Coming to the end of the via dolorosa? The rise of selective economic nationalism in Hungary

András Tóth

The intertwining of a political crisis with crises of the economy and of public finances in Hungary began in 2006. Hard on the heels of this the global financial crisis let loose a veritable political storm. The upshot was that the FIDESZ party, with charismatic Viktor Orbán at the helm, obtained an overwhelming majority in the general elections. Orbán declared that, in accordance with the people’s desire for change, he intended to instigate a revolution from which a new Hungarian model would emerge, superseding the previous one, which had been utterly discredited.

The first steps in this direction comprised five key areas of upheaval:

(i) FIDESZ, which as an opposition party had strongly resisted any measures that they considered ‘undemocratic’, now proceeded to establish a regime sustained by an anti-liberal parliamentary majority that undermined or even completely eliminated the separation of powers provided for in the constitution.

(ii) In its socioeconomic model the government set to work consolidating the position of the domestic elites and upper middle classes. It hoped in this way to launch a new development process shaped by domestic actors rather than by external ones.

(iii) The government strove to establish the most ‘efficient’ labour market in Europe by introducing new, flexible labour market regulations and curtailing trade union rights.

(iv) FIDESZ, which had previously vehemently opposed all cuts in social security, now switched to a policy of ‘workfare’ instead of ‘welfare’. Unemployment benefit was cut sharply and social benefit recipients became subject to an obligation to work, which was supposed to end welfare dependency, although the payment for such employment was often extremely low.

(v) Only in family policy was spending increased and welfare benefits
extended. Tax concessions were introduced for families with children in order to boost the long-standing very low birth rate and avert the impending demographic crisis.

FIDESZ hails this policy as a break with the ‘European model’, which it claims is doomed to decline, and has promised Hungarians a new, efficient ‘workfare’ state, which will bring the country out of the crisis. In what follows I give an account of what was achieved by this policy in its first four years and analyse a number of contradictions in the newly emerging Hungarian model. I begin the analysis with a brief look back at Hungary’s so-called ‘post-socialist’ model.


When the economic and political transition began in 1989 there were high hopes of the small and medium sized enterprise (SME) sector that had emerged from the semi-market economic system of the Kádár era and was now supposed to usher in a flourishing economy. Reality turned out quite otherwise, however (for more on the following see Neumann and Tóth 2009). In 1990, almost overnight, Hungary found itself having to contend with cutthroat competition in the global economic system. The effects of this stark exposure to competitive pressure were compounded by the disappearance of the former Soviet economic area. The introduction of a strict bankruptcy law made things even worse and accelerated the collapse of the state economic sector.

The precipitate introduction of a policy of glasnost led initially to a process of destruction. Large state companies vanished almost overnight. The storm was weathered only by firms bought by foreign investors or that serviced sheltered niche markets operated by state utility companies. The winding up of agricultural cooperatives led to a similar crisis in the countryside. The upshot was a social catastrophe. In the first years of the transition one quarter of the initial four million jobs were axed. Broad swathes of the population were driven from the labour market and made dependent on social benefits, especially the older generation, Roma and the low-qualified rural population. The employment rate has remained markedly below the EU average ever since (see Table 1); this at the same time imposed a heavy burden on the state budget (Fazekas-Scharle 2012).
The collapse of the state industrial sector had another, indirect effect. Because these companies had formed the basis of the former dual occupational training system, occupational training in Hungary was gutted. This loss has been woeful in terms of Hungarian industry’s long-term international competitiveness. All the more so because the great expectations of an SME upsurge proved unrealistic. The SME sector was characterised by the fact that forty years under the Soviet system had left a stratum of people without capital or business experience who had been compelled to try to strike out on their own, rapidly founding start-ups from nothing. Most of the numerous new SMEs are micro-companies that serve the local market at a very low productivity level. Many of them are able to survive only on the basis of illicit employment and tax evasion.

Thus foreign direct investment (FDI) played a decisive role in bringing capital, modern technology and successful business models into Hungary. An FDI-based development strategy also suggested itself because since the 1970s the half-open character of the Kádár regime had enabled Hungarian businesses to establish many contacts with the West, which could now be put to use.

Attracting foreign investors went well to begin with. In the early 1990s Hungary was the destination of choice for FDI in central and eastern Europe (Hunya 1996). Thus in 1997 foreign investment per capita in Hungary was three times higher than in Poland and the Czech Republic. Hungary became an export location closely integrated in the European economic area, while most of the flagships of the Hungarian economy acquired foreign owners (Éltető-Sass 1997).

After years of painful adjustment in 1996 the Hungarian economy began to grow again. Together with rapid economic integration and the establishment of institutions oriented towards the acquis communautaire, this paved the way for Hungary’s accession to the EU in 2004.

This rapid development was stopped in its tracks by the collapse of the rouble in 1998–1999, however. The ensuing economic slowdown coincided with a gradual restructuring and broader distribution of investment flows towards central and eastern Europe (Sass 2004). Tougher competition from other central and eastern European countries meant that Hungary lost its status as the main FDI location and the influx of foreign capital abated.
This led to a change of view among the general public and a change of direction in Hungarian economic policy. After years of growth Hungarians, encouraged by the forthcoming EU accession, wanted wages and living standards finally to converge with those in the rest of Europe. ‘Real harmonisation’ was demanded right across the political spectrum, including the trade unions. In an increasingly polarised party system the two main political camps resorted to populism in pursuit of votes.

FIDESZ, which had come to power in 1998, pursued a cautious economic policy up to 2000. This came under fire from the largest opposition party the MSZP (Hungarian Socialist Party). In order to avoid defeat in the 2002 elections the government hit back with massive stimulation of consumer demand. Public sector wages were raised by 75 per cent, the minimum wage by 60 per cent and a lavish programme in support of mortgage lending was implemented (which paved the way for the boom in private borrowing abroad and the catastrophe of 2008–2009, to which I shall return in due course). Although this was not enough to secure re-election for FIDESZ economic policy took a new course. In a bad-tempered election campaign FIDESZ and the MSZP sought to out-bid one another with calls for a ‘new social system’. The MSZP promised more wage rises in the public sector, a thirteenth-month bonus, the abolition of income tax for the low paid and an ambitious investment programme in infrastructure.

All this was implemented when the MSZP came to power. The expansive spending programme boosted the economy, but the increase in public debt now became a permanent problem. From 2003 the new government tried to curb spending again, but now FIDESZ resisted any cuts. Worried about losing votes in the forthcoming elections in 2006 the MSZP reverted to an expansive deficit-financed spending policy, led by new prime minister Ferenc Gyurcsány, a charismatic young politician. The MSZP won the 2006 elections easily with the slogan of the ‘Pannonian puma’, audaciously transferring the image of the ‘Celtic tiger’ to Hungary’s Danube basin.

However, now Gyurcsány had to comply with the European Commission’s demand that Hungary curb new debt in accordance with the Maastricht stability criteria. This sudden change of course in the direction of public spending cuts came like a bolt from the blue to most Hungarians. If that wasn’t bad enough a tape came to light of a speech given by the prime minister at a private meeting of the parliamentary party in which
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Divisive integration. The triumph of failed ideas in Europe – revisited

Table 1 Economic indicators, Hungary, 1996–2013

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<tr>
<td>Economic growth (in %)</td>
<td>0.2</td>
<td>4.2</td>
<td>4.0</td>
<td>-6.8</td>
<td>1.1</td>
<td>1.6</td>
<td>-1.7</td>
<td>1.1</td>
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<tr>
<td>Employment rate</td>
<td>52.1</td>
<td>56.3</td>
<td>56.9</td>
<td>55.4</td>
<td>55.4</td>
<td>55.8</td>
<td>57.2</td>
<td>NA</td>
</tr>
<tr>
<td>Unemployment rate</td>
<td>10.0</td>
<td>6.6</td>
<td>7.2</td>
<td>10.1</td>
<td>11.2</td>
<td>11.0</td>
<td>11.0</td>
<td>10.2</td>
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<tr>
<td>Public debt (% of GDP)</td>
<td>72.4</td>
<td>56.1</td>
<td>61.7</td>
<td>79.8</td>
<td>82.2</td>
<td>82.1</td>
<td>79.8</td>
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Source: Eurostat.

he admitted that the government had ‘lied morning, noon and night’ to deceive the voters with falsified statistics about economic progress. Naturally a scandal ensued, with protests throughout the country and unrest on the streets of Budapest. FIDESZ accused the MSZP of election fraud and demanded new elections. The government refused and instead switched to a quasi-neoliberal reform programme. This gave rise to so much public criticism that a FIDESZ campaign for a referendum on the reforms bore fruit. The referendum held in spring 2008 gave FIDESZ an enormous boost as the party that promised to defend the welfare state against neoliberal deregulation.

The onset of the global economic and financial crisis in 2008 dealt the final blow to the MSZP government. The export-driven engine of the Hungarian economy stalled. GDP plunged by 6.8 per cent in 2009 and Hungary had to turn to the IMF for financial assistance, which forced it to implement harsh austerity measures in return (see Table 1). After years of growth driven by government spending the crisis only got worse as anticyclical measures were now off the agenda.

The crisis also exacerbated the problem of high foreign indebtedness. Since the prospect of EU accession had become real and especially since accession itself mortgages in foreign currency had grown rapidly, especially with Austrian and Swiss banks. By 2008 the borrowings of private households in euros and Swiss francs had reached 20 per cent of GDP. In the financial crisis from 2008 the forint exchange rate collapsed, strongly affecting that part of the Hungarian middle class that had taken out loans in foreign currency. Rising mortgage payments led to a collapse in private consumption, which in turn meant falling state revenues and
an increase in the budget deficit. They were mutually reinforcing, which hit the domestic economy hard. It was natural to attempt to escape from this trap by promoting exports through devaluing the forint and cutting wages but this had its drawbacks. High private debt in foreign currency put limits on devaluation of the forint if the livelihoods of large parts of the middle class and even greater turbulence in the domestic banking sector were to be avoided.

During this period FIDESZ launched a campaign to delegitimise the government and set out on a collision course with implementation of the measures demanded by the IMF and the European Commission. Their claim was that once the neoliberal and corrupt politics of the post-communist left was stopped dead in its tracks a new period of strong growth could begin. Viktor Orbán cast himself as the spokesman of a general discontent, but it was not clear in what direction he really wanted to take the country (Hörcher 2014). FIDESZ won a landslide victory in the 2010 elections. Winning just over 50 per cent of the votes was enough to give it a two-thirds majority in parliament. The MSZP lagged far behind and the third-placed party was the right-wing extremist Jobbik. Thus began what Tóth, Neumann and Hosszú (2012) called the ‘conservative revolution’.

2. The new political model: charismatic ‘government by decree’ in a democratic guise

Since 1989 Hungary’s political system has been characterised by a constitution and electoral law that emerged from the so-called ‘velvet negotiations’ between the Communist Party and the democratic opposition before the first free elections. The aim of the constitution was a system based on separation of powers and oversight prerogatives on the model of Western democracies, while the electoral legislation was intended to enable stable government, which gave an advantage to the party receiving the most votes (Bozóki 2002). This favoured the formation of a system based on two parties or party coalitions contesting power. This

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1. This majority was largely maintained in April 2014. FIDESZ obtained 44.5 per cent of the votes, which sufficed to retain the party’s absolute majority, enabling it to alter the constitution (133 out of 199 seats); the MSZP as part of a centre-left alliance is, with 26 per cent, only a little stronger than the right-wing extremist Jobbik, on 20.5 per cent. The Green-Liberal LMP, as in 2010, obtained a little over 5 per cent (Batory 2014).
two-party situation was further entrenched by institutional positions of power, influence exerted via networks, financial resources based on public funding and probably also by corrupt practices in an oligarchy-like intertwining of political parties and big business.

In this party system there is a gulf between right and left. The main party on the left is still the MSZP, a reformed and democratised successor party to the former ruling Communist Party. One consequence of this is that many observers question the MSZP’s legitimacy as a truly democratic party. Even many liberals and Greens, not to mention others on the left tend to keep the MSZP at a distance (Tóth 2013a). It is true that since 1989 the MSZP has ditched the old Communist Party lingo and adopted a pro-European programme combining a universalist welfare state and acceptance of the market economy. This mixture, similar to the New Labour’s ‘Third Way’ in the United Kingdom, was in keeping with the party’s nature as an organisation of left-leaning reformist technocrats from the middle ranks of the former regime. The market economic orientation was also reinforced by that fact that from 1994 to 1998 and again from 2002 and 2008 the MSZP governed in a coalition with the liberal SDSZ. This coalition consolidated the neoliberal tendency in the MSZP, even though from 2002 to 2006 they pursued rather a Keynesian policy based on expansive public spending. The two parties were always at one in their secular and non-nationalist stance, with a strong inclination towards Europe and an emphasis on democracy, political correctness, human rights and multiculturalism.

The strongest party on the right was originally the MDF, which formed a coalition with various other right-leaning parties in the first freely elected government. It was split from the start into a liberal-conservative wing and a plethora of right-wing clerical, nationalist and even anti-Semitic tendencies, which regarded the SDSZ as dominated by Jews. After the death of the first prime minister, József Antall, the right-wing increasingly gained the upper hand in the party, finally leading to its break-up in the mid-1990s, riven by internal disagreements. FIDESZ, with its firmly anti-communist and anti-MSZP orientation now became the leading force on the right. Under the leadership of Viktor Orbán they articulated

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2. The two partners didn’t really hit it off because in 1989 the SZDSZ had emerged from an anti-communist movement, while the MSZP comprised mainly traditional left-wing tendencies. However, the electoral system and the anti-left and anti-liberal pressure from the right reinforced the coalition, which became a left-wing-liberal camp in public discourse.
the defence of national interests and domestic employers over against foreign influences, including rejection of the takeover of state companies by foreigners through privatisation. FIDESZ was committed to state-led economic development, combined with Christian-conservative views on culture and lifestyle.

This split into a religious, conservative, nationalist and statist camp, on one hand, and a liberal, market-economic and pro-European camp, on the other, was one source of the polarisation in Hungary’s political life (Körösényi 2012). Both sides associated the other with all the wrongdoing perpetrated since the 1930s. A kind of cold war has developed between the two sides in which each side reproaches the other of operating an oligarchical system of political corruption to finance its re-election.

The two blocs have been galvanised by the dramatic events that have unfolded since 2006. The sudden turnaround of the MSZP and the revelation of Gyurcsány’s overfrank speech led to political upheavals that far exceeded what might have been expected in a crisis. The MSZP lost its credibility in all the three areas that previously had been so important to it: the welfare state, democracy and technocratic competence. Exacerbated by a series of prominent corruption scandals the loss of trust came to encompass the democratic system itself.

FIDESZ seized its chance and criticised the domination of a ‘post-communist’ elite that had thwarted all hopes of change in Hungary. The oligarchic and corrupt system of government provided no institutional opportunity to get rid of a duplicitous government. The president must therefore be given greater powers to solve such problems.

FIDESZ itself became radicalised in this process and developed a view of democracy whose right-wing populist roots go back to interwar Hungary. Viktor Orbán fused the various right-oriented ideologies with the promise to revive the country from the ground up. This vision is based on a strong state that purports to unite society and protect it from foreign powers and their Hungarian fellow travellers. After his election victory in 2010 Viktor Orbán declared the launch of a period of revolutionary transition in which a new social contract and a ‘system of national cooperation’ would overcome the turmoil of the past 20 years.

The two-thirds parliamentary majority that was sufficient to alter the constitution enabled the new government to free itself of any constitutional
shackles and to make the law an instrument of government rather than a means of holding it to account (Tölgyessy 2011). A new legal order was fashioned whose aim was to undermine the separation of powers and government oversight. The new constitution, the limitations imposed on the Constitutional Court and the new media law – all passed without opposition consent – represent a break with how things were done before 2010, when all the major parties accepted the legitimacy of the constitution and acted accordingly. The power of the government was further reinforced by a policy of crowbarring loyal party men and women into key positions in institutions that are formally independent of the government. Finally, changes in electoral law have improved the chances of the incumbent government remaining in office (Tóka 2013). As the outcome of the elections in April 2014 shows, the government has changed the rules of the game to such an extent that elections in Hungary are now ‘free, but not fair’ (Batory 2014).

The government implemented a recentralisation programme in education and public services, as a result of which local control was weakened or even eliminated. The government has also gained control over most media outlets, with the exception of one or two independent TV channels. International organisations, such as Reporters without Borders, have criticised the curbing of press freedom and the witch hunts by means of which government control of the media was achieved (Reporters without Borders 2014). In a survey 48 per cent of journalists stated that press freedom had been curtailed and 34 per cent that they practised self-censorship (Mérték 2014). The idea is for a new cultural elite to drive left-leaning, liberal or multicultural ideas out of public life (Alföldi 2014).

The institutional overhaul of relations between employers and employees is also designed to curb the influence of independent actors. The government abolished the tripartite negotiating body, with its statutory rights, and replaced it with a tripartite consultation committee, in which NGOs and churches may also be included. Only employers and trade unions from the private sector are represented in the new committee; in the public sector there are practically no national negotiating structures any more. For some sectors ‘chambers’ have been established that are supposed to represent employees. At the same time, public sector trade unions have been frozen out, for example, by making it practically impossible to call a strike legally. The new labour code has also sharply curtailed trade union rights beyond the public sector (Tóth 2013b).
All these changes have led to the establishment of an ‘omnipotent government’ (Mises 1944), practically beyond legal control. And even if a conflict does arise between the law and government intentions the law can simply be changed.

For all that, the significance of the ‘Orbán phenomenon’ (Hörcher 2014) cannot be underemphasised. The charismatic prime minister conflates diverse right-wing traditions and tendencies into one policy line. The press is full of reports that Viktor Orbán himself develops the policies and strategy of the parliamentary majority, personally decides on all issues that he considers important and makes sure that all key organisations and institutions cooperate smoothly with the parliamentary majority. He has obtained a majority that no longer needs to reach agreement with other political forces (Fricz 2012). This new approach is expressed unambiguously by leading FIDESZ politicians. Parliamentary speaker László Kövér, for example, one of the key figures in FIDESZ, considers it a scandal that the MSZP is still in parliament (Kövér 2012). Although the new system takes its democratic legitimacy from regular elections, crucial democratic rules are bent so systematically that they favour only the ruling party.

The charisma of the leading personality is the outward form of a majority rule that, although democratically elected, is anti-liberal and not open to any compromise. The elections of April 2014 showed that although this system is not supported by the majority of people, it can muster sufficient votes to maintain power.

3. **The new economic model: selective nationalism and selective welfare state**

In the discourse of the political right the prominence of multinational companies in Hungary was the result of the left-wing liberal economic policy that allegedly served foreign interests. The condemnation of capitalism and of the Western model became an increasingly important theme in Orbán’s speeches (Tölgyessy 2013). When FIDESZ was still in power, Viktor Orbán asserted that ‘the “Labanc” and their masters reshaped Hungary in the way they wanted in the name of free markets’ (Orbán 2014). The term ‘Labanc’ designates the Hungary that, during the period of the Habsburg monarchy, defended Austria’s interests over against those of its countrymen who advocated Hungary’s independence.

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opposition it deployed a neoliberal rhetoric and distinguished between value-creating and exploitative capitalists. The party posed as the defender of ordinary people in Hungary against exploitation by oligarchic capitalism. The crisis of 2008/2009 led to more disillusion with the ‘Western model’ and the ‘lean state’ and confirmed FIDESZ’s criticisms of the path Hungary had taken since 1989. After the election victory in 2010 the party began a ‘war of liberation’ against both the ‘post-communist oligarchs’ within the country and banks, multinational companies and European and international institutions outside Hungary (Hörcher 2014).

FIDESZ’s economic policy approach can best be described as ‘selective nationalism’. Economic nationalism is a notorious form of state protectionism used to shield domestic economic actors from the effects of the world market by such measures as protective tariffs (Pryke 2012). Needless to say, Hungary’s membership of the EU prevents it from going the whole hog in this respect, especially because it is a small, heavily indebted country with no strong domestic companies. In these circumstances it is not realistic to pursue an import substitution policy by means of tariffs with a view to building up national champions. Rather the economy is dependent on the exports of companies in foreign ownership that are integrated in global supplier networks. Against this background FIDESZ has opted for selective economic-policy nationalism: this is applied above all in certain protected sectors, but not in industry or in private sector business services.

In the latter two sectors the government pursues a neoliberal--leaning policy. It actively supports new FDI projects and for this purpose has concluded a series of strategic agreements with key investors. The new labour code purportedly has the aim of creating the most competitive labour market regulation in Europe and making it easier for multinational companies to pursue ‘flexible’ forms of work and employment (Tóth 2013b). Even the cuts in various social benefits and services can be seen as an attempt to propel Hungary in the direction of a neoliberal ‘welfare’ model. The most important measures in this area were the cutting of the period of entitlement to unemployment benefit from nine to three months, the ending of early retirement opportunities and cutting state payments for the abovementioned compulsory labour performed by the unemployed.

Economic-policy nationalism, by contrast, is applied to public utility companies, the retail trade, the banks and in sectors dependent on
government contracts. This includes many services provided by private companies for state or municipal authorities, but also calls for tenders for projects financed from EU funding, for example, in construction.

In these sectors the government does its best to reduce the role of foreign providers and to promote domestic companies. The first instrument it uses is to reinforce state influence among utility companies. It has invested a sum of around 2 per cent of GDP to renationalise numerous companies (Kester 2013a and 2013b). The second instrument comprises targeted tax increases for large companies, which are generally in foreign ownership (which clearly conflicts with the abovementioned strategic support for foreign investors). Furthermore, these special taxes form an important revenue source for complying with the European Commission’s fiscal guidelines. Thirdly, and finally, by means of tough regulations a series of private companies have been transferred from their owners at a low price to either the state or to private domestic bidders within the framework of a state tender procedure (Index 2014; Kester 2013c).

One of the government’s aims is to restructure particular economic sectors and to promote new domestic key companies. Part of the reason for this is to break the dominance of the former communist cadre elite in the Hungarian economy. According to many observers there is an oligarchy that was able to transform political into economic capital and thereby consolidated the corrupt structures of the past (Tellér 1991), which led Hungary to economic catastrophe after the change of system. Thus major efforts have been made to replace the economic elite, especially in sectors in which business success depends on public contracts. It seems that one outcome of this is to have weakened the economic base of the MSZP so that it finds it even more difficult to compete with FIDESZ on an equal footing in elections. Finally, the restructuring of economic actors also serves the purpose of creating a new stratum of companies loyal to FIDESZ. Thus a group of companies that in 2009 won one-third of tenders, two years later won only 7 per cent of them, while another group of companies managed to increase its share during the same period from 9 per cent to 27 per cent (Fazekas and Tóth 2013).

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4. The government regards, for example, a banking sector dominated more than 50 per cent by foreign owners as ‘unhealthy’ (Portfolio 2013).
Also part and parcel of this selective economic-policy nationalism is the deliberate consolidation of the upper middle class. The introduction of a general flat-rate tax of 16 per cent considerably reduced the tax burden on the topmost decile of taxpayers. By contrast, the tax burden has increased substantially for everyone else, especially for those on low incomes. One particularly important measure designed to improve the financial health of this clientele was to eliminate high debts in foreign currency. As already mentioned, the many mortgages taken out in euros or Swiss francs had considerably restricted the scope for a monetary policy aimed at boosting exports. The government thus decided – in the teeth of strong protests from the affected banks in Austria and Switzerland – to repay such loans by means of a one-off payment at a forint exchange rate around 30 per cent below the prevailing market rate for euros and Swiss francs. According to estimates, one in ten households indebted to foreign banks had sufficient savings to be able make use of this opportunity and debt repayment in foreign currencies was reduced by around a quarter (ECFIN 2014: 32). Thus those parts of the middle class in the best financial health were able to avoid the fate of ever higher mortgage repayments due to successive devaluations of the forint, while the remaining risk of default – also for the domestic banking sector – continued to grow.

As already mentioned, selective economic-policy nationalism has a social policy counterpart. In order to maintain broad assent among the population the government has cut social benefits and services selectively. In practice, this means that in some areas – such as unemployment benefit and early retirement – severe cuts have been made, while other areas have not been affected. For example, the pension level and tax concessions for families with children have been maintained.

Selective economic-policy nationalism is manifestly contradictory and comes at a price. It can work only if there is a strong state; however, arbitrary economic-policy decisions undermine trust in the legislator and state institutions. Targeted tax rises for certain areas of the economy have contributed substantially to raise state revenues, but on the other hand they deter potential investors. How thin the ice is on which the government is skating is clearly indicated by the move with which the government improved public finances in 2011, at least for the time being. During the to-ing and fro-ing in economic and social policy around the turn of the century, outlined above, a new pension insurance pillar was introduced, based on compulsory contributions to additional pri-
vate insurance. In 2011 these private pension funds were renationalised by de facto compelling insurees to transfer their insurance policies to a special state fund (Financial Times 2010; Economist 2010). This gifted the public budget such a large additional one-off revenue that the budget deficit, which in 2010 had been –4.3 per cent, was transformed into a surplus of +4.3 per cent in 2011 (in 2012 it fell back to –2.0 per cent; ECFIN 2014). This additional revenue was important not only politically, enabling compliance with European Commission demands for deficit cuts, but also because it financed the abovementioned renationalisation of public utility companies and made possible the launch of state spending programmes.

The role of the state is all the more important the lower the contribution of the private sector to economic growth. Since the beginning of the economic and financial crisis the share of investment in GDP has been at its lowest level for a long time. The main contributors to the investment slump are construction and real estate; investment is picking up only in manufacturing industry. However, this depends primarily on investment decisions by large automobile companies, taken some years ago (ECFIN 2014: 37). The strain put on banks by the collapse of the real estate market also entails restrictive lending, in particular to domestic SMEs (IMF 2013).

The Hungarian National Bank, now led by the architect of the new economic policy and former minister of the economy György Matolcsy, plays a key role in the efforts to counteract this stagnation. Since 2013 the Bank has been implementing a radical low interest rate policy to stimulate lending and – for the purpose of boosting exports – to drive down the forint against the euro. The National Bank even has a lending programme for SMEs to overcome the restrictive lending in the private banking sector. The programme offers loans at below the market interest rate and a volume of 9 per cent of GDP (Portfolio 2014a).

Another lever of economic growth is government stimulus for the construction industry. A key component of economic recovery in 2013 was the avalanche of public construction contracts financed primarily by much more enthusiastic resort to European funds (Portfolio 2014b). The construction sector is thus booming again – albeit starting from a low level – although residential construction remains in the doldrums. However, wages are low and in other parts of the private sector employment growth remains weak. Overall, the structural problems of the Hungarian
economy compared with the decade before the crisis remain unchanged – especially the division between export-oriented FDI bastions, on one hand, and precarious, domestic market oriented SMEs, on the other, which pay low wages, avoid taxes and are characterised by a lack of capital and innovation. The spillover effects of the large foreign industrial companies on small domestic companies are modest, even after 20 years of FDI-based industrial development (ECFIN 2014: 51). Thus the financial basis of the state remains precarious. The government debt ratio is receding somewhat, but remains the highest in central and eastern Europe (even though it is below the EU average). Furthermore, the use of part of the resources acquired through the transfer of the private pension funds to the state budget for the purposes of current economic policy harbours considerable long-term risks for the statutory pension system (MNB 2010).

4. Outlook: the fable of the grasshopper who starved in the winter

Because of its precarious value creation base the Hungarian economy has been pursuing a growth path since the end of the 1990s that is more and more dependent on both public and private debt. The bursting of the real estate bubble, which had been inflated by loans in foreign currencies, imposed onerous losses on the middle class in particular. For the majority of the population low wages made the crisis even harder to bear than in many other European countries. What really stands out in how the situation has developed in Hungary, however, is the profound upheaval in the political system, instigated in tandem with the crisis.

Amidst this double crisis, under the leadership of Viktor Orbán traditional right-wing, racist and national-chauvinist tendencies have coalesced with resurgent anti-neoliberal and even anti-capitalist attitudes. The charismatic prime minister embodies the promise of a rebirth for Hungary, which has given him overwhelming electoral success, sufficient to enable the ruling party FIDESZ to change the constitution. This majority has been used in short order to reorganise the political system and to provide the government with almost unlimited power beneath a democratic cloak.

This power is being used to pursue a selective nationalism in economic policy, which combines targeted promotion of domestic companies with
neoliberal labour market reforms, designed to keep foreign investors coming. For all that the government’s overarching strategic goal is to enhance the independence of the Hungarian economy in relation to foreign influences and to fashion a new economy dominated by the government and economic actors who are hand in glove with it. According to one apologist for the new regime the idea is to bring the colonisation of Hungary to an end. After the debacle of a market economic model steered by private interests, on this view, the government needs to create a new, strong state. The recovery of sovereignty also entails ending the one-sided dependence on the West and striking a balance between West and East (Zárug 2011).

In 2012 then minister of the economy Matolcsy talked of Hungary’s economic development as a fabulous success story. Unfortunately, it may prove to be a fairytale in a different sense. One of Aesop’s fables is about a grasshopper who spent the summer months singing to his heart’s content instead of laying up provisions for the winter and so faced starvation when the seasons changed. The contradictory economic policy of the Hungarian government frightens off foreign investors, notwithstanding that same government’s attempts to attract them by deregulating the labour market and weakening the trade unions. A strategy aiming to heal the split in the economy between FDI and domestic SMEs – in other words, a switch from a low road to a high road strategy – must be founded not least on a much higher level of skills, which requires extensive public investment in particular in training and further training (Neumann/Tóth 2009). Nothing of the kind is even on the horizon. Instead, the weak value creation potential of the domestic market–oriented economy, the low wages and labour market deregulation have brought the state’s tax base to the brink, a situation rendered even more precarious by the long-term threat to the pension system and unfavourable demographic developments.

The success, for the time being, of Hungary’s new dual model – ‘government by decree’ by a strong state to promote a selective economic-policy nationalism – after having emerged from a dual crisis, could have important ramifications for Europe as a whole. It shows that economic nationalism can win popular support, enabling a party or coalition to achieve and then cement power. Hungary is a relatively small country. In a larger EU member state, however, this combination of economic and political nationalism in democratic guise could pose a serious threat to the European project.
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