Vision of Europe and Future of Hungary

Hungary is part of Europe and member of EU, therefore its faith is closely connected to them. Future of Hungary will be determined by what is going on in integration of Europe. Therefore it is rational to investigate the vision of Europe and the future of Hungary in this context. The paper makes an attempt to discuss this subject in this approach.

Historical choice facing European Union and Europe

European Union (EU) and Europe as well is facing a basic and historical choice: to give up the euro accepting the all negative consequences of it or to take decisive steps towards creating monetary and political union utilizing all economic and geopolitical adventures of it.

EU is one of the most decisive economic and political factors of the world. It has the wealthiest market of the world with half billion affluent consumers and skilled labor force, its total GDP is largest in the world and it has one of the world reserve currency. For that reason its future fate has a major influence and impact on the world’s as well - both politically and economically.

The strength and influence of European Union (EU) and Europe will be determined by the integration of their countries just as their major shortcomings and weaknesses have stemmed from the less developed integration. Therefore the future position of EU is based on the interoperability of its countries and on quality of its integration.

The euro zone’s problem is not the debt’s size, but its fragmented structure. Taken as a whole, the stock of euro-zone public debt is 87% of GDP, compared with over 100% in America. Similarly, the banks are not too big for the continent as a whole, just for individual government. To survive, Europe has to become more federal: the debate is how much more.
As the euro crisis has shown, governments struggle to take collective decisions. The small countries of the euro zone fear that the big ones would hold too much sway. If Berlin pays the bills and tells the rest of Europe how to behave, it risks fostering destructive nationalist resentment against Germany. And like the other version of the superstate, it would strengthen the camp in Britain arguing for an exit—a problem not just for Britons but for all economically liberal Europeans.

That is why the rescue seeks to limit both the burden-sharing and the concession of sovereignty. Rather than building a federal system, it fills in two holes in the single currency’s original design. The first is financial: the euro zone needs a region-wide system of bank supervision, recapitalisation, deposit insurance and regulation. The second is fiscal: euro-zone governments will be able to manage—and reduce—their fiscal burdens only with a limited mutualisation of debt. But for the time being in both cases the answer is not to transfer everything to the EU level.

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The creation of European integration, the EU was basically motivation by intention of strengthen and extension of its economic and political potential in the world. All of these were accompanied by declaration of such ideas as European solidarity, the preserving and extending of so called “European ideas, values”. Addition to these the motivation was such recognition as well that if Europe intends to compete with the USA as equal partner the aim of integration should be set high and it cannot be else as creation of European United States.

Therefore it was not only economic but political project as well:
- after the World War II to left behind the tragic France- German rivalries,
- to utilize as much as possible the economic potential of Europe,
- in the result of them to gain decisive influence in the world and to avoid the marginalization of Europe, and especially France and Germany, in the globalized world.

The integration has evolved by step by step and its major stages were: creation of
- European Coal and Steel Union
- Common Market
- Monetary Union, euro.

This European project should be appreciated as an extremely ambitious one and as an unprecedententional in the World history. The aim is the integration of countries which have rich national culture, economic, political and religious heritages going back many, many centuries, which are very proud of their national sovereignty; and what is more, this
integration is intended to create by peaceful way and by respecting the democratic principles. Taking into the consideration all of these it should be considered natural that a lot of problems, sometimes even crises situations emerge in this integration process.

The founding fathers of the EU were aware of the potential dangers and problems what could be occurred in the process of the integration, therefore they built in the project certain guaranties as well, for example the Maastricht criteria and they knew that euro area is not an optimal currency area, its requires the establishment of fiscal and political union, but taking into the consideration the time consuming nature of its creation they - especially Delors, Kohl and the Bundesbank - set them as future targets.

For some in EU founder member states, the ideal of unity is not the Roman empire, which included London and Constantinople within its boundaries, but Charlemagne’s medieval empire, consisting essentially of France, the Benelux countries, Germany and northern Italy.” (Financial Times June 12 2012, p.7)

The newer and more serious problems have emerged when the Maastricht criteria could not be implemented, single national interests and inspirations got markedly on in the expense of EU, the so called “democratic deficit” became more and more evident due to representation of European citizens were not solved by according to the rules of the game of democracy.

In long run finally these have led to the current sovereign debt and euro crisis. Of course the world economic and financial crisis erupted in 2008 made these problems more serious ones. Therefore it is no wonder that since 2010 7 of 10 governments were voted out of power or were replaced.
Flagging fortunes

“My country’s membership of the EU is a good thing”, % polled

From January 2002

- Germany
- Poland
- France
- Britain

EU average

PIIGS focus from January 2007

- Portugal
- Ireland
- Greece
- Spain

Source: Eurobarometer

One-way trip

Turnout in European Parliament elections
% of total electorate

1979
1984
1989
1994
1999
2004
2009

Source: European Parliament
The crisis shows well how the countries struggle to make collective decisions. The small countries are afraid from the strong influences of the bigger ones. For example, if Germany is willing to pay the bill for rescue of euro provided that some countries meet her strict requirements she take a risk that the other countries make negative nationalistic judgments. European politicians are reluctant to make substantive decisions having afraid from their electors. It is hard to convince the citizens of the creditor countries the rationality of the monetary transfers, the citizens of the peripheral, indebted countries are afraid to lose economic sovereignty due to the bigger federalism. All of them strengthen the camp of those who are arguing in behalf of the exit from the euro area.

The subsequent upon of these entire EU has arrived in critical junction
to go further on the road leading to the fiscal and political union or
to break up.

The stake for Europe is huge one due to the possible serious negative or positive impacts depending on what road will be chosen. These impacts can be summarized in the following way.

**The possible negative impacts of the break up**

There are strong argument in favor of break up and exit from the area.

Is the euro really worth saving? Even the single currency’s diehard backers now acknowledge that it was put together badly and run worse. Greece should never have been let in. France and Germany rode a coach and horses through the rules designed to prevent government borrowing getting out of hand. The high priests of euro-orthodoxy failed to grasp that, though
Ireland and Spain kept to the euro’s fiscal rules, they were vulnerable to a property bust or that Portugal and Italy were trapped by slow growth and declining competitiveness.

A break-up, many argue, would allow individual countries to restore control over monetary policy. A cheaper currency would help match wages with workers’ productivity, for a while at least. Advocates of a break-up imagine an amicable split. Each government would decree that all domestic contracts—deposits and loans, prices and pay—should switch into a new currency. To prevent runs, banks, especially in weak economies, would shut over a weekend or limit withdrawals. To stop capital flight, governments would impose controls.

All good, except that the people who believe that countries would be better off without the euro gloss over the huge cost of getting there. Even if this break-up were somehow executed flawlessly, banks and firms across the continent would topple because their domestic and foreign assets and liabilities would no longer match. A cascade of defaults and lawsuits would follow. Governments that run deficits would be forced to cut spending brutally or print cash.

However that can be considered as the optimistic scenario. More likely, a break-up would take place amid plunging global share prices, a flight to quality, runs on banks, and a collapse in output. Devaluation in weak economies and currency appreciation in strong ones would devastate rich-country producers. Capital controls are illegal in the EU and the break-up of the euro is outside the law, so the whole union would be cast into legal limbo. Some rich countries might take advantage of that to protect their producers by suspending the single market; they might try to deter economic migrants by restricting freedom of movement. Practically speaking, without the movement of goods, people or capital, little of the EU would remain.

The heirs of Schuman and Monnet would struggle to restore the Europe of 27 when it had been the cause of such mayhem—even if a euro-rump of strong countries emerged. Collapse would be a gift to anti-EU, anti-globalisation populists, like France’s Marine Le Pen. There would be so many people to blame: Eurocrats, financiers, intransigent Germans, feckless Mediterraneans, foreigners of all kinds. As national politics turned ugly, European co-operation would break down. That is why The Economist thinks willingly abandoning the euro is reckless. A rescue is preferable to a break-up.

The facts, the numbers have been arguing also against the break up.

Economists at UBS, a Swiss bank, have estimated that the cost of a catastrophic exit might amount to 40-50% of GDP of Greek in the first year.

The Greek government owes the governments and institutions of the euro area over €290 billion, about 3% of euro-wide GDP, say economists at Barclays Capital. After an exit most of this would probably never be repaid.

Recent forecasts by the European Commission project the euro zone’s GDP declining by 0.3% this year, and then growing by 1% in 2013. According one of the estimation following an orderly and well-managed Greek exit—one with very limited contagion and some continuing support to Greece from the euro zone and IMF—the euro area would suffer an extra first-year GDP loss of 1.6%, making a mild recession harsher. The other troubled peripheral economies would be hit hardest, though in this model they would increase their commitment to structural reform having seen the alternative. Germany would be least affected. Its economy is in any case forecast to do better than the euro area, expanding by
0.7% in 2012 and 1.7% in 2013; relative to this baseline it would incur a first-year output loss of 1%.

To date, the Germans have had a good European debt crisis. Favourable conversion exchange rates on the introduction of the euro, a dramatic fall in interest rates and the elimination of the risk of devaluation allowed banks to lend generously to weaker European countries. Debt-fuelled consumption and investment drove growth. German exporters were major beneficiaries of this growth.

German exporters also benefited from a cheap euro, receiving a significant subsidy with the inclusion of weaker economies such as Italy, Spain, Portugal and Greece in the common currency. But the good times are ending.

The country’s strengths, especially its export fetish, are weaknesses. Exports are over 40 per cent of its gross domestic product, compared with less than 20 per cent in Japan and about 13 per cent in the US. Germany is heavily reliant on a narrowly based industrial sector, focused on investment goods. Germany’s service sector is weak. Its fragmented banking system is fragile.

But Germany’s greatest vulnerability is the financial exposure resulting from the crisis. It stands behind official institutions such as the European Central Bank and its guarantees supporting the European Financial Stability Facility, the eurozone’s rescue fund, stand at more than €200bn.

The largest single direct German exposure is that of the Bundesbank under Target2 balances, which track cross-border payments to other central banks in the eurozone. Since the crisis commenced, this has met the funding needs of peripheral countries unable to access money markets to finance trade deficits and the capital flight out of their countries. Germany is by far the largest creditor in Target2 with total exposure exceeding €800bn, 30 per cent of German GDP.

Some believe that the solution to the crisis is greater monetary and fiscal integration and mutualisation of debt through the issue of eurozone bonds backed jointly or severally by all member states. German liability for eurozone bonds would increase its exposure substantially. Germany’s Target2 balance would also continue to increase, at a rate of €80bn-€160bn per annum just to finance expected trade deficits in the rest of Europe.

There are also real economy effects. Austerity or default will force many European economies into recession for a prolonged period. German exports will also be affected as Europe is about 60 per cent of its market.

In the case of integration or partial solutions, the effects on Germany may be cushioned by the weakness of the euro, which will maintain export competitiveness. Defaults and a euro break-up may increase the value of the single currency, undermining German exports. Germany’s problems are likely to be compounded by a slowdown in emerging markets.

Therefore the danger, moreover, is not just to the weaker countries. Germany sends just 5 per cent of its exports to China, compared with 42 per cent to the rest of the eurozone, much of which would be disrupted by a meltdown. What has already happened has weakened its export-dependent economy: German GDP was only 1 per cent higher in the first quarter of
2012 than four years earlier. Beyond these narrowly economic dangers from damage to the “irrevocable” union would surely lie an enduring political disaster for the eurozone’s economic hegemon.

How does Germany want the eurozone to be organised? This is how the views of the German government and monetary authorities can be understood: no eurozone bonds; no increase in funds available to the European Stability Mechanism; no common backing for the banking system; no deviation from fiscal austerity, including in Germany itself; no monetary financing of governments; no relaxation of eurozone monetary policy; and no powerful credit boom in Germany. The creditor country, in whose hands power in a crisis lies, is saying “nein” at least many times.

If neither the rescue funds nor the ECB can do enough, a wider break-up might ensue, with huge costs all around. As the following graph says that a disintegration of the euro would be catastrophic even for core Europe, with first-year output losses of 8.9% for the euro area (as was). This time Germany would not be spared, incurring a GDP loss of 8.2% as its exporters contended with the strength of a reborn D-mark. Across the former euro area, there would be a wave of bankruptcies as firms suddenly found themselves either owed money in a depreciating currency or owing money in an appreciating one.
As The Economist wrote: “A chaotic disintegration would be a calamity. Even as Mrs Merkel struggles to find a solution, her aides are surely also sensibly drawing up a plan to prepare for the worst. This week our briefing imagines what such a “Merkel memorandum” might say (see graph). It takes a German point of view, but its logic would apply to the other creditor countries. Its conclusions are stark— not least in terms of which euro member it makes sense to keep or drop. But the main message is one of urgency. For the moment, breaking up the euro would be more expensive than trying to hold it together. But if Europe just keeps on arguing, that calculation will change.

When you add up the ECB’s holdings of their bonds, the temporary debts in its payments system, written-off rescue loans, and a care package to soften the blow of being chucked out, the total for Spain, Ireland, Portugal, Cyprus and Greece comes to perhaps €1.15 trillion. Germany would also have to put money into its own banks, hit by losses in the five departing countries. Altogether, this might cost Germany getting on for €500 billion, or 20% of GDP. But the blank cheque to defend the other four weaklings after a chaotic Grexit might exceed that;.” (The Economist August 11th 2012, p. 8.)
All of them have serious global negative consequences as well because the world has become very globalised and EU has a decisive role in it. Stock market performance is certainly suggestive of some form of global economic unity.

In June of 2012 US stocks were down 6 per cent, European shares fell almost 7 per cent and Asia markets fell nearly 8 per cent. But this is not simply a case of the infirm developed world dragging down the vigorous emerging world. Only about 8 per cent of emerging Asia’s exports head to Europe, while a quarter go to China. The weak manufacturing data were just the trigger for growing worries about the extent of China’s slowdown. There can be no doubting Beijing’s determination to keep growth steady near its 8 per cent target. But disappointment that the government has not yet resorted to the 2009-style all-hands-to-the-pump approach will weigh on sentiment in the near term. It may be time for investors to brace themselves for the cuts to earnings forecasts that are sure to come.
China saved the world in 2008. After the crash of Lehman Brothers and the seizure of the world financial system, it was China’s emphatic stimulus of 4tn renminbi (or about $570bn) that started a turnaround in asset prices and then the economy.

This seemed to vindicate the “decoupling” theory – that emerging markets had developed the ability to grow independently, even if the developed world was in recession.

But now the world (or at least Europe) needs saving once more. And it does not look like China can do it again. After its last credit binge, it no longer has the firepower to launch another stimulus on any such scale. The evidence mounts that the Chinese economy, which at the margin was responsible for substantially all of the world’s growth during the years of the credit crisis, is slowing. On the 12-month rolling basis, its imports are declining slightly; factory output data are poor. And world markets are as tightly coupled as ever.

Under decoupling, poor performance for the world should lead to greater outperformance for emerging markets. But the opposite is the case. If people feel positive about Europe and the US, they will buy even more in the emerging world. If they are worried about the west, they will sell emerging markets even more.

The economic crisis has brought home the fragility of the European edifice. There is no guarantee of a happy progression to an ever more prosperous, peaceful EU. Instead, we are looking at several possible outcomes.

The first is disintegration. If the effects of the European Central Bank’s relief for the banking sector fizzle out and the financial crisis deepens, the risk of the eurozone’s collapse would become real – and if it were to disintegrate or shrink, the single market would be hard to salvage.

The impoverished and still uncompetitive countries pushed out of Europe’s core would be tempted to hit back with competitive devaluations or even trade barriers.

If trade policies renationalise, would labour mobility, or even the freedoms of the Schengen passport-free zone – already under pressure from populists across the continent – be exempt?

If a sense of common future and pan-European solidarity erode, how soon before countries cease payments for common agricultural policy or cohesion funds?

An EU in which community institutions atrophy would quickly slide into geopolitical irrelevance. The vacuum would be filled by a resurgent Russia and an assertive China.

In brief, the eurozone is now on a journey towards break-up that Germany shows little will to alter. This is not because alternatives are inconceivable. What is needed is to turn some of the Nos into Yeses: more financing, ideally via some sort of eurozone bond; collective backing of banks; less fiscal contraction; more expansionary monetary policies; and stronger German demand. Such shifts would not guarantee success. But they would give the eurozone at least a chance of avoiding the cost of partial or total break-up. To work in the long run, such shifts would also require greater financial and political integration.
What are the advantages of keeping EU up and making it prosperous?

The advantages could come from avoiding all the negative short and long term economic and political consequences arising due to the break up. But one should take into consideration the positive strategically consequences as well. These are

regarding to the internal affairs of EU and Europe:

Building upon the accumulated economic and technical, scientific potential, the well train labor force and utilizing the possibilities given by the globalization EU and Europe could achieve sustainable economic growth. This could stabilize the enviable living standard of the European citizens and even could lift that higher level and what could be accompanied by preserving and strengthening of the traditional European way of life and values (social care and responsibility, social tolerance, rich variety of culture, religious life and ethicality and last but not least the democratic governance). The Europe could become even more “liveable” and peaceful continent.

regarding to the foreign, international affairs of EU and Europe

Europe could strongly and efficiently represent its own interests and even the interests of the global world in economic and political issues (global security, environment, global economic stability) raised by the globalization. EU and Europe could be even more active player in the global governance as single representative of Europe in G-8 and G-20 meetings. (For example if the president of EU will be elected by the European Parliament or European wide referendum he or she having huge united European economic and political strength behind them can be equal partner of the USA and Chinese leaders. Of course it would need to take a big step toward the political union.

What can be expected?

The evidences of the advantages as well the disadvantages might justify taking an optimistic scenario regarding to the future of EU. However the pessimistic scenario cannot be excluded as well. What directions will be chosen to go forward?

Two sets of longer-term reforms make sense.

One is to create a form of “banking union”, with a Europe-wide system of deposit guarantees, recapitalisation and regulation. This would help break the link between weak banks and weak sovereigns. The other is to move towards greater “fiscal union”, including the creation of Eurobonds. This would reduce borrowing costs for troubled countries and create a safe asset for banks to hold.

It is getting more emphasis – especially after the France election – that addition to the already accepted Euro Pact containing austerity measures and structural reforms promoting economic growth should get equal priority.

The behaviors of the Germany seems to start changing, they more and more start to realize the dangers of the break up of EU and especially the euro area. Germany supports a stronger European banking regulation, but before the creating of a Europe-wide system of deposit guarantees they require to take a substantial step toward the fiscal union to prevent the developing such banking abnormalities, like the Spanish real estate bubble was.
Britain has called for a new package with four elements: a bigger fund to provide a firewall against further serious problems; better capitalized banks; shared euro zone bonds and a more active monetary policy from the European

Seeing these recent developments it cannot be excluded that substantial steps could be taken toward fiscal and political union.

Addition of all these there is a need to elaborate a vision for EU what should be properly implemented. That is, vision should be accompanied by means of its implementation in order to EU could overcome sovereign debt crisis and could become viable organization in the globalized world. As the history has proved all organization, including state, company and international ones as well in order to survive in a stormy environment and to be prosperous in the future need vision. The EU cannot be also exceptional in that respect

Vision for EU

Mr. Dragi, the president of the European Central Bank (ECB) has already formulated the need of such a vision expressing that horse-trading between leader of EU and ECB should be given up. Recently they expect that the problems will be solved by the other and not by jointly, together. Mr. Dragi requires a ten years vision for the future of euro area copying the model of 1988 Dolers Report what made the foundation of the introduction of euro after 11 years. It seems rational the extension of this vision for the whole EU area. In this vision the following ones should get special emphases:

That EU’s vision should answer for tree fundamental questions:

1. How can EU overcome sovereign debt crisis and ensure that such crisis will not emerge in the future?
   The essence and the main parts of the answer can be:
   - preventing the remerge of the profligate practice of government of the member countries by strengthen the economic governance of the EU on the line of EFSM, EFSF and ESM,
   - substantially expending the size of the sum of EFSF,
   - Issuance of Eurobonds that are jointly underwriting by euro-zone countries,
   - increasing the competence of ECB to buy government bond of the member countries,
   - introduction of some kind of euro-tax for substantial increasing the revenues of central budget of EU,
   - formulating an industrial and R and D policy (like one Chinese government has and what it made public recently) to get leading competitive position in the world.
   No doubt about that: all of this would be a huge step towards fiscal union.

2. How can EU manage the falling of its member (like Hungary) - lagging in competitiveness and productivity behind the advance member of the EU - into line with these advance countries?
   The essence and the main parts of the answer can be:
carrying out some debt restructuring with dictating strict consolidation and reform program in the case of those countries what are in debt trap, elaborating and implementing some kind of special ”Marshal Plan”, what applied after the World War II in Western Europe to easing the social hardship in the West European countries, and what made a great contribution to improving of their economic competitiveness as well.

3. What should EU initiate to strengthen the global governance needed to overcome such a global problems as the economic imbalance of the global economy, the debt crisis of the USA? All of them is having serious impact on European crises as well. The essence and the main parts of the answer can be:

advocating the strengthening the role of G-20 countries and the IMF in the global governance, especially in the global financial governance,
advocating an extensive reform of global financial regulation including the following priority areas: effort to strengthen the credit derivative market, review financial sector pay schemes, create colleges of national supervisors to monitor global banks and improve guidance for valuation of illiquid securities, supporting those initiation that a new stable and reliable world reserve currency should be created what should replace the current one, the dollar, making a strong afford to avoid beggar-thy-neighbor policies, particularly protectionism, therefore having a strong commitment to completion of the Doha round.

Future of Hungary

Hungary is in a very similar economic position as Greece, Portugal and Ireland, addition to this it has a very special characteristic: the country has been in the debt trap since many decades. Due to that it has been unable to take permanently its economy on the path of sustainable economic growth, from time to time it turned off from this and serious insolvency crisis occurred. By now it has become evidence that country without some forms of debt restructuring and using only its own resources can escape from this trap if it can implement very restrictive austerity policies and start its economic growth from in a very low economic level diving to this level due to the austerity policies. The governments of Hungary any time they were in power position have not selected such policies and they have not even been forced to follow such policies. In the critical times some safety net and special resources have always were available for avoiding the open default. For example in 2008 the bailout package of EU and IMF, earlier the revenues of the mass privatization and recently the nationalization of the private pension funds were the savers of the country bankruptcy.

However, we have to emphasize that so far debt restructuring has not happened, austerity policies needed for durable consolidation of economy has not been implemented and due to these the country has not escaped from the debt trap.

The revenues of privatization\(^1\) and the money accumulated in the private pension funds\(^2\) can be used for consolidation only ones (for decreasing the deficit of budget, to meet the debt

\(^1\) Between 1991 and 1998 Hungary got such amount of revenues from the privatization what is equal the 32% of its GD. By this the country takes the first place in the world in the rank of privatization,
service obligations), when these ad interim resources are exhausted new "holes" as a symptom of renewal of the danger of default appear in the budget. Now the Hungarian economy is approaching this situation. The money resources left from the nationalized (in fact confiscated) private pension funds will be available only until 2013, the recent government’s tax policy (especially the decrease the personal income tax of the high income earners) has made a big hole in the budget, the still turbulent world and European economy (by the high CDS and interest rates) keep and even increases already great debt burden of the Hungary.

Regarding to the handling of this situation what has been evolving during the last decades in Hungary three scenarios can be outlined. These scenarios can also be considered as policy options for the Hungarian governments, and even for the leaders of EU if they care seriously about Hungary, as a member country of EU.

a. Asking the EU to treat Hungary like it does Greece, Portugal and Ireland giving to the country the similar bail-out package what they have got. The EU - if accept that request-will dictate very strict conditions, like it did in the case of mentioned tree countries. To meet these conditions would mean that Hungary would have to make serious economic and social sacrifices and would have to give up a great deal of it national sovereignty as well. However, the example of Greece, Portugal and Ireland can give to Hungary a historically unique opportunity: to escape from the debt trap. Therefore to miss to use this opportunity – at least submitting such a request to EU to get it - by Hungarian government would be not only political and economic mistake, but serious sin as well made against Hungary and its citizens what the history will never forgive.

Therefore it would be very rational and advantageous if Hungary, as the member country of the EU will apply and implement the example of the Greece, Portugal and Ireland as a basic policy strategy in Hungary, of course to take into the consideration the special Hungarian circumstances and conditions as well.

Regarding to the special conditions of Hungary this bail-out package should focus more the intensively on improving the competitiveness of the country that the package did in case of the tree countries due to the fact that Hungary is a less developed country and due to its long captivity in the debt tap it was forced to neglect great deal of developments (especially

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Estonia is the second with its 20,3%. This privatization revenues have been spent and there is no more opportunity to get additional ones due to the fact that all state owned assets (major manufacturing companies, banks, insurance companies, key companies in the field of infrastructure, only the land left for privatization) has been sold. We can say the Hungary has already sold its „family treasures”. The deepness of the Hungarian debt trap shows that instead of this unparalleled great scale of privatization the country has not been able to escape for this trap.

2 Without these resources the budget deficit would reach more than 7% of GDP instead of the 3% required by the IMF and EU bail-out package what has calmed the market down making possible for Hungary to borrow money in the free markets at reasonable interest rates. In the case of 7% budget deficit, because the leaders of EU firmly refused, rejected the request of Hungarian government to agree such high deficit, it would be impossible, that is the market could not finance that large deficit and by this a new danger of default would occur or the government would be forced to take drastic politically very risky additional austerity measures. Confiscation of the private pension funds has made avoiding these.
infrastructural ones, - like railways, education and health care - needed for improving the competitiveness. Therefore it would be rational if the bail-out package contains some kind of special ”Marshal Plan”, what applied after the World War II to ease the social hardship in the West European countries, and what made a great contribution to improvement of their economic competitiveness as well.  

From the advantages especially the following should be emphasized

- the country gets free from the debt trap,

- the debt burden, debt service substantially decrease making possible to transfer resources for easing the social tensions and for improving the competitiveness,

- earlier and with less social sacrifices the count can put its economy on the sustainable economic growth path, especially if some kind of “EU Marshal Plan” could support that,

- the country can be stable and consolidate member of EU, what would be advantageous for the EU as well.

For all of these it is very worthwhile to give up a great deal of national sovereignty, especially if we take into consideration the country has already did it when it joined to the EU and in the today globalized world as Dani Rodic has prove it. by introducing the notion of political trilemma of the global economy, that is, national sovereignty, democracy and full economic integration cannot exist at the same time.

b./ The other scenario is that Hungarian government does not request such a bail-out package what we outlined in the first scenario, it want to preserve in maximal measure the national sovereignty and it carries out its economic policy according to this. That is, it intends to make consolidation and stabilization and to put its economy on the sustainable growth path based only on national resources. Of course this scenario necessitates to take very serious scarifies in the fields of the social security, well-being of the citizens and the infrastructure. One can image the consequences of such a policy if he or she remembers the policy of Romanian communist president, Ceausescu who took this option and outcome of it was that his country impoverished and his regime ended up in a bloody uprising. It does not mean that

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3 There is no wonder that this idea appeared in the case of Grease, Portugal and Ireland too. A plan unveiled in August 1 2011 can be considered as a step toward this direction, even toward the transfer union. It would involve extra aid but would not ease co-financing rules for Greece, Ireland, Hungary, Latvia and Romania, so they would not have to put as much of their own cash in order to collect EU funds. According to internal calculations, the six countries could their co-financing costs reduced by about 3 billion euro over the next two years. But official hope the plan will have a much bigger impact by unlocking tens of billions of euro in EU funds, which many of those governments are entitled to but have struggled to claim. That cash could help pay for new roads, airports and other development projects, providing boost to moribund economies. The new rules would also apply to payment for agricultural subsidies, fisheries and other pots of EU money.

Hungary going to have the same future, but it does warn the serious negative consequences and big risks of taking such scenario. Even we do not say the realization of the scenario is totally impossible. For example, Latvia could do this by drastic decreasing the wage costs (by 17% for two years) and the living standard what resulted in reorientation of 20% of home consumption for export and provided basis for the export led growth. In the domestic politics the present Hungarian FIDESZ government have two-third majority what makes possible to introduce even draconian political and economic measures as well in order to achieve that goal.\(^5\) But taking into account all of internal and foreign political risks of such a policy it is most probable that it would much too small chance to succeed. That leads us to the third scenario.

c./ The third scenario in essence is the economic policy having been practiced in the last decades: recurrent crisis situations what managed by recurrent austerity policies, what result only in temporary solution – and all of these start again, start afresh. Of course that cannot free the country the debt trap and all negative consequences of having been in this trap. It is evident, that this policy cannot be practiced for over. However for those crucial questions when it will be replaced and who will make the change cannot be yet answered.

Regarding to these scenarios it is decisive that the future of EU according to what scenarios will evolve. If it changes according to favorable scenario, this will create a positive situation for Hungary to follow its best scenarios. In opposite case both EU and Hungary can expect a very rough road with full of political and economic hurdles what they have to follow.

The scenarios and options can be very clearly outlined. But after all is said and done the outcomes will depend on the leading politicians of EU and Hungary. The greatest responsibility is theirs. Clear options are available for choice. Therefore if they can choose the best option they will be politically and morally nobly rewarded by the citizens of the European community and Hungary as well, but if they choose the worst option they will be harshly blamed and punished by the same citizens.

References

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\(^5\) Unfortunately the FIDESZ government has used to carry out such a policy what, as the Financial Times wrote, “is tinged with nationalism” (Financial Time August 5, 2011, p.8) as such excludes the possibility of choosing the first (a) option for the time being and there are also no convincing indications that this policy would have been following the second (b) options.