

# *Dreams and Reality\**

*The dilemmas of the countries in Central Eastern Europe*

**Dr. László Lengyel**

President & CEO

Financial Research Institute (Pénzügykutató)  
Budapest, Hungary



[pukrt@mail.datanet.hu](mailto:pukrt@mail.datanet.hu)

Tel: +36.1.335.0807

Fax: +36.1.335.0828

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The economic and political crisis of 2008-10 calls the success of the third wave of democratisation in Europe into question.<sup>1</sup> Both “second wave” (the former right-wing authoritarian systems in Greece, Spain and Portugal democratised during the seventies) and “third wave” countries (former left-wing dictatorships of Central and Eastern Europe) are living through politically and economically hard times. Previously clear goals like the pursuit of a single European market, the euro-zone, the NATO, the Western-style liberal democracy, the rule of law and capitalism have been put into question. Not only the individual nation-states but European integration itself is in crisis for which significant parts of national sovereignty was waived before. The Maastricht criteria are under serious threat just as European rules in general, but the crisis has not yet resulted a new set of criteria that is easier to adhere to. The EU is increasingly controlled by great powers, especially Germany, while the "third wave" countries are marginalized as they depend on the centre one way or another.

I do not wish to analyse the crisis of the southern European region but it is worth to note that their problems can be traced back to similar causes than that of the Central and Eastern European region. Namely (1) the lack of appropriate regulation of the domestic behaviour of international market participants, (2) failure to adapt to the "German-style", export- and savings-driven economic model with positive balance of payments, low budget deficit and low debt and particularly, (3) the Mediterranean-European “way of life” that renders them unable to adjust during the crisis. The Central and Eastern European countries are grappling with the same three problems but experimenting with different solutions.

Although Poland is looking better than the others but only from afar. Each of these countries is threatened by being marginalized. As if, once more, history wanted to show our place in the classroom: those from Southern and Eastern Europe belong on the back benches. They came too late, turned their backs to authoritarian systems the latest. Western Europe, the “first wave” don’t know how to deal with us. Here we stay in the no man's land.

Hungary and Poland are facing a great opportunity in 2011. They will hold the European Union's rotating presidency. There is a possibility to positively influence Europe in a crisis as well as the development of the

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<sup>1</sup> On the “third wave” see: Samuel P. Huntington: *The Third Wave: Democratization in the Late Twentieth Century* (Norman: University of Oklahoma Press, 1991), on the democratic consolidation see: Juan J. Linz and Alfred Stepan: *Problems of Democratic Transition and Consolidation* (Baltimore and London: The Johns Hopkins University Press, 1996).

post-crisis model, but there are concerns that the opportunity would be missed. We do not coordinate or work out a common program but deal through our separate schemes of threats and flattery.

#### UNSUCCESSFUL COOPERATIONS IN CENTRAL AND EASTERN EUROPE

After the dramatic fall of Lehman Brothers, the euro-area institutions - governments and the European Central Bank – refused to finance or guarantee the countries outside the zone. The Central and Eastern European economies found themselves in a liquidity-desert without a drink of water. The affected governments and central banks were still unable to unite for a common liquidity package. We, Hungarians, nearly went bankrupt before the IMF and the EU bailed us out through an individual contract. The others were less-indebted and faced the difficult situation later. I know it would have been difficult to achieve success in working together against the European great powers for we were inexperienced but we didn't even try. Indeed, the rest of Central and Eastern Europe worked hard to prove that they were not Hungary.

Czechs held the rotating EU presidency in the first half of 2009. they attempted to step up against protectionism within the EU – particularly the French proposition to close down Central and Eastern European factories in favour of employment in France. We were aware that this protectionism would only deepen the crisis of the real economy, causing cruel, Europe-wide unemployment. But the Hungarian Prime Minister Gyurcsány has crossed that attempt when he presented, without consultation, a EUR 190 billion request for assistance for eastern Europe at the EU summit of March 2009. This has rendered the Czech initiative impossible to achieve and buried both his won hopes and those of the Topolanek government. I know that it was impossible to achieve real results against the French and the Germans on protectionism but it didn't help matters to produce such a stupid failure.

Going further the Bajnai-government succeeded in facilitating a V-4 joint initiative on common energy policy at the Budapest Summit in the spring of 2010. Resounding success. The Hungarian governments have every reason to follow suit. However, the Orbán-government did not see this cooperation as the future of European energy security. The Central and Eastern European countries, the Visegrád Four have no common policy on Russia, they negotiate energy prices and developments separately as if we weren't in the same region. It was also the Bajnai-government alongside the Tusk-government that proposed that the European Union should allow countries with temporary, private pensions-related deficit to account it outside the public deficit. Additional countries have joined the initiative, but the EU Commission's refused as first response and

Hungary was quick to leave the joint action and put an end to the Hungarian private pension schemes altogether. The EU's immediate response was acknowledging the Polish efforts as that of a good student and reconsidering the new calculation method.

Since the late seventies the East-Central European countries are characterized by a dual-radius structure: we were individually connected the Soviet Union with regards to energy supply, while we depended on the then West Germany in the asset development. Bonn and Moscow negotiated with us separately, they formed our markets, dictated our prices. If they agreed upon us, they split us – if they disagreed, it was all the worse for us. On top of it the then combative and unilateral Washington attempted to kick-start the "fourth wave of democracy" through us in 2004-05 via the so-called "colour revolutions" exposing our region to serious risk.<sup>2</sup> The Poles and the Baltic states flipped to mutual hatred in their historical love-hate relationship with Russia, while the practical and pragmatic Czechs and Hungarians, who do not suffer from historical grievances, tried to remain neutral.<sup>3</sup>

In 2010, the United States has little economic interest in East-Central Europe but still plays an important role in defining the security policy. Thus arises the paradox that the Central and Eastern European countries are economically dependent on Germany, which disagrees with the United States not only in economic terms but also in relation with security policy and NATO, where the Central and Eastern European countries normally follow the United States.<sup>4</sup>

#### THE CRISIS MANAGEMENT AND THE POST-CRISIS MODEL

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<sup>2</sup> The uprisings of Tunisia, Egypt and the expected unrest in Bahrain, Libya, Morocco and Yemen – or the revival of the “fourth wave” – solicit the question whether the choice is only between an autocratic, theocratic or authoritarian system and the chaos of oligarchs? The events in Egypt pose the question: how far can the United States and European countries go supporting autocratic systems and how resist their own, domestic temptations. See: Les dirigeants européens bousculés par la vague de contestation arabe (Le Monde, 2011, 02, 03), Severin Weiland: Berlin Plans for Post-Mubarak Era (Spiegel, 2011, 02, 01).

<sup>3</sup> See my article *Mezdu Marszom i Veneroj* in 2004 (Rosszija v globalnoj politike, 2004 maj-ijuny).

<sup>4</sup> It was particularly prominent at the Lisbon Summit of NATO in November 2010 where Germans have minority views on most issues but the Eastern European states have lined up behind the US. Andrzej Wilk: NATO after the Lisbon summit: the consequences for Central and Eastern Europe (OSW, 2010, 11, 24). Polish and Baltic politicians fear the Germans and Russia return to the “Rapallo politics”, meaning the system of bilateral agreement of the two great powers to the disadvantage of the region between them, see the agreements of Csicserin-Rathenau, Molotov-Ribentropp or Putyin-Schröder.

It is, however, more important how we treat our own crises and what social, economic and political model we settle on or return to after the crisis. The Czech, Slovak and Polish governments have partly adopted the debt control, balance and budget austerity policies - recommended by the European Central Bank, Germany and the EU Commission. The austerity policy aims to drag the Eastern economies that accepted the German model out of the recession alongside Germany by increased export, domestic savings and a positive balance of payments. They have to believe that the pre-crisis situation can be more or less restored and formal and real convergence of the East-Central European countries will eventually take place. The Central and Eastern European societies are gradually becoming more savings-oriented, middle class economies - "Germans", if you like.<sup>5</sup> The process is also enhanced by reasons relating to aging. In a specific solution to the crisis a pragmatic, following policy mix is created: it is aimed at releasing funds for long-term development and catching up, to coordinate state and global markets with the involvement of external resources, while it restricts public and private consumption. To this contributes the implementation of major systems reform. Politically, this crisis-management is anti-nationalist, anti-populist, Europe- and globalisation-friendly, it is based on private property and the rule of law: on a "Western" basis.

The right-wing, Hungarian Orbán-government chose a different route: a neo-nationalist, populist, anti-globalisation and EU-sceptic, consumption-driven, state-capitalist – or "Eastern" model. The Hungarian leaders believe that a strong nation-state can regain an almost full sovereignty from the international financial institutions and multinational players. That based on the national capital, domestic consumption and additional resources from the emerging economies - China, Russia - Hungary will be able to walk a separate path. The Hungarian government keeps Europe hostage by being weak: You don't want me to crash so let me go! When the dominoes fall one after the other, you won't survive. If you restrict my sovereignty, I will tax your banks and companies to gain some breathing space.

The Hungarian route means that they postpone making the electorate pay and charge it on foreign investors and on the future's savings instead. In this Hungarian model the nation state attempts to influence private consumption via shaping public consumption.<sup>6</sup>

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<sup>5</sup> Becoming "German" is hard to accomplish. Not even Germany's Eastern provinces managed to fall into line despite the considerable support during the last two decades. The austerity policies may permanently hinder growth and keep Eastern European countries from a sustainable growth path.

<sup>6</sup> Kadar's Hungary has in a sense held the Soviet Union of Khrushchev hostage after the revolution of 1956. If you don't want more instability and upheaval in the region send us resources for reconstruction. Let the Hungarian standard of life be different

Wait a moment. It is an undoubted fact that between 1962-89 the "Hungarian model" (under the Kádár-government) was the main distinguishing feature is the diversity among the Soviet Hungarian, Polish, East German, Romanian or the Czechoslovak lifestyle. The Soviet-style socialism, the institutions and the management was very similar but Hungary differed significantly in the ways of life. The Hungarian "goulash communism" with the limited freedom of private life, the right to own small private property created a second, prospering economy. The freedom of travel for the little man was a dream in the rest of the socialist block.<sup>7</sup> The "happiest barrack" inhabited by "homo kadaricus" based its pride on this particular lifestyle and Forint-nationalism: not on the Hungarian language, the state tricolour, not on history, but the way of life. The "homo kadaricus" lived better than his neighbours, except for the Austrians, who he was trying to imitate.

The vast majority of Hungarian society saw the change of regime in the '89 as a possibility to become Austrian or German, this is why they followed the elite into the European Union, NATO, and the West. But these dreams never came true. The Austrian standard of life is just as far away as it was in 1989, if not farther. This has led the Hungarian people to vote into power the political "right" who advertised a nationalist, "Hungarian way" with a strong nation-state, EU-scepticism, and belief in the Twilight of the West. The traditional, ethnic nationalists of symbolic politics, national grievances, rage and emotions have met with the more rational, lifestyle-nationalists, whose material needs were not fulfilled in recent years. The former may be purchased by waving flags and chanting slogans but the latter requires stable and unbroken economic growth and continuously rising standard of living to accept and legitimate authority.

Time will show who is right. The common European economy is in deep crisis, the European Union institutions are strained. It is quite possible that the EU won't be able to withstand the showering challenges of the Greek, Irish, Portuguese and Spanish debt crises and the 2011 debt-deflation turmoil while keeping the euro-area intact. We may have entered a post-EU age when self-help is required. This may be the dawn of a new global era of neo-nationalism and social populism where Orbán and his Hungary will be a forerunner. This may be the twilight of transnational banks and corporations taken over by a network of state-run and

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from that of the others, better than the Soviet Union. Khrushchev has paid, then he sarcastically called it the Hungarian "goulash communism".

<sup>7</sup> „The New Economic Mechanism (NEM), begun in 1968, had introduced a measure of rationality into the economy. By focusing on agriculture, small-scale industry, and the service sector, the reform succeeded in creating an economy in which plan and market could somehow co-exist and living standards rise as well. Kádár's 'goulash communism' – perhaps early version of perestroika – was also assisted by his regime's relative political tolerance and openness – perhaps an early version of glasnost.” Charles Gati: *The Bloc That Failed: Soviet East European Relations in Transition* (Bloomington: Indiana University Press, 1990, 95).

private small and medium enterprises. Western style rule of law may stand in the way of political agendas thus it may be replaced by “sovereign democracy” and command economies instead. Orbán may complete the job that the Kaczyński brothers began in Poland and Fico continued in Slovakia. The social populist and neo-nationalist Budapest may be followed by Prague, Bratislava and Warsaw.

Cesary Kowanda has drawn attention to the danger of the Hungarian and Polish disease in the spring of 2009: increasing the budget deficit and the public debt, oversized social net.<sup>8</sup> The Central Europe region may turn from poster kid to sick man. Hungary has dealt with the acute shock of the crisis through the drastic 2009 Bajnai-package. The tragedy of Hungary is that the real economy's performance is now not as bad as its external reputation, especially after the Bajnai-package. The gap between economic fundamentals and the Orbán-government's discredited policy is now wide: in spite of the improving indicators no one believes in us any more. I would not believe in their place either. Polish analysts were concerned about the spread of the Kaczyński-disease to Hungary. But no one imagined that the Orbán-government would combine Kaczyński's political populism with anti-Western economic nationalism.<sup>9</sup> We, Hungarians, invented something new.<sup>10</sup>

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<sup>8</sup> Cesary Kowanda: *Wszyscy jemy ten gulasz* (Polityka, 2009, 03, 21).

<sup>9</sup> The Orbán-government started parallel crusades against bureaucratic, economic and media elites, the intelligentsia and the public intellectuals. 1. He introduced governance of the parliament, where individual members of parliament table new bills without preliminary arbitration as opposed to public administrative bodies. He introduced a 98% extra tax retroactively for five years on severance payments and public servants can be dismissed without justification (this latter step was later dismissed by the Constitutional Court). Also an individual member proposed legislation that puts credibility of policemen in doubt. 2. Extra taxes were imposed on financial institutions, on the retail, energy and communication sectors. Private pension funds were nationalised. Government action forces are dispatched to ensure wages are raised in the private sector in compensation for the negative consequences of the new 16% flat income tax rate. 3. Public investigations started against known philosophers for unlawfully taking research grants. The financial support of the national film fund has ceased after 20 years of operation. Writers, musicians and historians have been charged, creating 'Kulturkampf'. 4. A restrictive new media law was accepted causing uproar in Europe and the United States. (The law was later amended according to remarks made by the EU Commission but the 'media-war prevails.)

<sup>10</sup> „Hungary's much-criticized new media law 'served as pretence to launch an attack on the country and the question Hungary's commitment to democracy, ignoring the dignity of Hungarians,' he [Viktor Orbán] said. 'Hungary fought off the attack, made the attackers' reasoning ridiculous, demanded and earned respect, and we have made it obvious that our dignity is inviolable,' Mister Orbán said. 'The current government won't be used to wipe up the floor with, like it was done with our lame and miserable predecessors. We don't accept lecturing from any country, we don't approve any single country or group of countries as a supervisor or a guardian placed above us. So that nobody misunderstands this: Hungary has a democracy not because someone demands it from us or expects it from us. Brussels is not Moscow,' Mr. Orban said.” *Hungary Fiscal Plan Still in the Making* (Wall Street Journal, 2011, 02, 15).

The new Hungarian disease is not only serious in its rash of economic nationalism and feverish political populism but may prove to contaminate the entire region.

#### WORST CASE SCENARIO AFTER 2012

In any event, we arrive at a turning point in 2012. Presidential elections will be held in the United States. The “remission” policy that was characteristic since 2008 may either disappear because of a new, tea-party Republican president or regain its strength with the re-election of Obama. Today, the former is more likely to happen. There will also be presidential elections in Russia. The conciliatory Medvedev will either be replaced by Putin or a new construction will be created. Putin is a “dove on the ground but a hawk when airborne”, who is replace “reset” by a policy of “delete”. Even more importantly both great powers are in decline – for different reasons – and it is unpredictable how they are going to react.<sup>11</sup> China is going to have a new leadership, too and analyst expect freezing instead of mild weather. In Western Europe conciliatory politicians have to fight in the face of cold headwinds. We may end up looking back on the reconciliatory years between 2006 and 2012 as the last chance of peace when more troops were withdrawing, rockets were discharged and Russian-Polish, Russian-Baltic, Hungarian-Russian agreements dominated the news. When the middle of Europe was not a frontline but boring and peaceful countryside.

A violent and imperial America that uses difficulties to legitimate relentless retort, a Russia that trades its social problems for outside aggression and Europe in chaos is not an encouraging scenario.<sup>12</sup> The region from the Baltics to the Balkans may become a field for flexing muscles and power exercise: strength against

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<sup>11</sup> „A most important feature of that world will be the absolute and relative weakening of the United States and Russia. That weakening, accompanied by the almost inevitable growing chaos in international relations, will require far greater policy coordination by the leading powers. And this is a major incentive bound to push Russia and the U.S. (and not only them) towards a closer relationship.” Sergei Karaganov: *After the Reset* (globalaffairs.ru, 2010, 10, 26). „It (START) looks very nice, but very inappropriate. It reminds me of a middle-aged couple dancing a polonaise in a youth nightclub.”

<sup>12</sup> „The world remains more Hobbesian than the White House cares to admit. Global interdependence is increasing, but fundamental interests still collide and strategic rivalries persist. The Obama administration appears to regard the decline of U.S. hegemony with equanimity, anticipating that shared national interests and mutual security dilemmas will permit the established and the emerging powers to pursue collective goals, such as arresting nuclear proliferation, mitigating climate change, combating terrorism, and preserving an open, liberal international economic system. But it has left a darker scenario unexplored: What if the new global order leads to an era of multipolarity without multilateralism?” Stewart Patrick: *Irresponsible Stakeholders?* (Foreign Affairs, 2010 November/December, 45-46).



strength. And in a game where the U.S., Russia and Germany redistribute the political, economic and military spheres of influence in a neo-nationalist, non-cooperating manner, the room left for manoeuvre in the Central and Eastern European countries will be negligible. If we fail to establish a common strategy for the crisis and the period of political thaw, if we fail to decide whether to return to the European model of the German type, or an Eastern model, if we fail to establish a common policy with relation to Russia, we are not prepared for the “hawkish” times.

Beginning 2011 Merkel’s Germany took a turn to save the euro and for the common economic policy.<sup>13</sup> The German “Competitiveness Pact” proposed closer institutional cooperation. Protecting the euro the French-German axis was joined by the United Kingdom, Italy, Spain, China, Brazil, India and Russia. The closer collaboration implies debt-reduction, control over national budgets and standardised systems of taxing the profit and pension returns. It creates closer euro zone relations through the proposed euro bond. Is this the two-tier Europe or is there any chance left for keeping it together?<sup>14</sup> It urges the countries outside the euro zone to decide whether to join in the coordination or stay outside indefinitely.<sup>15</sup>

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<sup>13</sup> Merkel’s Plan Could Transform the European Union (Spiegel, 2011, 01, 31), Key Moment Looms for Euro (Wall Street Journal, 2011, 02, 03).

<sup>14</sup> ‘Hungarian Prime Minister Viktor Orbán hadn’t received this much applause in Brussels in a long time. European politicians had been criticizing him for weeks over his restrictive new media law. But last Tuesday hundreds of officials with the European People’s Party celebrated the conservative politician like a hero. The delegates from the EPP, a collection of Christian Democrats and other center-right parties from across Europe, ha assembled in the Galeries Royales Saint-Hubert – and they were especially enamoured of Orbán’s criticism of plans by German Chancellor Angela Merkel, a Christian Democrat herself, to establish an economic government for members of the euro zone. “Have respect for the agreements,” Orbán told his audience, “and do not discourage the 10 EU countries that are not euro zone members.” Germans in the audience, European parliamentarians from Merkel’s CDU and its Bavarian sister party, the Christian Social Democrats (CSU), likewise applauded Orbán.’ Christian Reiermann-Christopf Schult: Europe Revolts against Merkel’s Euro-Zone Plan (Spiegel/Online, 2011, 02, 14).

<sup>15</sup> „Poland should stay out of the euro zone for the next 20 years or more, says Jaroslaw Kaczyński, the leader of the Polish conservative opposition. The situation of some countries in the euro zone shows that the euro isn’t beneficial for Poland. Instead of being replaced with the euro, the Polish currency, the zloty, should become the third reserve currency in Central Europe, Mr. Kaczyński said at a press conference January 30. ‘Some say the zloty should stay for 10 years. I’ll go further and say that it should stay for at least 20 years. The zloty should become the third reserve currency in the region, after the euro, and the dollar.’ Mr. Kaczyński said that Poland should improve its fiscal situation by levying taxes on banking operations. He also said the Polish banking sector, majority-held by foreign financial institutions, should be ‘re-Polonized,’ also with the help of the state, while foreign capital shouldn’t be allowed to buy Polish electric energy and petrochemical firms.” Polish Conservatives Oppose Euro Entry for ‘at Least 20 Years’ (Wall Street Journal, 2011, 01, 31).

Are politicians going to be wise? People persuadable? Or will the policy of illusions win? "Today the truth for us is not what is, but what convinces others: just as we call money not only a the real notes but the counterfeit, too, if accepted" - Montaigne wrote. We are living in the political era of counterfeit money. There was a moment in 1989 when the world paid some attention to the Central and Eastern Europeans – we paid with real money and were paid by real notes, too. That time has quickly passed. We will have another such moment during the crisis in 2011-12. How are we going to use it?