In Hungary Viktor Orban adds the EU to his lengthening list of 'enemies of the state'

Hungarian Prime Minister, Viktor Orban recently denounced the EU's policies towards Hungary as 'colonialism', after the EU suspended nearly half a billion Euro in funding over its massive budget deficit. ***Abby Innes*** *takes a close look at Hungary's recent decline from a country known for its reform policies to one which is now mired in economic crisis and increasingly extreme political strategies.*

Contemporary Hungary is offering an abject lesson in how quickly democracy can go to hell when politicians confront thankless options and take the low road. The Fidesz-dominated coalition government came to power in 2010 on the high stakes promise of 'no more austerity' and it has been selling a fantasy of national renewal on the top of increasingly authoritarian government practice and deteriorating financial conditions ever since. To make good on its electoral promises one of Fidesz's first measures was to pay for tax cuts by expropriating private pension funds back into the public budget: an act that put the budget into a one-off surplus for 2011 but which damaged Hungary's international financial credibility which worsened thereafter – government debt has had 'junk bond' status for many months now. By March 2011 the government announced its economic strategy in the form of the Széll Kálmán Plan: a programme, so it turned out, of severe austerity, particularly for lower income groups. It presaged significant cuts in health, welfare entitlements and higher education but promised the creation of a million jobs within ten years.

Hungarian Prime Minister Viktor Orban, Creative Commons: BY NC ND

At the root of Hungary's sluggish growth and extreme political remedies is the lowest employment rate in the region – barely one in two of those of working age – and an exceptionally high tax wedge on labour, second only to Belgium's within the OECD in recent years. By 2006 Hungary had Swedish/French levels of public spending at Polish levels of per capita income. When coupled with a post-2007 crisis in privately held foreign debt the former Socialist government was left with nowhere to go but to unprecedented economic retrenchment: something they were no longer trusted to manage after revelations they had already lied about the real condition of Hungary's public finances back in 2006 in order to win that election, and subsequent corruption scandals. Enter Fidesz and party leader Viktor Orban in a coalition with the Hungarian Christian Democrats, with a constitutional supermajority and the temptation, given the unrewarding economic situation, to embark on the most almighty recasting of the rules of the Hungarian political game: what has ensued is a bacchanalia of populist-nationalist elite self-indulgence and hatred-mongering that has taken Hungary's international reputation from a regional reform leader to pariah status in two years, and its political economy deeper into the mire.

How did it come to this? Coming out of the gradually reforming system of 'goulash communism' Hungarian governments tried the longest of the EU10's frontrunners to hedge the region's emerging market pressures after 1989, and so administrations of all stripes (including Fidesz) ran competitive (i.e. low) personal income and corporate tax rates to attract FDI while trying to maintain spending on welfare and skills formation. The result was relatively low inequality for this region but an increasingly crippling tax burden on employers, inducing what Esping Andersen has elsewhere dubbed the 'death spiral' scenario of low employment and lowered tax contributions requiring high payroll contributions to support the remaining welfare system, which further lowers employment, stunting growth, increasing pressures on welfare…

Even after entitlements were reduced the spiralling costs of cash transfers in Hungary increasingly crowded out resources the economy needed to retain its competitive edge, as their low wage advantage ebbed away and the relatively portable FDI which Hungary primarily attracted moved eastward. This developmental bind duly put the country's main free marketers, the born-again Blairite (reform communist) Hungarian Socialist Party into a near impossible electoral position: hence the fiscal make-believe of 2006. (In fact the leaked 2006 speech of the Socialist Prime Minister, Ferenc Gyurcsany is most striking for its honesty regarding the brutal character of Hungary's realistic economic choices – along with prodigious levels of swearing.)

Orban's solution was to insist that the emerging market dilemmas that are structural to a population with European expectations of social cohesion are solely the product of 'communist' corruption and networking. This accusation duly proved more electorally successful than promises of further belt-tightening in a country that had already endured the complete opening of the economy to foreign investors, steeply rising welfare and employment insecurity for twenty years and steadily rising unemployment for the most recent ten. But the belt-tightening has come anyway – as, short of a simultaneous reconfiguration of global capitalism – it had to.

In government Fidesz adopted an incoherent 'growth' strategy that liberalised on the one hand, slashing employment and unemployment protections, for example, even as it politicised the Central Bank, the State Audit Office and the Fiscal Council, and by now their programme is reduced to chaotic acts of fire-fighting. Orban favoured those on a higher income with a flat-rate personal income tax of 16% in 2011 even as welfare cuts flattened demand among those on lower incomes (with a higher propensity to consume) but his government reacted to the subsequent decline in tax revenues with an increase in the employer social security contributions they had pledged to cut, a raise in VAT to a massive 27% and a hike in the minimum wage by 19%, none of which will improve demand or increase employment. These measures come in the context of an increasing inability to raise finance either from financial markets or from the IMF or the EU, with which the government is at loggerheads, even as Hungary teeters on the brink of a sovereign debt default.

In his speech to large crowds attending national day celebrations last week Orban vilified the EU as no better than Hungary's old Soviet oppressor: 'We will not be a colony' he declared and not for the first time he drew direct analogies between Moscow and Brussels, rejecting the 'unsolicited comradely assistance' of the EU – a fabulously disingenuous reference to the Union's attempts to get Hungary to honour its voluntary commitments. The EU's finance ministers have duly resolved to withhold half a billion Euros in cohesion funding. All of which leaves the regime with increasingly polarised choices. Though playing for time in EU/IMF negotiations, in public Orban continues to spoil for a rhetorical fight as one of the few remaining proofs of government virility. As such he is dragging Hungary into a diplomatic game of chicken, and so long as Orban doesn't blink he offers himself as the hero of a projected national martyrdom.

He is offering the fellowship of misfortune to that sizeable population that feels marginalised by the rapid liberalisation of the economy; that is overcome with anxiety about the future and resentful of the entanglement of figures, information and exhortations to 'discipline' coming from the wealthier countries to the west. If Orban backtracks now he is 'selling Hungary out', but as things stand, with his persecution manias, his resurrection of communism's 'combat tasks' in nationalist form, with his purging of the non-faithful from the public sector, the judiciary, the media, culture and education, allusions to Greater Hungary and promises of 'economic autonomy', Orban is selling his people a catastrophic lie.

The lie is that Hungary can flourish as a paranoid, racist, xenophobic one-party state with a patronage-based economy: with a reversion to those calls for self-determination that require enemies abroad and racial inferiors at home. Orban's ministers are too afraid to calm the hubris which is increasing evident in Orban's actions and this can only end badly: the political economic contradictions will mount and ordinary Hungarians are already paying the price with a deepening of the stresses that brought Orban to power in the first place. For a democracy scarcely twenty years old this is a tragedy which should give all Europeans pause. In particular the EU's economists need to think hard on the politics of austerity, because Hungary is not the only member state with an illiberal tradition on which its more ambitious politicians may call, when cornered.

Please read our comments policy before commenting.

Note: This article gives the views of the author, and not the position of EUROPP – European Politics and Policy, nor of the London School of Economics.

About the Author

Abby Innes – *LSE European Institute*
Abby Innes is a Lecturer in the Political Economy of Central and Eastern Europe at the LSE's European Institute.

No related posts.