Is Hungary the New EU?

A Wildcard in the Future of the European Union

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The Author

Jeremy Stanford was formerly a Conservative party member, eurosceptic activist, and publisher of the online *Eurocritic Magazine*. He now lives in Hungary where he continues to try to make sense of European politics.

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Wildcard

“We can only achieve success if we boost our autonomy and make our own decisions”
Viktor Orbán

Until recently, the sum knowledge about Hungary of most people in Britain might be that it is a smallish country somewhere in central Europe – once a communist state but now a member of the European Union – and, perhaps, that it offers affordable dental treatment.

Over the past two years, however, Hungary has received more international press attention than it could normally expect. And many might say this was for all the wrong reasons.

Hungary’s combative premier, Viktor Orbán – elected with a swingeing two-thirds parliamentary majority for his Fidesz party, with the minor Christian Democrat KDNP, in May 2010 – has upset liberals and democrats from Brussels to Washington DC with a series of measures that to Eurocrats in particular have seemed decidedly un-*communautaire*.

Orbán has been accused of being an autocrat, likened to Russia’s Putin or Belarus’s Lukashenko, and of seeking to abolish democracy in Hungary.

His liberal and left-wing critics – within Hungary, in the European Parliament, at the European Commission, in West European capitals and at the White House – consider many of the legislative measures he has introduced since his landslide election to be provocatively nationalist, or unjustifiably partisan with the aim of securing indefinite power for his Fidesz party.

‘Unorthodox’ Policies

The targets of this opprobrium have been a selection of the over 300 legislative measures passed through parliament by Fidesz since the general election.

Of particular concern have been: a media law centralising powers in a government appointed media authority; the forced retirement of judges aged over 62; seeking (but failing) to replace the central bank governor; new government appointees weighting Hungary’s central bank board; a financial transactions tax that threatened to be applied to the central bank; nationalisation into state coffers of job-based private pension funds; and the rewriting of the Hungarian constitution, on which consultation was boycotted by the opposition parties.

In external relations, Viktor Orbán, an original founder and embodiment of the post-communist Fidesz party, is no less bold and combative. From Hungary's central Europe location he has made a principle of widening Hungary's economic links to the East. And though committed to EU membership, his relationship with the EU institutions in defence of his unorthodox political and fiscal policies has been obstinate and strained.

European Commission dissatisfaction with measures to reduce Hungary's 80% of GDP sovereign debt led to a temporary suspension of the significant EU Cohesion Funds Hungary receives. Several legislative measures to constrain the government deficit remain under Commission scrutiny. And the Hungarian government is playing cat-and-mouse with both EU and IMF over fiscal policy changes demanded in return for a 15 billion euro credit facility. Currently the government's negotiation tactics include a national ad campaign claiming: *"We will not give in to the IMF"* and *"We will not give up our independence"!*

To put it succinctly, Hungary under its Fidesz government does not sit neatly or quietly in the collective EU mould. Hungary's finance minister has described Brussels' "imperial centralisation" as counter-productive to Hungary's independent interests. And Orbán insists that new unorthodox polices, such as those employed by Hungary, are necessary because EU answers to the financial crisis have failed.

So how is it that a country ostensibly fully committed to EU membership – a fact asserted by Fidesz as much as by the opposition parties – relishes challenging EU authority at every turn? Why does Hungary distinguish itself among new EU members with such forceful assertion of independence? And does non-eurozone Hungary present a message for the future architecture of the EU, as the EU focuses on rescuing the 17-member eurozone rather than on the interest of all 27 members?

History of Foreign Oppression

Those in Hungary who reject the tone of international criticism are inclined to say "they just don't understand us". But a brief lesson in Hungarian history may go some way to explaining Hungary's controversial politics.

As the words of the country's elegiac 19th century anthem *Hymnus* confirm, Hungary's history with brief exceptions has been of strife and submission to foreign occupations. The Mongols, the Turks, the Habsburgs, the Nazis and the Soviets have each recognised the significance of controlling Hungary as a gateway between East and West.

The breakup of Austria–Hungary after the First World War involved the European allies enforcing the *Treaty of Trianon*, which removed and redistributed nearly three-quarters of Hungary's previous territory, turning nearly two-thirds of the *Magyar* population into exiles.

The second world war saw a political faction within Hungary give enthusiastic support to the Nazis. The outcome of the war – Soviet occupation – saw a separate political faction eagerly support the installation of communism. The legacy of such divisive polarisation of the political classes – though today between democratic 'liberal-left' and 'nationalist-right' – continues as the most dominant feature of current Hungarian politics.

To some, only internationalism can be relied upon to secure Hungary's democratic and prosperous future. To others, proud of Hungary's 1200 year-old ancestry and tired of submission to foreign powers, Hungary should take the opportunity to stand confidently on its sovereign feet.

But there is a further, little observed, historical factor to explain the revolutionary zeal with which Orbán and Fidesz have sought to reshape Hungary's future.

Communist Legacy

Due to the uniquely liberalised 'Goulash' form of communism that developed under the long-lasting Kadar regime, communist officials in Hungary at the time of regime change in 1989 were easily able to adapt to the market-speak of the new reality.

When the first post-Soviet elections were called, elements of the former communist political elite reorganised with a change of name and became the MSZP (Magyar Szocialista Párt), the official successors to the communist Socialist Workers Party.

The first democratic election in 1990 returned a centre right government, but its market reforms left many economically bereft and the next election was won by MSZP. A swing back to the right in 1998 led to Fidesz' first election victory, but with a parliament again only lasting one term, Viktor Orbán struggled to achieve radical change against an institutionally unreceptive background.

Two more terms for MSZP finally exposed corruption and deceipt at the heart of its government, with party leader, Ferenc Gyurcsány, admitting MSZP won the 2006 election only by lying to voters over its economic management.

The subsequent landslide victory for Fidesz in 2010 has enabled Orbán to address unfinished business: clearing the stables of Hungary's communist legacy. Fidesz ran for the 2010 election on the slogan "More than a change in government" and Orbán declared his aim to be the "overthrow of the old and the development of a new national order."

The Fidesz Approach

Fidesz in government is deeply anti-communist and strongly supportive of Hungary's nationhood, traditions and Christian values. But its policies are an unconventional mix for a party of the 'right'.

Orbán praises freedom, responsibility and self reliance and disparages redistributive policies aimed at equality of outcomes. He asserts it is wealth-producing private sector jobs that create welfare for all. Government strategy, he says, is to see everybody better off rather than nobody worse off.

Yet Orbán has been slow to cut public sector employment, address outdated pensions or trim social welfare distribution, as recommended by the European Commission. He is also prepared to take important enterprises into state ownership, provide significant co-investment to growth companies, and includes in his wish list making private energy supply to homes non-profit.

The problems he faces in stimulating much-needed economic growth, against a background of large government debt, are not dissimilar to those in Britain. But a depressed domestic market, overburdened by mortgage debt, a positive export sector restrained by European contraction, and financial and investment markets unsettled by tax charges on cash-rich foreign enterprises and Orbán's unpredictability do not help his case. Yet individual inward investment into Hungary particularly in the automotive industry continues to expand, with government support, and Budapest has become a centre for relocation of European business headquarters. Orbán has also managed to keep the government deficit below 3% of GDP.

It is the dramatic fall in value and less dramatic recovery of the Hungarian forint over the past year that has been the most visible victim of Hungary's financial uncertainty. But far from seeking sanctuary from the euro, the government's choice is to distance itself as far as possible from EU economic and monetary policies. According to Orbán, "Hungary is at nobody's mercy", and "although Hungary forms part of western culture and the European economy it has to choose a path of its own, not of those who caused the crisis and have failed to cope".

New Direction

EU policy differences with Hungary, however, may for the moment drop down the Commission's agenda as its President Barroso now calls for significant changes within the EU as a whole.

> *"Europe needs a new direction. And, that direction cannot be based on old ideas. Europe needs a new thinking."*

It could have been Orbán speaking but, ironically, this was Barroso himself in his recent State of the Union speech.

Faced with the need for institutional change to address the euro crisis, Barroso now seems persuaded of the entire federalist route, with references to foreign policy, defence and the judicial system. But his first priority is to introduce an EU Banking Union to underwrite the stability of European banks, beginning with a Single Supervisory Mechanism led by the European Central Bank. The scheme could involve all EU banks – but only those domiciled in the eurozone will be guaranteed capital support if under stress and offered collective deposit insurance for retail customers.

In Hungary, the reaction to this proposal has been cool at best. It is seen as giving eurozone banks a lifeline of ECB recapitalisation while leaving non-eurozone banks to fend for themselves. The fear is that banking customers in Hungary will decamp from domestic entities to safer, eurozone-parented banks. The same concern must be shared by other non-eurozone countries where eurozone banks generally have a significant presence. And in non-euro Sweden the objection is that ECB surveillance rules will be inferior to Sweden's own.

The UK's decision not to submit to this supra-regulatory exercise is no surprise. But non-participation by *pre*-eurozone members – whose banks would receive obligations not benefits – will disappoint the Commission. This is an issue that could mark the first stage of a widening fissure between eurozone and non-eurozone members. A potential impact may be that non-euro countries are compelled to adopt Hungarian-style unorthodox fiscal measures – of the kind that have so troubled the Commission – to enable their currencies and economies to compete against an ECB-supported eurozone.

A further divisive influence could be the more politically-based Fiscal (Com)Pact. The intergovernmental Fiscal Pact is the EU's response to government debts and will involve active EU surveillance and enforcement to bring national deficits and debts within EU limits. All eurozone countries are expected to progressively ratify the policy and three non-eurozone countries seem willing to adopt the pact's legislative requirements. But other non-euro countries are likely to remain sceptical of enabling significant financial sanctions to be imposed by the EU for failing to meet budget and national debt targets.

For the record, last December Hungary initially supported Britain in vetoing an EU-wide fiscal treaty, then voted with the majority when it became obvious the majority would fail. The issue has since been parked with the country's Constitutional Court and no ratification debates have been scheduled for the Hungarian parliament.

Two Speeds or Two Solutions

It now seems clear, despite long-held EU resistance to the development of a "two-speed Europe", that the imperative of focusing on the euro currency's survival has led to acknowledgement that euro and non-euro countries may inevitably follow different paths.

German Chancellor, Angela Merkel, has spoken specifically of the need to transform the eurozone area into a fiscal union and then a political union. At the EU summit this October, she called for euro country's budgets to be subject to "enforceable intervention rights", with overall budget authority placed in the hands of a central "currency commissioner".

This would be a very major step towards full economic, monetary – and ultimately political – union; the objective set sixty years ago by the founders of the European Community. Already, a proposal has been raised to hold a convention in 2013 to discuss revisions to the EU Treaty, with a likely timetable for ratification of such a treaty in 2015.

There is yet no consensus from individual countries on willingly giving up one of the most precious attributes of national sovereignty, but Germany's role as the eurozone's reluctant paymaster should ensure concerns over how its money is spent are significantly satisfied in any treaty agreement.

Fortunately for non-eurozone member countries there is no compulsion that can make them follow the eurozone's federalist path. Centralising budget measures to support the single currency will certainly require treaty change, but agreement to adopt the full proposals will not be found among all 27 EU states. Non-euro members would not fit naturally into such a scheme and it is unlikely that many would support such intrusive budget controls.

A predictable outcome is that EU members will agree to disagree, creating a split in the EU with eurozone members integrating under an EU Treasury, while the non-eurozone insists on retaining substantial independence.

Indeed, the Commission's desperation to conclude a treaty for the eurozone could enable the non-eurozone to lever concessions, perhaps an alternative or adjunct treaty, that would allow much greater sovereign flexibility on major economic and political issues, given the focus on mending finances can involve wide-ranging policy. The Commission might convince itself such concessions would be transitional, since most non-euro members are intended to end up in the single currency.

Raising the Nationalist Flag

One country with no such currency obligation, of course, is Britain. Foreign Secretary Hague has spoken of different degrees of integration as a future EU model. If Britain chose to stay in the EU, there might be no better opportunity than such treaty discussions for Prime Minister Cameron to repatriate legislative powers if he is serious about making "a fresh settlement with the EU".

In the case of pre-eurozone Hungary, its finance minister boldly calculates it will be twenty years before his country may consider joining the single currency. Leaving the EU is not an option for Hungary, due to its heavy dependence on EU funds and the imprimatur of membership for inward investment. Instead, Orbán likes to view Hungary as a potential leader of a non-aligned central European EU bloc. He actively encourages EU membership by Hungary's Balkan southern neighbours and has nationalist regional allies in President Václav Klaus of the non-euro Czech

Republic and, potentially, in eurozone Poland with the pro-nation main opposition party.

Thus, the inevitability of much soul-searching over the future direction of the EU, occasioned by the euro currency crisis and likely need for a new treaty, could present a welcome opportunity for Viktor Orbán's Hungary, and other independently-minded non-euro countries, to free themselves from the orthodoxy of EU economic and political thought.

It may be questionable whether Orbán's chosen unconventional solutions can achieve the growth, jobs and financial stability that Hungary and the whole EU seek. But the message from Hungary – as much as from Portugal, Spain and Greece – is that flexibility is increasingly seen as the watchword for addressing the present crisis. As an outspoken and uncompromising member of the non-euro group, that believes in a strong and independently-minded nation state, Hungary's approach to future negotiations could be a touchstone for the formation of a new non-aligned movement.

It is of note that Hungary has historical form in raising rebellions – though regrettably less so in their ultimate success. But as the EU once again seeks to turn its institutional architecture towards ever-closer political union we may see how far, and with how much support, bold Magyar outriders for an EU of cooperating, independent nation states can upset federalist plans.

THE BRUGES GROUP

The Bruges Group is an independent all–party think tank. Set up in February 1989, its aim was to promote the idea of a less centralised European structure than that emerging in Brussels. Its inspiration was Margaret Thatcher's Bruges speech in September 1988, in which she remarked that "We have not successfully rolled back the frontiers of the state in Britain, only to see them re–imposed at a European level…". The Bruges Group has had a major effect on public opinion and forged links with Members of Parliament as well as with similarly minded groups in other countries.
The Bruges Group spearheads the intellectual battle against the notion of "ever–closer Union" in Europe. Through its ground–breaking publications and wide–ranging discussions it will continue its fight against further integration and, above all, against British involvement in a single European state.

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The Bruges Group holds regular high–profile public meetings, seminars, debates and conferences. These enable influential speakers to contribute to the European debate. Speakers are selected purely by the contribution they can make to enhance the debate.

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Contact us
For more information about the Bruges Group please contact:
Robert Oulds, Director
The Bruges Group, 214 Linen Hall, 162-168 Regent Street, London W1B 5TB
Tel: +44 (0)20 7287 4414
Email: info@brugesgroup.com

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