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Orbán's Hungary - an attempt at a change

Igor Janke

Hungary has recently triggered very strong controversy across Europe. Viktor Orbán's government is implementing very deep reforms whilst trying to transform the economy, the social sphere and the political paradigm. The scale of the changes is astonishing, especially when compared with the rather more passive policies carried out by the vast majority of contemporary European leaders. It gives rise to heated debate driven, in many cases, by a lack of knowledge or misunderstanding.

It is worth analyzing how Orbán and his party prepared to rule. The reforms introduced after 2010, were preceded by many years' of arduous work to create a strong foundation and to unite the Centre-Right wing and ingrain the party socially.

In 2002, Fidesz was a small party with approximately five thousand members. Eight years later, their number has grown eight times, despite the fact that during all that time, Orbán's party was in the opposition. Its leader laboriously formed small groups and parties together to create a large social movement gathering people who first of all worked for their local communities and later on were invited to participate in the bigger political arena. Today, Fidesz is the largest political party in Central Europe, with very strong social roots and whose programme and objectives were worked out and consulted with the voters.

During its time in the opposition, Fidesz has also been building a strong intellectual powerbase. Today, several large think-tanks work for the government and the governing party. In other Central European countries, it is difficult to find equally powerful institutions that would work for the benefit of a political power.

After the loss of power in 2002, Viktor Orbán and his colleagues realized that in order to gain and keep power, the politicians must have a much stronger social base and thousands of truly involved activists, not only in large cities, but also in small villages. In many countries of mature democracy, the contemporary politics is more and more often distanced from the society. Political decisions are more often made at high level small party gatherings, among experts and leaders and in the mass media. Orbán understood, just like Barrack Obama understood in the US, that politics is supported at the grass roots of society amongst citizens.

To rebuild the middle-class

Fidesz wanted to become the party of the Hungarian middle class - a party of active citizens who have social standing with families, jobs or entrepreneurs, owners of flats or houses. People who would co-create the life of their communities. The party carried out a long campaign to stimulate people and convince them to engage socially. Not only did all these activities impact the development of the Hungarian civil society, but it also strengthened the party which in turn led to its great success in the 2010 election.

After the lost election, Orbán called on the Hungarian citizens to create “civil circles” - independent organizations to deal with local problems. This movement turned out to be exactly what was needed, in just two months 11 thousand of such informal organizations were formed in a 10-million Hungary.

The citizens who had been historically passive became involved to actively participate in the democratic process. After two years, the activists of such “circles” were invited to join the party. A number of them accepted the invitation and became political activists, while others continued working within their “circles” constituting a more indirect and informal powerbase of Fidesz.

This Hungarian experience in creating a large democratic machine may serve as an invaluable lesson both for the Central European elites and for many political groups in Western Europe.

Even those who disagree with the direction taken by the Hungarian government has to acknowledge the amazing effectiveness of Viktor Orbán in creating this political movement.

A good example of specific action that resulted in tangible effects and could serve as a good democratic practice for many European, and Central European politicians especially, was the process of consultation when creating the wording within the new Hungarian constitution. The constitution adopted in 2010 by Fidesz was severely criticized by many political groups in the Western Europe. It was said that some of the provisions infringed on the principles of democracy, limited the ability to control those in power, and, most importantly, because of the speed of its implementation, the constitution had not been subject to a serious debate. It is true that the Hungarian parliament passed the constitution in a relatively short time. What is most important, interesting and, at the same time, not known is that the draft provisions were consulted with the society.

When Fidesz was still in opposition, the party and its leaders sent a letter to each Hungarian citizen with various wording alternatives of the future constitution. In a couple of weeks, the party received 1.5 million replies. Assuming that the average family consists of four people and the population of Hungary equals 10 million citizens, nearly half of the citizens sent their comments to the constitution! On the basis of those replies, the experts drafted the complete text of the constitution. It gave them a very strong legitimacy and at the same time helped build the support for the party. The text of the future constitution was also subject to discussion during hundreds of meetings with voters, organized throughout the country.

That is why, the adoption of Hungary’s first completely new constitution since the Stalin era, despite the criticism in the West, has received a very positive feedback among Hungarians.

Reforms with social support

There are more and more discussions concerning the crisis of democracy in the EU, about the fact that institutions, especially these pan-national ones, become distanced from the citizens. The Hungarian experience shows a different case, that of engaging the citizens to participate in the democratic process, respecting opinions of those voters who have little to do with politics on a daily basis.

Such mobilization of citizens not only resulted in their involvement in public life and their support during the election, but, what is a very important experience, understanding and approval of the necessity to introduce difficult reforms. Including reforms which, in a standard situation, are automatically rejected by the voters.

Viktor Orbán and his colleagues from the party have prepared their voters for changes. The scale of the changes introduced in 2010, over 300 legal amendments during the first year of Fidesz being in power, could be shocking, but the Hungarian voters were to a large extent prepared for them. Of course, their readiness to accept changes was linked with the realization of the gigantic state crisis and heritage of the eight-year socialist rule. The public debt and financial deficit were so large that the majority of voters understood that the country needed shock therapy. On the other hand Viktor Orbán understood that he would only be able to introduce such deep changes in the first year of his term when the voters were still enthusiastic and not tired with the reforms. Introduction of such brave changes in such a short period of time would also give the chance to demonstrate their results before the next election.

It is worth pointing out the scale of the transformation, the way the reforms were prepared and the way the citizens were prepared to face them. Despite severe external criticism, despite the inescapable chaos connected with the gigantic scale of the changes, despite the mistakes, despite the controversial attitude towards the economy and the state apparatus, after three years of revolution, Fidesz has still retained very high support in Hungary and still leads the opinion polls.

Viktor Orbán has proved that it is possible to reform a country whilst holding social support. Contemporary European political houses would avoid, at all cost, such drastic reforms as they fear losing support.

In Poland, everyone remembers the experience of Jerzy Buzek's government which introduced large scale reforms in the late '90. His party suffered a crushing defeat during the election despite the fact that the reforms were praised both in Poland and abroad. Polish politicians became convinced that decisive actions must lead to political failure. Orbán has proved that Buzek's Polish experience must not necessarily be a rule.

Low taxes for the citizens and small enterprises

It is also worth considering the objectives of the Fidesz government and the tools employed to achieve them. As I already mentioned, one of the main goals of Viktor Orbán's policy was to rebuild the Hungarian middle class and strengthen Hungarian families. In the past 20 years, it was mainly international enterprises who have developed in Hungary. They enjoyed many benefits since their investments were as indispensable in Hungary as in other post-communist countries. There was no capital in the region but in Orbán's country especially. Small and medium sized enterprises did not develop in Hungary as well as for instance in Poland. Few Hungarians became owners of companies and assets. Changing this status is one of the basic objectives of the government these days.

What has the Hungarian government been doing to achieve this goal? Despite the financial crisis, Viktor Orbán decided to radically decrease the personal income tax rates.

He also introduced a 16% flat tax rate for Hungarian nationals and an even lower 10% rate for small and medium sized enterprises. Families benefited from tax allowances for children. A family with three kids and an average income practically pay no tax.

The government also gave strong support to the hundreds of thousands of families who were faced with the threat of inability to repay mortgage loans taken in CHF. This problem is much more serious in Hungary than in Poland. During the past 10 years, such loans were granted in this country much more recklessly than in other countries, without informing the customers about all possible consequences of taking loans in foreign currencies. This extended lending initiative triggered considerable movement within the real-estate market, the prices soared and hundreds of thousands of families decided to buy new houses and flats. After a couple of years those families - the growing middle class - turned out to be in a drastic situation.

Head of the Hungarian Central Bank announced results of a survey, which prove that were there no crisis in Hungary, only half of the families would have problems with repaying the loans. The banks granted loans much too freely. At the same time, unlike in other countries, the exchange rate in Hungary was not set according to LIBOR, but at the banks discretion.

Viktor Orbán's government forced the banks to introduce the right to currency change-over or to repay the loan at an agreed exchange rate, lower than the market one. Those who criticized Orbán accused him of undermining the free market principles and interference with the banks' policies. His supporters were convinced that it was the banks who did not play fair when they had not informed the customers about the possible consequences of their decisions. Bankruptcy of thousands of families could lead to a social catastrophe.

Another important measure to build the middle class are the activities supporting the development of the small and medium sized enterprises. The ministry of economy is involved in a number of programmes supporting the ministry of state treasury. The law hindering entrepreneurs is being amended. At the moment, anyone wishing to start a company in Hungary may do so during one meeting with one clerk.

The most important step however was granting the commercial banks HUF 750 billion by the Central Bank to grant preferential loans to Hungarian entrepreneurs. The annual repayment rate for those loans equaled 2.5 percent while the official rate was 4 percent.

This action was a huge success, small Hungarian enterprises quickly formed lines to get the loans.

Burdening the international enterprises

The above measures were taken at the time when Hungary was in a dramatic financial situation. The country was at the verge of bankruptcy, when the gigantic debt generated during the socialists rule was coupled with the world crisis. In spite of this situation Orbán decided to give as much money to citizens as possible. He decided that the consequences of the crisis should be borne equally and not only by the people but also big international business which had enjoyed numerous privileges in Hungary over the past few years. It was a political choice and he made it.

Strengthening the families and small enterprises was made at the cost of the international companies operating in selected sectors. This step, very poorly explained to the Western public opinion and those who directly suffered from it, was met with tremendous and, to a large extent, understandable criticism.

Orbán's government introduced a temporary crisis tax which affected four major sectors which, according to Orbán, should share the burden of the crisis and still have potential to be profitable and survive: large-format retail, banks, energy and telecoms. It must have raised criticism by those directly affected and their governments. Another controversial step was the practical nationalization of the open pension funds. This move has also hit the Western investors.

At the same time, the government started signing strategic understandings with selected international companies. These included producers generating innovative technologies and work places, just like high technology and automotive companies. Over the past few years, Hungary became the leading car producer in this part of Europe. Such brands as Mercedes, Audi or Suzuki developed their factories in this country.

In the sector of public finance, Orbán's government implemented severe cuts in the extended government and self-government administration. Following the suggestions of European Commission, he limited the expenses of nearly all governmental institutions.

The Fidesz government has also been reforming the educational system. The number of universities is being reduced, so as to correspond with the population of Hungary. At the same time, the government is attempting to introduce programmes aimed at discouraging the higher education graduates to leave the country by way of imposing an obligation to repay part of the costs of their university education, if a person takes a job abroad. Teachers, and extremely impoverished professional groups in Hungary, received considerable pay raises.

Improvement of economic indicators

In 2013, the financial and economic situation began to improve.

In the first quarter, for the first time in months, economic growth of 0.7 percent was reported in Hungary. OECD estimates that in 2013, the Hungarian economy will grow by 0.5 percent and by 1.5 percent in 2014.

In April 2013, inflation dropped to 1.7 percent. The optimism indicators have risen and the European Commission released Hungary from the excessive budget deficit procedure. The Commission estimated that at the end of 2013, the budget deficit will equal 2.7 percent in Hungary. In mid 2013, Hungary repaid in advance a loan granted by the International Monetary Fund.

At the same time, Orbán's government is being constantly criticized by the European institutions, as well as the left-wing and liberal activists from the European political movements. Both the legal changes as well as the economic reforms are being criticized. It may be however expected that this criticism will gradually fade as the economy is showing signs of improvement and Viktor Orbán's party is still enjoying the largest civil support in Hungary, despite the continuous accusations of infringing the democratic rules. It will further fade when in 2014 Fidesz gets good results in the European Parliament elections and wins the domestic elections again.

European politicians, analysts, intellectuals and journalists should thoroughly analyze the Hungarian experience. They should set aside their emotions and take into consideration the context of the decisions taken. It is worth reflecting upon the way one of the most charismatic politicians of contemporary Europe has been transforming his country and slowly dragging it out of the sea of crisis.

Irrespective of political sympathies, it is obvious that despite the dramatic financial and economic condition in 2010, **Hungary not only did not join the countries that needed international help, did not become another Greece, Portugal or Spain, but it has been rising slowly.** In times when the majority of European leaders struggle with the integrity of the system and the fact that history is becoming much more dependent on international financial institutions, global corporations and rating agencies rather than the political decisions of democratically elected leaders, Viktor Orbán has been trying to reinstate the politics' causative power. **Contrary to a number of international institutions, Orbán received a very strong mandate from his voters.** What is more, it seems that the mandate will most probably be kept. Europe, just like it should not interfere in internal processes, when the democratically elected left-wing leader Jose Luis Zapatero was making a revolution in Spain, should respect the choice of the Hungarians and the way proposed by the conservative Viktor Orbán to his voters.

It is worth considering whether his vision of the European Union, is not perhaps much closer to the one of the founding fathers, especially in the present context and a very uncertain future of this large scale political project.

Igor Janke

Chairman of an independent think tank, the Freedom Institute (Instytut Wolności), partner at a consulting firm Bridge, co-owner of the blog platform Salon24.pl. For many years, he worked as a journalist, inter alia, as the editor-in-chief for the Polish Press Agency, head of the political section for the Rzeczpospolita daily. He also hosted programmes at the Polish National Television and the TOK FM radio. He wrote hundreds of analyses and features, made many interviews including one with the US President Barack Obama. He is the author of books „Chronicles of the fall of PO-PIS coalition” and „Attacker. The story of Viktor Orban.”



Contact

Eliza Głowacka-Szprot
Managing Director
eliza.glowacka@ceedinstitute.org
CEED Institute
Krucza 24/26
00-526 Warsaw, Poland
phone (+48) 882 054 546
www.ceedinstitute.org