under Hungarian conditions’. The Hungarian *Sonderweg* therefore seems to be a lasting phenomenon, leading to stagnation rather than convergence.

## Conclusion

This article offered a bird’s eye perspective on the specific variety of Hungarian capitalism as it emerged, largely spontaneously, in the post 2010 period. By surveying the most important changes in policies and institutions we have found support for both of the hypotheses formulated at the outset. First, we have proven that centralising tendencies have not been temporary but added up in a new quality in all spheres of life. Thus, we do observe a switch from a basically liberal to a basically coordinated type of capitalism. Second, we have seen that institutional and policy innovations have not been conducive to sustainable improvements, let alone a breakthrough in efficiency. Thus, the moderate recovery of the 2010–18 period was due primarily, though not exclusively, to external factors and surviving items of orthodoxy, such as fiscal restraint, low taxes, workfare approach and monetary policy shadowing the super lax line of ECB in this period.

Third, therefore the political economy of Hungary is thus one of the continental brands, but unlike that of the New Independent States. As Farkas (2016, Chapter 8)

explains, post-Communist features are no longer defining the species. Still, the replica of the German social market economy, formulated at the outset of transition and also when the Orbán régime commenced in 2010, remained a pious wish only. Crisis-management strengthened coordinated features at the expense of liberal elements which dominated theorising only.

## Notes

1. For a recent application of the by now classical Hall and Soskice (2001) approach on the region cf Farkas (2016). She offers clarification of categories and a new catalogue of empirics.
2. This was most unusual for Hungarian political culture, especially following the negotiated revolution of 1989/90.
3. All these projects are available online. However, none of them were formally adopted by legislation, or even by the administration. Therefore, we take them what they are: contemporary declarations of intent by well-meaning intellectuals in support of the Right, that do not deserve deeper retro-active analysis.
4. For a comparative overview of national adjustment programmes and their outcomes see Györfffy (2018).
5. Hungarian public debt/GDP ratio was 80.5% in 2010, 78.2% in 2012, 74.7% in 2015 and 72.0% most recently according to *debtclock.eu*, retrieved on 21 April 2018.
6. In case of a recent Indian investment in packaging, it amounted to 15% of total costs, as announced by foreign minister Szijjártó in: *Magyar Idők* (government daily) 22 November 2018.
7. Orbán Viktor teljes beszéde a 25.bálványosi szabadegyetem és diáktábor rendezvényén (The full version of the speech of the PM on the 25th summer university in Bálványos). *Magyar Nemzet*, 29 July 2014.
8. Cf the summary of objectives, quantitative targets, links to further original documents and measures at 'Energy efficiency directive:completing an energy policy puzzle', *euractiv*, 2 Nov.2012, retrieved on 21 April 2018.
9. Ausstieg aus der Kernkraft. [www.bundesregierung.de](http://www.bundesregierung.de), last retrieved on 21 April 2018.
10. [www.ec/europa/eu/european-semester/convergence-program-of-hungary/en](http://www.ec/europa/eu/european-semester/convergence-program-of-hungary/en), last accessed: 19 April 2018.
11. MNB: *Inflációs jelentés*, Budapest, 2018.márc.29, accessed via:[www.mnb.hu](http://www.mnb.hu) on 19 April 2018.
12. As reported in: 'Hatalmas kiigazításra kéri az EU Magyarországot'/EU calls for huge adjustment in Hungary/, *index.hu*, 22 June 2018.
13. It may be a subject of deeper controversy, way beyond the scope of the present overview, if this fairly orthodox practise of shadowing is in line with what Grzegorz Kolodko (2014) termed 'new pragmatism' as a maxim for efficient economic policies.
14. Bozóki and Hegedűs (2017, pp. 22–23 and p. 26) attributed it basically to the – open and covert – influence of the European Union in terms of limiting but also legitimating the Orbán régime. We agree only in part and highlight the spontaneous, horizontal links' being formative both in the economy, in society and in the flow of information, also not necessarily framed by EU arrangements/as is obvious in the case of internet and social media/.
15. There has been some controversy following the publication of this article, if the numbers hold. But it has been found that competing estimates were made on a thin base, not representative of the pattern of Hungarian balance of payments, as reflected in Eurostat, thus the original claim survives/even if precise numbers do not necessarily do/.
16. Allowing for, or even fostering, monopoly positions to support this end abound, most recently by creating a giant public–private partnership monopolising much of the electronic and printed press (Horváth, 2018).
17. *Portfolio* (online business portal), 3 June 2018.

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