POLICYSOLUTIONS

2010 in review: The government's most important measures

The end of the year is traditionally the time to compile top 10 lists. We gathered for a somewhat subjective list the top ten most important policies and measures enacted by the Fidesz-government since it took power. We compiled the ranking based on the actual or anticipated effects of the given policies, but we have to admit that some of these might turn out to be more or less influential than we currently perceive. So after this short disclaimer, we present our top ten in government action 2010:

1. Restricting the Constitutional Court's judicial review authority (see week 45 newsletter)

Though it did not elicit the loudest public response – that distinction goes to No. 2 on this list – the governing parties' decision to curtail the Constitutional Court's power of judicial review was an unprecedented and far-reaching move against judicial oversight and the separation of powers. Apart from giving the government completely unfettered policy-making authority on a variety of issues – most importantly fiscal and taxation policy – it was a clear expression of what Fidesz' leaders had indicated already earlier: nothing was going to stand in the way of the revolution they are in the process of executing. Not even the Constitutional Court, whose occasional decisions annulling policies adopted by the previous governments Fidesz had lauded.

2. Nationalisation of mandatory private pension funds (week 49)

This was the move that finally appears to have had a significant impact on Fidesz' popularity. Though there was only a slight movement of voters to other parties, signalling the continuing weakness of the opposition, many voters are joining the ranks of the undecideds, and for the first time since April those who think the country is going in the wrong direction (48%) outnumber those who are pleased with the government's performance (45%). The ruling parties' decision to effectively nationalise roughly 3000 billion forints in the private pension accounts of citizens who had previously been compelled to pay a part of their pensions contributions into such accounts provides the government with a massive financial buffer and will make it much easier to fulfil deficit targets in the short run. At the same time, the move was very unpopular with many voters whose private accounts are now in jeopardy. We wondered whether this move would be the first that would lead to Fidesz' overwhelming popularity taking a hit. The answer is in.

3. State Audit Office, Fiscal Council, etc. - rendering independent oversight ineffectual (week 38)

The prevailing conviction in Fidesz is that the past twenty years have completely failed to eradicate the communist old boys network in the state apparatus and those public institutions outside the government's immediate control. As a result, the thinking in government circles goes, independent oversight of the government is impossible, for independent is in reality merely a code word for those opposed to Fidesz. Correspondingly, Fidesz' view is that it has no choice but to place party loyalists at the helm of those independent institutions that are meant to monitor the government and highlight its failings and transgressions. It has appointed a loyal cadre to lead the State Audit Office, it has practically destroyed the Fiscal Council (whose establishment it had strongly advocated) and wants loyalists to occupy the ruins, etc. We can't assess the empirical claim (i.e. that all independent oversight is automatically biased against Fidesz), but we do not subscribe to the notion that independent oversight is altogether impossible or necessarily bad for the government – not even in Hungary is that the case.

4. A media law with lots of possibilities – some very menacing (week 48)

Reading recent commentaries regarding the media law in the fiercely pro-government daily Magyar Hírlap even Fidesz-loyalists might have been tempted to think that misgivings about the law are in order. Both, the paper's editor-in-chief and one of its leading columnists argued that the law poses a serious threat to the freedom of the press. Getting a critical reaction from Magyar Hírlap to a Fidesz' policy takes quite a bit. The main complaint currently is that the Media Council, completely composed of Fidesz-nominated members, can levy vast fines up to 25 million HUF. Moreover, some of the provisions that might serve as a basis for penalties are so vague that they give the Media Council considerable latitude. At the very least, this threat will result in self-censorship, that is journalists and editors will weigh carefully what they can publish to avoid fines that can cripple the entire publication. At the unlikely worst, the law could result in effective censorship.

5. The tax package

Much of Fidesz' money collection frenzy (points 2 and 6) and some of the latter's auxiliary effects (points 1, 3 and 7) are inspired by the need to fiscally balance the package of massive tax cuts. This is Fidesz' hallmark measure: in opposition, the party had relentlessly preached the doctrine of lower taxes and soon upon taking over government it delivered: among other tax cuts (e.g. corporate taxes go from 19% to 10%), income taxes for will drop to a flat ca. 20% of gross salaries already next year, and will then be lowered to 16% by 2012. This delivery is slightly more delayed than initially promised, but nevertheless: on the whole, Fidesz' kept this crucial promise. For many, however, the tax cut will be a tax hike, as those on minimum wage will have to pay taxes for the first time and at lower income levels the flat tax either has no effect or an adverse effect on net income. The government hopes that the higher disposable income of the medium and top earners will help jumpstart growth and employment.

6. Robin Hood taxes (week 43)

"Consistency is the hobgoblin of small minds", Fidesz must have thought when it decided to take a huge cut of the largely foreign owned telecommunications, retail and energy sectors' income. The tax followed an already significant extra levy on banks. Previously, Fidesz had decried a more modest Robin Hood tax imposed by the preceding government. Corporations in these markets will have to pay windfall taxes of about 160 billion forints annually for what was initially announced to be three years. Since then, someone noticed the small print and pointed out that the period may be extended. As we noted, trying to balance the budget on the backs of MNCs is a suave move politically, but a tax of such proportions can't be sustained for long.

7. So long, IMF, and thanks for all the dough

In what was a gutsy move (though we do not necessarily mean this as a compliment), the government sent the IMF delegation packing in spite of the potential risks, noting that it has no need for further loans from the international financial institution. For a brief period, Orbán was hailed by some of the left-wing international press as a hero for standing up to the Monetary Fund. The question is, of course, whether we really don't and won't need the IMF. Thanks to points 2 and 6, it looks as if it won't be necessary in the short run. Let's hope Fidesz' move with regard to the IMF was prescient rather than just gutsy.

8. Retroactive 98% tax on severance payments for public employees

Fidesz had long held that the previous government spent too much money on its employees and that it abused the system of severances and bonuses to rewards its minions. To underline the former, it imposed an income cap of HUF 2 million per month on all employees in public service. The problem still remained that those who had already received excessive severances would be unaffected by this limit. But that is a problem only if you can't make a cap or tax retroactive and thus Fidesz passed a law imposing a 98% penalty tax on all severances over two million for public service employees who had worked for the state less than 20 years. After a back and forth, the government raised the cap on severance to HUF 4 million, but it extended the retroactive effect all the way to 2005. The Constitutional Court cried foul but – well, see point 1.

9. Higher education reform (week 47)

The plan for reforming higher education is for now a convoluted draft, but some of the objectives are ambitious and beneficial if they end up carrying the day. Notably, the government wants to significantly raise the proportion of faculty with PhDs and it wants to improve teacher-student ratios. Experts say that the specific targets are wildly unrealistic and recent amendments softening the requirements reflect this assessment. On the negative side of the ledger, the government centralises funding. The result may be that an overemphasised funding criterion (the number of students) will be replaced by an arbitrary one, namely the government's decision that is not tied to specific criteria.

10. Laying off public employees became easier and a widely exercised possibility

Every change in government implies massive layoffs in the civil service, as each government seeks to rid itself off the real and perceived loyalists of its predecessors and to bring in its own cohort. Each post-election house cleaning is accompanied by recriminations from the leading opposition party accusing the new government of politically motivated cleansing (in 2002, Fidesz' Zoltán Pokorni spoke of a political St. Bartholomew's Night massacre). While it publicly denies any political motivation in the massive wave of ongoing layoffs, Fidesz actually lists the downsizing in the public sector as progress, arguing that it will make the state cheaper. That may be. Questions linger about the qualifications of the new staff and of those laid off. The European Commission, for one, has voiced its concern about the number of highly qualified civil servants being axed and asked the government to proceed more carefully.