



**Doctoral School of
Sociology**

THESIS SYNOPSIS

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**Convergence or Isolation?
The Performance of the Economy and the
Development of Euroscepticism Following EU
Accession in Hungary, in a Comparative
Framework**
Ph.D. dissertation

Supervisor:

György Lengyel, DSc
professor

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Institute of Sociology and Social Policy

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I. Research Background and Topic Justification

In the present dissertation, we examined the economic performance of Hungary, as well as the relationship of the Hungarian people and the political elite to European integration, in the decade following the 2004 eastward expansion of the European Union (EU). At several points we embedded the analysis in a Central and Eastern European comparative perspective, and compared the situation in Hungary primarily to developments in Poland. The theoretical framework of the dissertation is provided by economic and socio-economic institutionalism, as well as the relevant political science and sociology literature related to European integration. Our goal was to contribute to scientific discourse primarily with conclusions drawn from new or novel links between economic performance and how the EU is viewed.

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The role of *institutions* has been an established topic in the socio-economic discussions of recent decades (see Polányi, 1976; Granovetter, 1990; Elster, 1995; Fligstein, 2001; North, 1990, 2005; Acemoglu et al., 2004). By institutions, we mean “the rules of the game in a society, (...) the humanly devised constraints and mechanisms that shape human interaction”

(North, 1990); their formation, operation and transformation play a relevant role in the economic and political systems. Institutions “matter” (North, 1990). The effect of institutions on longer-term economic development has become a favored field of study in the new wave of economics (see for example Acemoglu et al. 2004; Rodrik, 2013).

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The relationship to *European integration* fundamentally determined the politics, economy and public discourse of Hungary in the quarter-century since the transition to democracy. Following the collapse of state socialism in 1989-1990, the need for “Euro-Atlantic integration”, and within that, accession to the European Community (from 1993, the European Union), became a clear goal of the Hungarian political elite, spanning various governments. EU membership, supported by an almost complete social consensus, appeared as a “political desire” (Balázs, 2014). The turn away from the East and toward the West also determined the economic policy of the post-transition years, and this was meant to reduce the difference in economic development between Hungary and the “West”.

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The perceptions of social and economic players – the elite and the public – play a prominent role in our study. Institutions operate based on the perceptions of the actors that embody them (North, 1990). By the elite, we mean the minority that plays a leading role in society, for example in the economy and in political life, by possessing the decision-making and influencing positions (see Aron, 1950). On the basis of the new elite paradigm (Higly-Pakulski, 2000), we can assume that during the course of institutional changes (e.g. in the European Union), the elite plays a key role, as its movements can overwrite existing rules and regulations.

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In the dissertation, following a review of the literature on the negative view towards integration, i.e. euroscepticism (e.g. Serrichio et al., 2013), we provide the essential background for the thesis about the development of the Hungarian economy from the democratic transition until EU accession, as well as the effect of the global economic and financial crisis started in 2008 on the EU. This is followed by empirical analysis on euroscepticism and economic performance, as well as the connection between the two.

The *research questions* of the dissertation are the following:
What dynamics and transformations did euroscepticism go

through in Hungary following EU accession in 2004? What reasons can the change in the attitude toward the EU in Hungary and Central Europe be attributed to? How has the performance of the Hungarian economy developed over the past decade, in a comparative perspective? How did the attitude toward the EU, and the development of euroscepticism, influence economic decisionmaking and economic performance in Hungary and in Poland?

In the dissertation, we operationalized *economic performance* with the gross domestic product (GDP) produced by a country. Based on North (1991), by *formal institutions* we mean formal rules, such as laws, as differentiated from *informal institutions*, i.e. norms, traditions and customs. By *institution-building*, we mean the process through which formal and informal institutions are created and which contribute in a relevant manner to a country's economic performance. The abstract European Union values cannot be placed in the Northian conceptual framework. This is because, unlike the Northian informal institutions (i.e. the culture), the *values of the "normative power"* are itemized as external (exogenous) norms. Thus, we referred to the European Union values itemized in the treaties as norms in the Mannersian sense (Manners, 2002).

The *hypotheses* of the dissertation are the following:

1. In accordance with utilitarian and pragmatic explanations (see for example Gabel, 1998) the public perception of economic performance in Hungary – in the decade examined, i.e. from 2004 to 2014 – may have been linked to the perception of the EU among the public.
2. Following the change in government in 2010 the criticism of the EU by the governing elite may have strengthened euroscepticism among the public, and led to its stronger forms.
3. The relationship of the elite to the EU – through the violation of norms in the Northian (1990) and Mannersian (2002) sense – may have influenced the performance of the Hungarian economy: certain elements of economic policy and institutions may have become channels for the negative effects of euroscepticism.

quoted partly from the INTUNE² study. The possible links between various perceptual and attitude variables in a time series were tested using correlation and regression analyses. From this, some conclusions on the transformations, causes and consequences of euroscepticism in Hungary compared to Central Europe were drawn.

We also used the tool of *media analysis* to analyze the EU-related statements of the Hungarian political elite, and within that of Prime Minister Viktor Orbán, in the period following EU accession. The content analysis allowed us to gain information how the Hungarian political elite has related to the EU.

In a *comparative analysis*, we analyzed the main macroeconomic indicators of Hungary and that of the countries in Central Europe, mainly Poland. Using correlation analyses, our attempt was to reveal the possible links among three sets of indicators, EU-related attitudes, institutional variables and hard indicators. This method allowed us to explore certain links between economic performance and EU-perceptions, for example how euroscepticism affected – directly or indirectly, through institutional variables – economic performance.

² INTUNE: Integrated and United? A Quest for Citizenship in an Ever Closer Europe. An elite study supported by the European Union's 6th Framework Programme. Data was collected in 2007 and 2009.

III. Conclusions of the Dissertation

- During the years of the recent financial crisis, by 2012, partly but not solely due to the crisis, the perceptions about the EU reached a lowest point, both in Hungary and in the EU. This has been a relevant problem because in a post-Maastricht Treaty Europe public opinion has become an important factor that could even block the process of European integration (“constraining dissensus”).
- Post-EU-accession euroscepticism among the Hungarian public is a complex and paradoxical phenomenon. The vast majority of Hungarian society does not question the country’s EU membership, its attachment to Europe is above average, moreover, its European identity has increased in the decade following accession. Meanwhile, the number of those who believe the EU is a “good thing” and who “conjure up a positive image” of the EU gradually decreased between 2004 and 2012. The group of discontent people increased in this period, which suggests a pragmatic, utilitarian relationship, a “soft” euroscepticism.
- The euroscepticism of the Hungarian governing elite since 2010 is “hardening”, it is often adamant, emotional and isolationist, although in some respects contradictory. It

may point to the rhetorical nature of euroscepticism that despite the decisively anti-EU, “freedom fighting” vocabulary, Hungary – strictly in the formal sense – has remained a law-abiding EU country even after 2010.

- Following the decade after eastward expansion, opinion in Central Europe about the situation of the economy on one hand, and the perception on the EU, on the other, showed a strong correlation: euroscepticism among the public was linked to the perception economic performance. Among the countries Hungary and Poland are the two “extremes” of this connection. In Hungary, the view of the economy was consistently unfavorable, and furthermore the opinion about the EU was more negative than both the regional and the EU average. At the same time, in Poland the consistently favorable, above-average view of the economy was coupled with a consistently positive view of the EU.
- An “EU-political paradox” prevailed in Poland and Hungary. The view of the EU was favorable in Poland even during the rule of the strongly anti-European Kaczynski government that was in power between 2005 and 2007. At the same time, in Hungary, in the period of the Europhile Gyurcsány government, between 2004 and 2009, the popularity of the EU in Hungary remained low.

Consequently, between 2004 and 2014, the perceptions of the public with regard to the EU did not depend primarily on the political declarations of the political elite.

- When examining the development of euroscepticism in Hungary over the past decade, it is primarily the utilitarian explanations – their sociotropic and egocentric forms – that are relevant. Temporarily and conditionally, “political cueing” could have also played a role while forming opinion about the EU, although government’s hardening euroscepticism after the 2010 political shift did not break through to public opinion.
- In the case of Hungary, the extremely negative public view of the economy – between 2004 and 2012 – was confirmed by the economy’s hard indicators. In the decade since EU-accession Hungary has barely been able to converge to the EU average, while all the other countries that joined after 2000 caught-up more dynamically. Hungary’s first decade in the EU was a lost decade from the viewpoint of economic performance.
- Since 2001-2002 Hungarian economic policy has been going counter to textbook solutions for converging economies and the experiences of Central European countries. Between 2001 and 2006 the state budget deficit

ballooned due to an unprecedented wave of spending, which made convergence in terms of economic performance impossible on the longer term. The rift and the deep mistrust within the political elite could be possibly linked to the “fiscal alcoholism.”

- In Poland, the pragmatic consensus of the political elite was able to catalyze a disciplined fiscal and a growth-friendly economic policy. In Hungary the view on the economy and the EU became more politicized, and was much more aligned with political cycles than in Poland. This may be connected to the fact that in the past decade Poland was characterized by dynamic convergence to the core of the EU, albeit from a much lower level than in the case of Hungary.
- Following the political shift in Hungary in 2010 the risks relating to the development of economic performance changed. Budget risks decreased, as the government consistently met the 3% deficit target. At the same time, the erosion of the rule of law and the transformed pattern of corruption led to an increase of institutional risks.
- In the case of proxies that measure institutional quality of governance, such as indices approximating rule of law and corruption – as with regard to the development of

euroscepticism – the decade-long continuity prevailed: trends have worsened in Hungary since the beginning of the years 2000. The data do not reflect the political shift that occurred in 2010.

- The shift in the political elite after 2010 toward harder euroscepticism and a defying of the European norms led to an erosion in the business environment and a drop in investments. This – until 2012 – caused a setback in economic performance. After 2012, economic performance improved, largely due to the large-scale inflow of EU funds. Over the entirety of the decade studied, the investment rate showed a correlation with the development of the rule of law: when the perception of the rule of law worsened, investments fell. Through the channels of formal (rule of law) and informal (corruption, transparency) institutions, the euroscepticism of the elite may have influenced economic performance, the worsening of which in turn may have led to an increase in the euroscepticism of the public.
- In Hungary euroscepticism among the public in the decade after 2004 has shown a significant positive correlation with the development of the examined formal and informal institutions. In Hungary, rising euroscepticism has been coupled with worsening perceptions about the quality of

institutional factors. It is unclear, however, whether the deterioration in the quality of formal and informal institutions – above all, the rule of law – caused the decline in economic performance, or the reverse is true, i.e. weak economic performance led to the deterioration in the perception-based institutional indices. In this context, no discernible effect of the financial crisis that erupted in 2008 and the political shift of 2010 can be demonstrated: the indicators deteriorated gradually during the examined decade.

- In Hungary, the channel between euroscepticism and economic performance is represented by the quality of institutions. In Poland we did not find such a link.
- Not only the institutions, but also the elite configurations also matter with regard to the economic performance. Elite plays a role in development, as they determine economic policy and – in part – institutional changes.

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Our *1st hypothesis*, which envisaged a correlation between utilitarian, pragmatic reasons – the view of the economy – and euroscepticism in Hungary, was confirmed. This correlation is valid with the restriction that following the political shift after 2010, this interaction weakened significantly. The utilitarian

explanation could also be weakened by the fact that in a financial sense, Hungary has been one of the biggest beneficiaries of the EU.

Our *2nd hypothesis* – insofar as the *direct* effects of the governing elite’s attitude on public attitudes are concerned – was not confirmed. The governing elite’s euroscepticism did not break through in the direction of the public; its effect may have been merely indirect and conditional.

The *3rd hypothesis* was confirmed, as euroscepticism may have influenced economic performance through the channels of formal (rule of law) and informal (corruption, transparency) institutions.

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