The unorthodox economy at halftime

Fidesz has reached the middle of its four-year term, and its goal of quickly boosting growth and adding jobs has failed spectacularly. The Orbán government is unlucky of course, under pressure both from a weak international economic environment and the difficult legacy of preceding governments. But Fidesz has exacerbated the existing problems through mistakes of its own. Moreover, its approach towards making the budget more balanced is arousing popular ire. Though there are various critiques of the government's policies, there is no clear alternative on offer that a coalition of opposition parties could agree on after 2014. Until then, Fidesz has two years to prove the only remaining promise of its policies: that in spite of all the setbacks it is laying the foundations for future growth.

Judging by the numbers, Fidesz' economic policy has not exactly been a smash hit. The no-longer-new government is exactly at the halftime of its term, but nothing is discernible of the great leap forward that the Hungarian economy should have taken had it developed according to Fidesz' ambitious plans. Of the one million jobs PM Viktor Orbán promised by 2020, a mere 50,000 have been "created" thus far, and a large part of the improvement stems from workfare programmes.

The latest numbers as tabulated by the German-Hungarian Chamber of Industry and Commerce show problems on nearly all fronts. At 11.7% unemployment is the highest since the 1990s, when the country was reeling from the mass closure of state enterprises. Quarterly growth is at –1.5%, and it appears likely that this year Hungary won't be able to maintain even the low growth status it had attaining since the country's disastrous meltdown in 2009. Construction, which was supposed to be one of the focal areas of growth, is in a free-fall. Inflation is higher than at any time since 2008. As of this writing, the forint has once again taken a dive and is well above the 300 per euro mark as Hungary's CDS is growing amidst market tremors.

Exports and the current account surplus are among the few bright lights on the horizon. Exports exceeded the pre-crisis 2008 levels already last year, and 2012 could be another good year for exporters boosted by the weak forint. Robust exports are the only indication thus far that the government's rosy assessment of Hungary as a future economic powerhouse holds any water.

Continuously delayed gratification

This is a far cry from what the government planned for. In last April's convergence plan the government's "conservative" growth estimate for 2012 was a robust 3% (the optimistic version was 3.6%). When Orbán announced that the government had revised the numbers downwards towards the end of last year, he still spoke of 1.5% growth. Now, in April, he said that the economy must not be allowed to slide into recession. Alas, it appears it's too late.

The government's projections of revenue and expenditure streams have proved similarly reliable, necessitating a slew of tax hikes and new taxes, as well as some painful expenditure cuts. Fidesz campaigned with the promise of tax reductions as its core issue, but is now assessing taxes left and right to balance a budget that was based on wildly optimistic assumptions about the state of the economy. Though Brussels' punitive actions may be avoided thanks to extra revenue raised from taxing mobile phone calls and financial transactions (an internet tax was planned but apparently dropped), among other things, it appears that these measures don't go down well with the public, large portions of which saw their disposable income shrink even before facing a variety of new taxes on their remaining net income.

Unhappy voters

Hungarian voters don't care much about macro-indicators as long as they don't manifest in their pocketbooks (cf. the 2006 elections), but these numbers clearly influence citizens' daily lives, with real income declining by roughly 5% on average. Though the government may insist that its plethora of tax hikes and new taxes have nothing to do with austerity, it appears that many citizens are no longer inclined to buy this.

With the economy hitting rock bottom this year, so is Fidesz' popularity, which Tárki recently measured around 16% in the population at large, barely ahead of the Socialists (15%). Even if Tárki's numbers prove to be the outliers of the month, they do not appear far off and the declining trend of support is obvious.

Could it have been better?

Even the clear failures of the government's policies do not imply, however, that anyone else would necessarily have done a better job or that there is an obvious alternative to the current route. There are only very thin lines of agreement among economists and politicians who view the government critically. Virtually everyone outside Fidesz circles, including right-wing economists, would get rid of the flat tax, for example. Even those who think it's a great idea in theory concede that the toxic mix of recession and suffocating debt was not the right time to forfeit hundreds of billions in revenue. Moreover, even some of the former supporters admit the obvious: the tax cut has done nothing for growth, unless someone wishes to argue that the Hungarian economy would be in worse shape still but for lowering taxes on those with high incomes.

Another – more unexpected – area of a broader agreement appears to be that the EU's strict budget requirements are overdrawn and should be softened at times of crisis. This agreement naturally extends to the government as well, which has been far from consistent on the issue but certainly wishes that it had more budgetary latitude to shape its economic policy. Nevertheless, this agreement does not mean much, for if one were to delve into the details it would emerge that the various actors have vastly different ideas of how much Brussels' budget standards should be relaxed and how the extra money at the government's disposal ought to be spent.

An opposition of Thatcherites and Keynesians

Very broadly speaking, there are two lines of criticisms against the economic policies pursued by the Orbán-Matolcsy duo. The majority of critical economists believes in classical conservative solutions and is disappointed in the Orbán government's failure to comprehensively reform the welfare state, its unpredictable tax policies (and generally unpredictable economic approach) and its punitive attitude towards multinational corporations, a policy that critics believe will deter foreign – and potentially any – investment.

Though those attacking the government from the "right" range from dedicated Thatcherites to moderate liberal-conservatives – the latter include quite a few economists who are considered left-wing in the warped Hungarian political taxonomy –, they are generally textbook economists who believe that Hungarian competitiveness can be best improved by a smaller state, lower real wages and more room for entrepreneurship.

Those on the left, in the meanwhile, would want a Keynesian approach towards crisis management, with the state taking an active role in jumpstarting growth and creating jobs. While this may bear a superficial resemblance to the government's ideas on the subject – at this point the only increase in employment is from public works programmes – it is nevertheless drastically different: leftist economists have serious issues with the government's curbing of workers' rights and its stricter welfare policies, which in turn mesh better with right-wing prescriptions. Incidentally, these divisions among the government's critics also augur ill for any consistent economic policy in case of an unlikely opposition victory in 2014.

Doomed to struggle

The point is that there is no obvious cure-all for a vulnerable economy plagued by problems stemming decades-old mismanagement and a sluggish world economy. An expansionary fiscal policy would harbour immense risks in an environment in which a whole series of European economies teeter on the verge of a default. A neoclassical economic approach might work in laying the ground for long-term growth, but it would come at a high price in terms of inequality, and there is no certainty at all that it would have produced better macro-economic indicators already. In other words, whichever alternative course a government would have pursued, it would likely battle similar problems right now, though arguably its long-term prospects could be better.

The latter is certainly not a trivial difference; currently the presumed long-term trends would be the best way to distinguish an incompetent economic governance from a successful one. But extrapolating the long-term trends allows for a fairly significant degree of subjective interpretation, and the government's argument is naturally that the actual trends, too, will deliver high levels of future growth. While we would argue that the government's policies offer much of the pain neoclassical crisis economics visits on society's underprivileged classes without the promise of real growth, our assessment regarding future growth is merely a projection. And we hope that the facts will prove us wrong two years hence.