Take the money and run

In light of the opposition's weakness, the government has chosen to go after new opponents: the working middle-classes. The effective nationalisation of mandatory private pension funds has aroused the ire of even many Fidesz-loyalists in this group, in which the governing party has been popular. Despite the anger, the government can reclaim loyalties in hazard.

What many suspected had been the government's plan all along finally happened last Wednesday. In what essentially amounts to a privatisation of most of the wealth accumulated in private pensions funds, Minister of the Economy György Matolcsy has announced that those with accounts in the formerly mandatory private pension funds would have to make a choice by the end of January 2011: if they choose retain these accounts, they would lose a significant portion of their state pension entitlements. Alternatively, they could "choose" to put the money in their accounts back into the state's coffers, in essence consenting to a nationalisation of their private accounts.

To tilt the ease of choice towards those who will decide for the public option, Matolcsy's plan further provides that this is the default option – in other words those who do not expressly and in person request the opposite will see their private accounts diverted to the state. With so little time, so much uncertainty, and the risk of forfeiting much of their overall pension entitlements, few people will opt to retain their private accounts.

A controversial policy measure

Though some opponents of the measure did just that, in truth it would be difficult to accuse Fidesz of hypocrisy on this issue. It had opposed the introduction of the mandatory private pension accounts right from the outset, arguing that with some adjustments, the state system could handle the needs of pensioners. Though it did not abolish the mandatory private pension accounts during its first term, Fidesz never warmed to it either. Since its re-election, there have been plenty of signs that a nationalisation measure might be imminent. The idea first arose in the context of deficit negotiations with the EU, when the government hinted that unless all pensions contributions where counted towards the budget's balance in their entirety, it might have to effectively make them part of the budget through nationalisation. The first concrete step in this direction was the announcement that for a period of 14 months the portion of pension contributions intended for the private funds would go to the state. The affected millions of employees would be compensated, Matolcsy promised then. The apparent temporariness of the measure was the only sign that the government did not plan its nationalisation measure right from the start – if it had, the 14 months diversion of contributions would hardly have made any sense.

The only sop to those presumably adversely affected by the current measure is the nebulous pledge of introducing some sort of individual state pension accounts, which would more clearly tie future pensions to actual contributions. But this was far from enough to quell the rightful indignation of vast tracts of opinion-makers and significant segments of the middle-classes. Outside the mainstream government media, even traditional right-wingers were largely outraged. In the blogosphere, our primary source of educated, young right-wing opinion, the mood was overwhelmingly opposed to the measure and quite a few commenters remarked that they wouldn't vote for Fidesz again. The influential right-wing blog Véleményvezér declared that just as Őszöd had effectively sealed Gyurcsány's fate, this measure marks the onset of the (creeping) end of the Fidesz-government.

The opposition, for its part, was opposed but divided as to what it would have done in the government's stead. Pointing to the not so concealed threat against those reluctant to switch back to the state system, MSZP spoke of the government's mafia methods and at its grand rally past Saturday (initially announced in response to the curtailment of the Constitutional Court's powers, but fortuitously coinciding with the latest harsh measure by the government), Chairman Attila Mesterházy vowed to fully compensate those whom the government robs of their private accounts, in addition to a whole spectrum of measures the party would undo if it were returned to power. LMP promised that if it were to lead the next government, it would restore the lost benefits to those who choose to remain in the private pension system. Jobbik on the other hand said that while it supports nationalisation, it is averse to the government's way of handling it.

Don't touch the money

On the very day that Matolcsy's announcement went through the press, the most recent opinion polls were published. Despite the recent controversies – foremost that debate surrounding the Constitutional Court – they indicated that the government had only reinforced its awesome lead over the opposition parties. Still, there is a real hazard here. Fidesz has now picked a fight with large portions of those very voters whom Véleményvezér rightly called a key segment of Fidesz' core electorate: young and middle-aged middle and upper-middle class voters with steady work and pensions contributions. From right to left, many in this segment of the population tend to look with some sense of pride and ownership on their private accounts. Whether private accounts under state management will indeed happen and how voters will feel about it remains to be seen.

Even among those who were not queasy about previous controversial Fidesz' measures, the move against their own money touched a nerve. We won't know how large this number was until the next opinion polls are presented, but it is worth noting that in spite of the obvious pain they suffered, the hundreds of thousands with Swiss franc and euro credits who were hurt by the government's impact on the forint's value did not ultimately affect Fidesz' overall popularity. Also, for the vast majority of working voters the pension years are far off and whatever disadvantages they will incur – if any – will also follow later. In the short run, the question will be whether a Fidesz-managed economy and its tax policy will amply compensate for whatever psychological damage it now inflicts. Many of those most upset at present might change their view once start receive their new paychecks with significantly higher net salaries starting January – and ultimately many might decide that the trade-off for their lost benefits might have been worth it. If voters feel decidedly better off individually and collectively, that will serve to restore/retain confidence in Fidesz. Another question is whether the anger of the disaffected opinion-makers will somehow trickle down to the overwhelming masses of voters who are inactive, retired, work wholly or partly in the shadow economy, or whose private pension accounts are too small to significantly matter to them. Whether inadvertently or deliberately, the measure exploits the political advantages of a society in which the proportion of legally employed citizens is alarmingly low.

Still, while the citizens' long-run reaction is difficult to predict and subject to a complex set of variables, the international verdict is already in and ideally it would give Fidesz a pause – in spite of the prevailing anti-foreigner sentiment in its intellectual coterie. The international reaction had been miffed already in response to restriction of the Constitutional Court's power, and the wholesale nationalisation of some 10-11 billion euros in private funds has intensified Hungary's status as a target of the international media, politics and also speculators, who have cast their differently inspired, but ultimately similar assessment of the government's actions. From the Financial Times, WSJ and the Economist all the way to the Guardian, the press reactions to the government's unilateral actions and its refusal to even contemplate the potential legitimacy of criticism have been scathing.

The EU, generally reluctant to interfere in internal affairs, is also increasingly open in its scepticism, issuing warning shots to the rotating president-in-waiting of the EU. In the context of the pensions issue, it was Economic and Monetary Affairs Commissioner Olli Rehn who voiced his concerns, but the Commission is also worried over the weakening of the oversight institutions and it has officially complained about the treatment of the Hungarian Central Bank. Though the odds of escalation with the European partners are slim, there is a risk that if – egged on by the impatient right-wing press and intelligentsia – the government goes too far in its myopic course, then verbal, and maybe even official, international rows might come to overshadow the moment of glory that Hungary's EU presidency was envisioned to be. Of course, Fidesz might look at the same problem from the completely opposite direction: it might feel that its stature as the impending rotating president of the EU will provide a protection against outside attacks, as other members might not want to damage (an already damaged) supranational institution by honing in on the trespasses of its temporary leader. Either way, it's a gamble.

In the immediate future the government's move might have a large impact on MSZP's drifting course and especially its internal debate whether the party should move decidedly to the left (as advocated most forcefully recently by Vice Chairman András Balogh) to reclaim voters there or, alternatively, embrace disappointed conservative and liberal voters as well (the position of former PM Ferenc Gyurcsány). While it might not have a bearing on who ultimately follows such a policy, the government's measure provides a strategic opening with the voters that Gyurcsány wants MSZP to court.