

## Fidesz on the warpath against the state's addiction to credits

*The Orbán government is fighting a lot of wars, some of which don't even appear to be real. The war against the national debt and low employment is very real, however. And the Orbán-government is deeply committed to waging it. Hungary hasn't had much success in this area thus far. After two successive governments reduced the debt from 90% of GDP to almost 50% by the end of the 90s, it is back to over 80% now. While Fidesz is right to claim that MSZP bears most of the responsibility (it did also most for reducing the debt in the 90s), it conveniently downplays its own part in this process. Employment is even more difficult in that the government has fewer instruments to control it and the past two decades have shown no signs of improvement. While the government's commitment to handling these challenges is not in doubt, some of the measures it plans to enact to achieve progress are dubious.*

*"With respect to national debt, Hungary is in a state war and it wants to win this fight."- Viktor Orbán*

The prime minister does not want to leave much room for doubt regarding his attitude on state debt and employment. He keeps harping on these issues with bellicose rhetoric. According to Viktor Orbán, Hungary is in a state of war against the scourges of debt and low employment. Having decisively routed the "post-communists", now it must defeat these problems, lest "they defeat Hungary".

In its quest to put national debt front and centre, Fidesz has instituted a parliamentary investigative committee to explore how it reached the magnitude that it did. Just a few days ago former Prime Minister Ferenc Gyurcsány went before the committee to present his view of how national debt the high level of 80% of GDP.

### **A decade of indulgence**

Gyurcsány kept to what is MSZP's stance on the question. Denying that the Socialists have driven up the debt would be plainly ridiculous. Not only was this admission the gist of Gyurcsány's infamous Ószöd speech ("no country in Europe has committed such a stupidity"), but the numbers, too, speak for themselves: when MSZP took the helm in 2002, debt was at 54% of GDP. When it was ousted last year, it was almost 80% of GDP.

Yet Gyurcsány insisted that the fault was by no means his alone: he said that three successive governments – including his first cabinet – had piled onto the giant heap of debt by instituting novel spending. The process, he argued, had already set in during the second half of the first Orbán-government.

This hypothesis, too, is borne out by both the series of events and the evolution of national debt. Though the first Orbán-government had been fiscally prudent in its first years, it went on a spending binge towards the end of the term.

## **How the race for most successful populist was lost**

Yet the story is also more complex than Gyurcsány or the Socialists like to admit. In light of its rhetoric over the past years', Fidesz may look like a natural in the reckless populism department, but in the run-up to the 2002 campaign MSZP was also heavily pushing the incumbent towards higher spending and expensive campaign promises. Moreover, once elected, the Socialists kept their excessive promises and piled on not only one-off expenditures, but numerous commitments that were planned as permanent fixtures.

This back and forth of costly commitments characterised Hungarian politics until the summer of 2006, when the Socialists unilaterally conceded the struggle for the populist throne and began a painful process that was reminiscent of detox. Having gorged themselves on the blessings of fiscal imprudence, both MSZP and the populace were finding it difficult to let go.

It took Orbán and Fidesz another four years and its own ascension to government to follow suit. During this time, Fidesz not only supported the government's every single major spending boom, but also proposed massive outlays on top. Whenever cutting spending came up, Fidesz rejected nigh every specific measure that the government wished to enact.

## **Joining the battle**

As a result Orbán and Fidesz appear to be latecomers to the battle against the national debt. Even in its first months, the government had failed to put debt at the centre of its programme and communication. While in theory it was positioning itself as fiscally responsible, it was imploring the European Union and the International Monetary Fund to allow some measure of budgetary easing. Those refused to budge, thus blocking the route of higher deficit.

Now Fidesz was in a quandary: it was certainly not going to pass on its central tax cut promise, nor on expensive pet projects such as the acquisition of foreign-owned shares of the national energy giant MOL.

But implementing the tax cut or other costly undertaking without any measures to offset their fiscal effect would be a tragedy. Fidesz does not shy away from putting the axe to many sacred and/or beloved benefits and services. This generates significant social hardships and involves massive political costs as well – witness the latest survey data which show Fidesz' gradual decline in the polls not only continuing, but in fact garnering speed. Moreover, even all the tough calls do not appear to be enough to counterbalance the revenue losses and incidental outlays, as the government had to revamp its deficit projections and keeps adding new measures to raise revenue and cut spending.

## **Labour: a challenge too far?**

The other protracted battle, the one for more employment, is a very different beast. Though it clearly can't do magic, the government has significant leverage over the debt. The Horn-



government, between 1994 and 1998, proved this by slashing the debt from 90% to 60% of GDP, which also made the Orbán-government's subsequent disciplined budget policy easier.

The employment rate, however, is determined by structural factors that all governments hitherto had little influence over. "Hitherto" was not to suggest that this is about to change, but the fact is that the government suggests that it can in fact achieve a major shift in this area. If it manages to add anything remotely near the 1 million jobs it promised by 2020, then that will be considerably more than any number of jobs added by any government since transition (incidentally, Orbán is already the record holder in this area – but the measly 3% growth in employment in his previous term will have to be outdone now).

At the moment Hungary's employment rate is the second lowest in the European Union, ahead only of Malta. One million jobs would catapult the country into a much better position, not to mention that it would undeniable increase growth and competitiveness. Yet apart from the question whether any government can overcome the country's vast structural problems within the space of a decade, the other issue is also what type and quality jobs it plans to add.

Though Deputy Prime Minister Tibor Navracsics was arguing in the British daily *The Telegraph* that in the first leg of this plan – the 300.000 jobs promised by 2014 – the government would create private sector jobs, that is not in fact what those in charge have been saying here at home: a third to a half of the jobs will be created in the framework of public works programmes, which bodes ill for their viability as well as their long-term economic effect. Moreover, some of the harsher measures designed for boosting employment, such as the huge cut in the duration of unemployment benefits, appear too drastic, even unfair.

## **All's fair in war**

The rhetoric of war employed by the Orbán government is of course no coincidence. War implies blood, sweat and tears, and that is precisely what the government has on offer. A war justifies any number of acts, starting with the neutralisation of significant portions of the Constitutional Court's power of judicial review all the way to slashing spending and the associated services.

Moreover, if there is a war then those standing in the way of its conduct – the opposition, unions, protesters, critical voices from abroad, etc. – are by extension either in league with the enemy or unwittingly aiding it.

The rhetorical instrument of war serves as a framework for interpreting all the government's actions. That is at least what Orbán wishes to suggest. If either those directly affected by the government's harsh austerity measures concede that the government's urgent "war targets" demand respect – which is unlikely – or at the very least the rest of society does, then the dangerous attrition of Fidesz' support may be stalled.

Moreover, as we have repeatedly pointed out, Fidesz does not need to maintain its extraordinarily high level of support last spring; all it needs is to convince a solid plurality of

society, with the working middle-classes as the backbone of its remaining support, that its policies are basically sound. That may work.

## **Good goals but some bad tools**

Even without buying into the melodramatically belligerent rhetoric proffered by Fidesz, it is clear that it advances very valid points on the importance of tackling national debt and employment. Yet it remains unacceptable that the government justifies drastic measures, such as an increasing range of retroactive legislation, curtailing crucial institutions of the rule of law, etc. While the implicit assumption – i.e. that democratic control makes it difficult to handle major problems decisively – may be correct, the extrapolation of this logic to policy-making in general would be disastrous. For many of its most questionable policies *the* government has not even made clear how exactly they benefit the overarching goal.

At the same time, for all the dubious instruments and the tough talk, it is still not clear how Hungary's debt is going to be substantially improved or how the disastrous employment situation is going to take a turn for the better. True, the government is now enacting reforms that pursue right goals. But there is a long way to go yet.