

HUNGARY BETWEEN THE LAST ELECTIONS AND THE NEW GOVERNMENT (2002-2004)

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Hungary's EU-accession was a great achievement. As a result of their capacity to establish a functioning market economy and a democratic political system, the new Eastern European member states have finally been fully accepted by Western democracies. But Hungary still has to develop its own EU-strategy and assert its profile within the new European space. As the war on Iraq and the tensions between the US and some EU member states have shown, this will be a constant challenge for the elites and their managerial and integrative capacity. EU-membership will also influence the country's future economic and political performance and sustain its further democratic consolidation.

Unlike the first social-liberal government (1994-1998), the present coalition was not able to uphold Hungary's leading role within the Eastern European transition countries in economic performance. Hungary does not stand out as it did in the mid 1990s, when it attracted the largest share (per capita) of the Western foreign direct investment in the whole region and served as a model for successful economic and fiscal policy supporting stable growth. On the one hand, some competitors – like the Baltic States and Slovenia – have improved greatly; on the other hand, Fidesz's populist economic and welfare turn in government (1998-2002) at the end of the 1990s was not decisively corrected by the succeeding Medgyessy government (2002-2004). The Hungarian economy still has to recover from Fidesz's populism, and the competitiveness and growth orientation has to be fostered. Moreover, the new Gyurcsány government (2004 pp.) has not had enough time in office to master the task.

Despite Fidesz's polarizing effects, Hungary remained a stable parliamentary democracy. However, the failed citizenship referendum in December 2004 and Fidesz's populist nationalistic campaign divided the Hungarian society along the political Left-Right-cleavage. While the social-liberal government is trying to reunite the Hungarian society on the basis of a European, republican, and civic identity, the biggest oppositional party, Fidesz has moved towards Euro-scepticism and has been increasingly appealing to the Hungarians' national identity and nationalistic instincts. Its populist-protectionist welfare and economic concepts enjoy great support by the wider population.

The European, republican and civil society orientation of both social-liberal governments has restored the coalition parties' co-operation within the domestic and foreign policy arenas. However, there remain problems which are not likely to be solved within a short term period: improving the Roma's situation, fighting corruption, decentralizing and regionalizing the institutional structures according to the subsidiarity principle, reorganizing the healthcare and educational system, raising economic competitiveness and growth, strengthening political unity and providing social inclusion, ensuring the future by investing in environment and education, as well as integrating the ethnic Hungarian communities abroad into the new European space. Both governments have tried their best, but the results of the first were not fully convincing and the second just came into office in September 2004.

I. History and characteristics of transformation

Hungary's transition to democracy took place after forty years of communist rule. Unlike its neighbours, Hungary „liberalized” its single-party socialist rule relatively early, after a period of Stalinist totalitarianism that followed the 1956 uprising. As early as the late 1960s, a more consumer-based communist economic system began to emerge under the leadership of the Kádár regime. By not politicizing all spheres of social life and by partially liberalizing private, economic, and social life, Hungary experienced a period of social calm, growing consent, and dynamism in the „second economy” in the 1970s in what became known as „Goulash Communism”.

However, the rising standard of living – the communist leadership's primary legitimizing factor – was short-lived. The lack of industrial output had to be compensated by extensive borrowing from the West, which meant increasing external debt. By 1982, Hungary already owed some \$9 billion to foreign creditors. At the end of the 1980s, Hungary's „socialist market economy” had accumulated external debts of around \$20 billion. This was the price Hungary paid for opening its economy so early. But the early opening not only laid the microeconomic foundations for competitiveness, it also prepared significant parts of the Hungarian population for the demands of transformation.

The democratic transition was initiated by reformed communist elites. Against the backdrop of political change in Moscow and the desolate economic situation at home, these forces were prepared to allow at least a limited degree of liberalization and pluralization in the political arena. János Kádár, who had been the leader of the Communist Party since 1956, was ousted in the spring of 1988 and replaced by the Communist reformers Károly Grósz and Miklós Né-

meth. Accelerated political and economic reforms strengthened opposition to the regime and ultimately led to the abandonment of the single-party system. In 1989, Round Table discussions were established following the Polish example. They were supposed to fundamentally change the political system and its constitution, but given the prevailing circumstances – a demobilized and apolitical society – the talks had an exclusive character and resulted in a compromise negotiated by the elites. The compromise consisted of the agreement to hold free elections in 1990 and to initiate the necessary constitutional amendments. The process of changing the system in Hungary was largely run from above by old regime elites.

In the years that followed, Hungary was able to establish a democratic political system that was cemented by several successive democratic governments. The administrative system was decentralized and made more effective. Local self-administration was established as early as 1990. Democratic transformation brought with it the change of the economic system. The democratically elected governments of the 1990s privatized state-owned companies, liberalized foreign trade, and helped increase the privately held share of all productive property from 35.2% (1992) to 72% (1997). During the same period, industrial relations were reformed in Hungary; free trade unions were established, as were employer and trade associations. Different platforms, such as the „tripartite” committees, were established to coordinate and integrate interest groups into a stable cooperative neo-corporatist framework including the government. Democratic transition and economic transformation spurred economic growth, which increased greatly from 1996 onward.

II. Assessment

1. Democracy

1.1. Stateness

There were no problems on the level of the territorial integrity and the legitimacy of state power in Hungary, which could endanger the consolidation of democracy. Hungary has an active policy on protecting national minorities within the country and the Hungarian minority in the neighbouring countries. Hungary fully implemented the minority protection articles of the EU Constitution. However, the minority policies for Hungarian communities abroad have at times provoked neighbouring states. With millions of ethnic Hungarians living as Ukrainian, Slovak, Rumanian, Croatian, and Serbian citizens, the issue has not yet been completely solved. Both social-liberal governments rejected the attempts of the centre-right opposition led by Fidesz (after 2002) to

establish Hungarian citizenship for the ethnic communities in the neighbouring countries. The referendum on this matter, held on December 5, 2004, did not reach the constitutionally required quorum.

Church and state are clearly separated; politics and policy making are secularized. The Gyurcsány government criticized the Catholic Church for its political interventions during the citizenship referendum campaign in 2004.

Decentralisation and regionalization are not on the agenda of the present government, and the reforms of the former Medgyessy cabinet have not been implemented yet. Europeanization has strengthened central authorities and disillusioned expectations towards further decentralization and regionalisation.

1.2. Political participation

In Hungary, there is a general active and passive voting right. Despite accusations of the Centre-Right, international observers and national authorities did not register any serious distortions during the 2002 elections and the 2004 referendum. Electoral participation reached its peak in the 2002 elections (70%) but has declined steadily since: it dropped to approximately 65% in the 2003 EU-referendum, plummeting to 38.5% in the EU-elections and to 37.5% in the referendum on citizenship and privatization in healthcare. This “double” referendum did not reach the constitutionally required quorum, and its results were therefore not considered valid.

The social-liberal governments – elected in 2002 and reorganized in 2004 – enjoyed full authority during their terms. There were no veto powers such as the Church, the security apparatus, or the military. Both governments respected human rights and the freedom of speech.

In Hungary, trade unions represent about one third of employees. The social-liberal governments have made some attempts to re-strengthen the trade union’s rights after the Fidesz government, but their austerity policies have raised hostilities in the trade unions of the endangered branches. There are more than 60,000 NGOs registered in Hungary. The social-liberal governments have resolutely tried to establish a partnership with civil society by means of generous financial aid and, to a certain extent, inclusion of NGOs into policy implementation, especially in the areas of environmental and social policy, women, and migration.

The opposition has been pointing at imbalances in the media policy since it lost the elections in 2002, but social-liberal policies do not pose any serious threat to the media.

1.3. The rule of law

In Hungary, there is a well established system of „checks and balances”. Although the social-liberal governments upheld this system, like their predecessor – the Orbán government (Fidesz) – they continued to the government’s and the Prime Minister’s authority. In fact, the Prime Minister’s office became the effective centre of government during the Orbán era (1998-2002); this was upheld and even extended by the socialist governments. While the new Prime Minister Gyurcsány has been able to extend his authority to give general orders instead of the government, his Liberal Minister of Education’s higher education reform bill was declared unconstitutional by the Constitutional Court in December 2004, because – instead of a parliamentary law – a ministerial order had been used to regulate the citizens’ basic rights and duties.

The Constitutional Court and, to a certain extent, the President’s Office are functioning as judicial reviewers, e.g. as early-warning systems against the legislation initiated by the government and passed by the social-liberal dominated Parliament. This is due to the fact that the President of the Republic has the right to send bills back to Parliament to modify them. The Gyurcsány government’s former Minister of Justice stepped down when he saw his concept and policy of judicial and administrative reform endangered by the government’s austerity policy. Other persistent problems are the judiciary’s fiscal dependence from government and the blockade of the re-election of judges for the Constitutional Court by the political parties, whose candidates have not been able to obtain the required two-third majority so far. By the end of 2004, this distorted the rulings of the Constitutional Court seriously. Despite all of this and the conflict between the chief attorney and the social-liberal coalition, the functioning of the courts and the judicial system itself are not endangered, and the rule of law is guaranteed.

Despite the social-liberal governments’ promises to fight corruption, no effective measures were taken for this purpose (see 3.3).

Although Roma rights are generally being defended, control mechanisms are missing, and NGOs report serious violations against the Roma, drug-dependents, prostitutes, and migrants as well as against petty criminals.

The Constitution guarantees equal treatment and opportunities for all Hungarian citizens. The social-liberal governments have made considerable efforts to better include neglected groups. To ensure equal rights for women, the handicapped, the Roma, and others, an EU-oriented comprehensive reform was initiated and a special governmental agency for equal rights – connected both to welfare policy and to human rights policy – founded. However, this agency’s financing, political prestige, and administrative power has not yet been clari-

fied. This has led to a rapid change of its administrative and legal status, including the personal replacement of its leader. The aim of equal opportunity legislation and action, nonetheless, brings Hungary closer to EU-standards. The Roma issue is politically handled with care and within the framework of the EU minority policy concept. However, discrimination of the Roma in the Hungarian society and in some local branches of the public administration has not fully disappeared.

Anti-discrimination law has caused heated discussions among the political parties. A law was passed and should be enacted January 2005, but it is under judicial review by the Constitutional Court. If parts of it are declared invalid, this may endanger its implementation by a central programme and authority as planned by the government.

1.4. Institutional stability

In Hungary, there are stable institutions that by and large guarantee democracy and the rule of law. The central organ of the parliamentary democracy is Parliament itself. However, the strong polarization between the Left and the Right is hindering consensus building. The parliamentary debates are rhetorical and ideological; policy orientation and argumentation occurs only in the committees. Opportunities for a general consensus such as the EU-referendum, the EU-accession, the EU-elections, or even the referendum on citizenship were missed. It has proved impossible to establish a pragmatic national interest or public cause beyond the interests of the political camps.

The government and the Prime Minister are further cumulating power. The top-down bureaucratic-elitist approach, which already marked the Centre-Right government (1998-2002), has also characterized the Leftist governments since 2002.

The administration is relatively efficient, although even on the central level the tasks for the EU-accession were sometimes overloading and led to administrative mismanagements and political rivalries. The former government's deficits on the regional and local level persist and have to be readdressed according to the EU-norms.

There is an independent judiciary with a working self-administration. The introduction of a new judiciary organization is making slow progress. This is in part due to the large institutional challenge of EU-accession and its administrative lag, but also due to a lack of resources and financial support, as the retreat of the Minister of Justice in the autumn of 2004 clearly shows. The slow-down of the judiciary reform is blocking further enhancement of a more effective judicial system.

There can be no doubt: Fifteen years after the transition no relevant veto actor challenges the legitimacy of the democratic institutions.

1.5. Political and social integration

The Hungarian party system is rather stable and there have not been any effective newcomers since 1989. There is a tendency towards a certain Left-Right polarization with a corresponding block building, but the level of an effective two-party system has not yet been reached. The Left is led by HSP, the Right by Fidesz, and in both blocks there are still efficient allies like SZDSZ (the Liberals) for HSP and MDF for Fidesz. However, Viktor Orbán has been trying to build party unity on the Right. This led to the annihilation of the Smallholder party, its former coalition partner during the last government. It also endangered MDF's existence as an integrated political party in the autumn of 2004, because the faction in favour of independence from Fidesz – led by Ibolya Dávid – and the pro-Fidesz faction almost broke the party's unity.

The Communists were not able to gain any influence on the national level, except for their initiative for the referendum on the privatization plans of the „Third Way” Gyurcsány government, which Fidesz effectively supported. Small groups and networks of Right-wing radicals have been articulating provocative but non-violent protest; this mobilized left counter-movements in 2004. However, these mobilizations at the fringes of the political spectrum do not destabilize the Hungarian democracy.

The 2002 elections polarized Hungarian society, and the new Fidesz opposition has adopted a steady escalation strategy against the social-liberal government. It even accuses former allies like Ibolya Dávid – MDF's Minister of Justice in the former Orbán government – of being allies of the „Communists”. While Fidesz was very critical towards the EU-referendum and framed EU-accession as a danger for the country's national interests, MDF was in favour of the EU-accession. Fidesz recently defended citizenship for all ethnic Hungarians living in foreign countries, which was successfully initiated as a referendum by a politically isolated NGO. After the referendum's failure, they denounced the government parties and the people who voted „no” or abstained as „aliens” to the nation.

While Fidesz is clearly trying to polarize a generally apolitical, passive, and welfare oriented public, HSP and SZDSZ stress the ideas of a social democratic „Third Way” and try to reunite the public with the ideas of Europe, modernity, and democracy based on a „republican”, „civic” identity. Although the opposition role has enhanced Fidesz's populism popular mobilizations by its political action committees remain an exception. The social-liberal coalition's replacement of Prime Minister Medgyessy by Gyurcsány can be classified as

the selection of an efficient leader for the Left as opposed to the Right's charismatic leader Viktor Orbán. Gyurcsány as well as Medgyessy are among the richest people in Hungary and they both were part of the former nomenclature.

Hungary is a party democracy. The Churches are politically inactive, although they supported the „yes”-option in the referendum on citizenship; this was criticized by Prime Minister Gyurcsány. Trade unions are politically weak. Popular initiatives such as referendums are ineffective if they are not supported by political parties. Regions and regionalism are weak to non-existent. Except for the Roma, ethnic minorities are not numerous. The Roma have a predominantly parochial and passive political behaviour that prevents them from mobilization or establishing an own political identity.

After the polarised 2002 elections, political participation as well as the satisfaction with political elites and institutions has considerably weakened. In combination with the declining economic situation and the social liberal government's austerity policies, this has led to a further deepening of Euro-scepticism and other negative attitudes towards the EU. A considerable part of the lower educated Hungarian population associates EU-membership with endangered welfare standards and therefore regards the EU less and less as a stabilizing and enriching partner. Concerning the new EU-institutions, political alienation is the general attitude in the population. However, a distinction should be made between educated and less educated groups, between generations, as well as between regions. Urbanized areas, first and foremost the city of Budapest, are the decisive areas for political mobilization, while the farm districts and villages with Roma population in the East and South are the least mobilized areas in the Hungarian society. The elites, urban middle classes, and the better educated people mostly support EU-membership.

Civil society focuses on welfare and culture and does not exercise political „watchdog” functions. The participation of NGOs in policy implementation has been strengthened by new government measures and EU-programmes. The groups engaged in civil society are mostly Socialist and Liberal oriented, while the nationalistic oriented groups would rather participate in Fidesz's protest campaigns and political action committees. Despite being the targets of both social-liberal governments' inclusion and anti-discrimination programmes as well as of several EU-programmes, the Roma, women, and the youth do not have any distinct culture of political activism.

2. Market economy

2.1. Level of socioeconomic development

According to international surveys, Hungary is performing well among the new EU-members. Income differences are not high and the level of education is high. There is no systematic exclusion of women from the labour market. According to international surveys, poverty is not particularly high. However, these figures are based on aggregated macro-data and hide the rather divided picture that characterizes Hungarian society. Many of the Roma are living under the poverty line. With the East and the South still struggling for development, there are also considerable regional disparities.

2.2. Organization of the market and competition

The basic principles of market-based competition have been established in Hungary and the economy is based on the rule of law. Many national regulations were abolished and new EU-regulations were recently introduced, but have not been fully implemented yet. Currency policy is already coping with the EMU, but there is a heated debate on the introduction of the Euro (envisaged for 2008-2010). The free flow of goods, services, and labour within the EU has been established in Hungary with some transitional regulations and restrictions. Competition policy is scrutinized by an independent authority.

Today, Hungary is one of the most stable and consolidated market economies among the new EU member states. Multinational companies, attracted by low corporate taxes and the cheap and skilled labour, invested in the country and thereby contributed considerably to economic growth. The dynamic growth of the service sector is transforming the economy into a modern service economy. Multinational companies are investing in this sector as well and providing the country and its neighbours with advanced services. Through their investments, multinational companies are thus reconstructing the former economic, infrastructural, and service unity of Central Europe and integrating the region into Europe and the global market. This trend was further strengthened by EU-accession. The dynamically developing information technology sector is also making an important contribution to Hungary's economic growth. Agriculture, heavy industry, and mining are the losers in Hungary's transformation to a market economy. However, the economic dynamism recently ceased. This is partly due to the government's fiscal policy; it was oriented towards internal consumption and supported by a credit policy for housing investments that recently had to be stopped. Other important factors include the wage increases related to EU-membership and EU competition policy that forced Hungary to abolish certain tax privileges for multinational investors. Another factor for

losing its leading position in foreign direct investments is certainly the growing competition with the more competitive new EU member states.

Hungary's banking sector is well developed and dynamic and is well controlled by an autonomous agency. There are more problems with investment companies. As a part of its plan to introduce public-private partnerships, the Gyurcsány government in the autumn of 2004 asked this rapidly developing sector of the Hungarian economy for a special contribution to national welfare and growth. Hungary's capital market is increasingly stable and transparent.

2.3. Stability of currency and prices

Compared to the 1990s, the inflation rate is now lower and more stable. However, the irresponsibility of the Fidesz government's „electoral budget” in 2002 also characterized the budgets at both social-liberal governments. Within fiscal and economic policy, one of the mistakes of the Medgyessy government was declaring to uphold all populist measures taken by Fidesz, including state credit for students, cheap housing credits, and generous financial support of Hungarians abroad. The social-liberal governments had planned to raise the salaries within the public sector, provide maternal allowances, and increase some of the social welfare benefits. However, the Medgyessy and the Gyurcsány governments should have to abandon these policies, because they endanger competitiveness and growth. The independence of the Central Bank is under threat due to a decision of the Gyurcsány government to reorganize its Monetary Council and thereby open it to the government's fiscal policy demands. By the end of 2004, the respective bill was sent back to Parliament by the President of Republic. As the Parliament confirmed the legal act with the government's majority, this might be an object of constitutional review in the future.

On the macroeconomic-level there is still not sufficient stability. As the measures against public debt did not succeed, in 2003 Medgyessy had to replace the Minister of Finances. In 2004 he had to step down as Prime Minister. Medgyessy's Minister of Finances, Tibor Draskovics, was preserved by the Gyurcsány government, but his concept to consolidate the budget and raise competitiveness under the present conditions has still not brought the desired results. Another serious problem is the tension between the economic and fiscal policy of the Socialist led governments and the currency policy of the Central Bank. The latter provided the stability of the Forint by actual revaluation against the Euro. The revaluation contributed to diminishing foreign debts, but it also curbed the export of consumer goods.

So far, the two Socialist led governments have not been able to break completely with Fidesz's populist economic and fiscal policy. Medgyessy's policy was criticized as inactive, non-innovative, and soft. Gyurcsány is trying to establish a Hungarian „Third Way”, but after the first three months in government its profile is still not clear. At the end of 2004, the Hungarian budget was criticized by the EU, because it exceeded the EMU deficit criteria. According to the EU, this was due in particular to the missing healthcare reform.

2.4. Private property

Private property has a clear legal basis in Hungary. The private sector dominates the economy. The government actually intends to pursue further privatization. The „strategic” branches of the economy were privatized during the 1990s. Today's discussion on further privatization concerns those branches that are differently organized – private or public or mixed – in the Western societies as well. Both social-liberal governments have shown a tendency for privatizing even traditional public sectors like transport, education, healthcare, and prisons. However, as a clear majority showed in the referendum on December 5, 2004, regarding the privatization of healthcare, the electorate rejects further privatization. Extending privatization to higher education, as planned by the Minister of Education is also rejected by the public. In line with the Communist Party, the „middle class party” Fidesz is considering the prospects of imposing a general stop on further privatization through a new referendum initiative. This could block the „Third Way” economic policy in Hungary, which is inspired by Anthony Giddens' theory and Blair's practice to give up traditional social democratic public policies by reducing the role of the state and deregulating the economy.

2.5. Welfare regime

About a quarter of the Hungarian population lives on the level of minimal wage. However, the high number of early retired persons – a common feature in post-Communist societies – and the fact that even entrepreneurs and professionals declare themselves and their families as living from the minimal wage as a means to be entitled to welfare services should be considered. The actual figure of people living on the minimum wage is therefore somewhat lower.

Hungary has a welfare system targeted to fight poverty and provide equal opportunities to all citizens. There is a healthcare system, unemployment insurance, pensions, a system of social assistance, and an extending governmental programme for the handicapped. Although some elements of the former Communist system remained, the present system is comparable to the continental European welfare mix, albeit on a lower level. Fidesz provided extended social

benefits and family allowances, but the new Socialist led governments reduced social welfare for the upper classes. As in their opinion welfare should follow the principle of need, income related benefits were recently introduced as a guiding principle for welfare entitlements. Different welfare models are being discussed, but the present government clearly favours more privatization and more income related and targeted welfare policies. The Churches' charity system and institutions have partly been re-established, but they do not have a large coverage. As the principle of subsidiarity prescribes, local governments and municipalities are getting increasing responsibility in social welfare. „Corporate citizenship” is a marked characteristic of the multinational companies' activities in Hungary. Like in other countries, they run their own supplementary welfare schemes.

The pension scheme has been partially privatized, but welfare reform will not be complete without the healthcare system being generally and conceptually renewed. Healthcare has actually been partly changed since 1989, but without a basic reorientation. The quality of healthcare is very low, and services are provided often arbitrarily to the well-off through a corruption network within the healthcare system. The wages of the healthcare personnel are low and so it is considered normal to pay them bribes for what are supposed to be public and free healthcare services. The present government intends to privatize the healthcare system, but the opposition rejects this plan and can count on the support of the majority of the population. There is a dispute between the actors of the healthcare system – medical associations, trade unions, pharmaceutical companies, and government – about the future of the healthcare system going on for a long time, but so far without coming to a common stance. This became particularly clear in 2004, both in the conflict of the Medgyessy government with the pharmaceutical industry and in the result of the referendum against the privatization of the healthcare system as planned by the Gyurcsány government. There is a popular consensus to uphold the traditional oversized „Communist” healthcare system against the economic rationality of privatization and the interests of the pharmaceutical industry as well as various sorts of health entrepreneurs.

Anti-discrimination legislation and an Office for Equal Opportunities were established, but these are only legal and administrative answers to deeply rooted socioeconomic problems. There is an enormous contradiction between the legal norms of anti-discrimination and equal opportunities and the reality of exclusion and discrimination of the poor, the Roma, refugees, the homeless, the handicapped, and women, especially within the healthcare and educational system. There is a social selection bias in the distribution of the public goods of education, healthcare, and welfare, the result being massive exclusions (the Roma, the homeless, refugees, peasants) and softer ones (the handicapped,

women, the elderly). The „same wage for the same work” principle has been difficult to implement. The government’s efforts have brought some institutional and procedural gains for women (violence within the family, discrimination) and the handicapped (programme to change the infrastructure). To raise the Roma’s standard of living is an almost unattainable task, considering their unemployment rates, their traditional family and kinship structures, and their sub-cultural character. Current government programmes do not provide sufficient resources and hence are not very effective.

2.6. Economic strength

The Hungarian economy has had stable growth rates since the mid-1990s, but they are lower than most of the other new EU-members in Eastern Europe. The unemployment rate is somewhat lower than the EU-average. However, national debts are above the EU-average. Foreign direct investment is declining, as some of the other new EU-members and the accession candidates in Eastern Europe offer similar conditions to Hungary, but combined with lower wages and more tax privileges. Fiscal policy has been trying to regain equilibrium for years, but no decisive improvements can be reported. However, even though Hungary has lost its leading role among the new EU member states, it is still among the well performing economies in the EU.

2.7. Sustainability

The Hungarian environmental policy is slowly reaching the EU-benchmarks, but it is still far from standards of the well-performing EU member states. In order to accelerate this process, the head at the Ministry of Environment was replaced in 2003. However, environmental policy still has to fight for prestige and resources in the budget debate. In fact, Hungary’s „Third Way” apparently forgot the central role environment and education played in the British concept, for both issues are the losers of Gyurcsány’s and Draskovics’ new austerity policy. Recent environmental issues are waste separation, the reorganization of natural park management on the basis of public benefit foundations instead of bureaucratic state administration (US-model), the import of pollution from other countries through the rivers, etc. The Ministry of Environment is cooperating with ecological NGOs. This is easier in Hungary than elsewhere; due to the lack of a successful Green party, these organizations are rather depoliticised.

Infrastructure development is being financed by the state, but increasingly also by private investments or EU-projects. According to statistics and compared to the capitals of other new EU member states, the city of Budapest is losing ground; this is the result of rising prices, insufficient infrastructure, and precarious security. The construction of a new underground line has been postponed since 1989. Without infrastructural investments in the further development of roads, railways, and public transport, the traffic system will continue to worsen.

According to some international surveys, Hungary is performing well in education, but the PISA-study came to other conclusions. The educational system from the interwar period – especially those classical lyceums that have once produced several Nobel Prize winners – belongs to the past. Surprisingly, the Communist system upheld parts of that system, although it abolished Church based education. The Churches are starting to play a certain role in education again, but 15 years are too short a period to evaluate their performance. The public educational system is not only in a fiscal and economic crisis, but also in a personnel crisis, as talented teachers are leaving the schools in mass. After transition, higher education received decisive impulses and the old elite-universities have since been going through a fast transformation process to mass universities. The registration quota in Hungarian universities now resembles the ones in West European countries, but only at the price of an overloaded infrastructure and rising financial needs, especially student loans and salaries of the teaching staff. After the rapid expansion, the Liberal headed Ministry of Education tried to introduce a recent Austrian financing and autonomy model for the universities that is now being fiercely disputed. This is coupled with the implementation of the Bologna principles in a shorter period and a drastic cut-back in government subsidies. The higher education reform has been under debate recently, and the Constitutional Court – called in upon the initiative of a small opposition MDF party – already annihilated the first ministerial reforms, ruling that the new system is unconstitutional. The opposition (Fidesz) has promised to fight the Europeanization and privatisation trends in higher education and thereby met the demands of many vested interests in education policy. As in the case of healthcare, Fidesz is using communitarian arguments and defending the Communist legacy against the Europeanizing and privatising Liberals and „Third Way” Socialists.

3. Management

3.1. Level of difficulty

Hungary’s democratic consolidation was one of the easiest and fastest in post-Communist Europe. The starting conditions were favourable, both in economics and in politics. As compared to the other COMECON-countries, the starting conditions for economic development were better and fairly balanced. A well performing educational system provided skilled labour; the country’s borders were safe; there were neither violent political conflicts nor the danger of social unrest. All this proved to be of advantage for the transformation process and democratic consolidation. Another asset was the tradition of rule of law from the old Hungarian state during the Habsburg Empire. The recent EU-accession

will certainly be an important factor in the further process of improving the quality of democracy.

Hungary has a rather ethnically homogenous society. The intensity of ethnic, religious, and social conflicts and their capacity of mass mobilization is comparatively low and has not reached the level of political violence so far. The problems related to the Roma are social and cultural rather than political and did not lead to political or protest mobilization. However, so far politics has not succeeded in changing the attitudes of the society vis-à-vis the Roma.

While the new parliamentarianism has certain roots in the older pre-Communist tradition, the parties themselves lack roots in the wider population. In 2002, the Medgyessy government envisaged to integrate the polarized public, give the transition to market economy a social welfare turn, strengthen the democratic institutions, and further improve the implementation of the rule of law as well as the equality of opportunities. The turnover of governments was carried out peacefully, albeit with mass mobilizations by the political action committees of the Centre-Right parties. The social mobilization diminished, but the division of the public turned out to be persistent, as the referendum on Hungarian citizenship for Hungarians abroad along the political Left-Right-cleavage showed. The „republican unity” propagated by the moderate Left is thus being challenged by an increasingly nationalist-populist Right.

The fight against corruption has not been very successful, and the Left parties now have to deal with their own corruption cases as well. Some interference into the freedom of press by Fidesz was cured; others – such as the rightwing tendency of Hungarian broadcasting – remain. Judiciary reform continues, but at a slow pace. The turn in economic policy from protectionist populism to growth has not yet been concluded. However, EU-accession provided very favourable conditions for stability that may facilitate a „new wave” of economic and political consolidation.

3.2. Steering capability

There is some continuity of the governance – the welfare correction of the market, Europeanization, republicanism, justice, the centrality of middle classes, equal opportunities, the fight against corruption and discrimination – of both Socialist led governments. The governance style has been bottom-up rather than top-down, with civil society supporting and organizing public criticism towards the institutions. While the governments’ EU-orientation is unequivocally clear, in the opposition Fidesz started to move towards nationalist Euro-scepticism. Both the 2003 referendum on the EU-accession and the 2004 referendum on citizenship highlighted the difference between the opposition’s and the government’s positions, but also dissent within society. There is a need for reconciliation and a common basic consensus for the immediate future.

Both social-liberal governments implemented judicial reform and anti-corruption mechanisms with little success. The main achievement was the resolution on EU-accession and harmonization of EU- and Hungarian law. The new economic policies have still not been improved and the old fiscal deficits and overall indebtedness of the state remain. The welfare reform is making only slow progress, as the deficits within the public services have not been markedly improved. The healthcare reform has almost come to a deadlock. The introduction of progressive multilevel governance will certainly have positive effects on regional and local governance. However, the reform of local and regional self-government and administration is a heavy burden, the Gyurcsány government up to now seems not able to cope with. However, the concept of a market friendly and socially sensitive „Third Way”, on which the present government is embarking, could strengthen the modernization of the country. If the government keeps this course, it will be an example of political learning from the mistakes and failures of the past.

3.3. Resource efficiency

Both Socialist led governments had clear concepts but not sufficient political will and capacity to realize their political programmes. Unlike 1994-98, when HSP had an absolute majority, the small coalition partner SZDSZ has been necessary to uphold the government's majority and thus has been able to veto decisions in the governing coalition. Hungary's "Third Way" Socialism is being blocked both by SZDSZ's privatisation policy in the economy and the educational system and by the populist economic policy inherited from Fidesz. The latter has been reformulated many times by the changing Ministers of Finances as well as by the new government's budget priorities. Its one invariable feature has been the governments' inability to abandon populism for the sake of a promising export and growth orientation. Medgyessy's retreat was de facto set off by his decision to fire the Minister of Economic Development appointed by SZDSZ. The Liberals did not accept this and declared it as the end of the coalition. In August 2004, Medgyessy's own party deprived him of its further support. Other reasons for his failure were his own and his government's incapacity to manage successful campaigns for the EU-referendum in 2003 and the EU-elections in 2004 as well as the lack of growth and competitiveness within economic and fiscal policy. The Medgyessy government did not make efficient use of the available economic and human resources.

The fact that corruption within the public administration exists at all levels has not been adequately addressed by government policies or administrative reorganization. The social-liberal governments did not review the corruption cases within the previous governments either. In 2004, Hungary's Corruption Perceptions Index (CPI) score ranked 42nd out of 146 countries.

3.4. Consensus-building

In Hungary, the establishment of a market economy and parliamentary democracy was not rejected by any relevant political actor. In this respect, there are no influential veto-players in the country.

While a consensus on republicanism, social market economy, and Europeanism is just emerging among the Socialist and Liberal public, there is a considerable part of the Hungarian society supporting nationalistic views and having xenophobic attitudes. Racism's main target group are the Roma, but to a smaller extent there is anti-Semitism as well. Oppositional networks, parts of the media, and a nationalist subculture claim „the” Hungarian identity in terms of „friends and foe”: „We are the nation and they are the traitors”. The government has not yet been able to bridge this gap between Left and Right in the population.

The present governing coalition partners agreed on the common basis of Europeanism, rule of law, and republicanism as opposed to Fidesz's nationalism, Euro-scepticism, and church-rural-tradition orientation. This ideological conflict will characterize the further process of Europeanization and democratic governance. At present, the Gyurcsány government enjoys the Socialist party's and the coalition partner's full support, and it is also gaining popular support. This should enable the new government to realize its political programme of social welfare and economic modernization. But there have already been some tensions. For instance, by the end of 2004, the Liberal Minister of Education had provoked the first real Church-based mass mobilization against the government since 1989 on the issue of financial support for the Church's education centres. The Prime Minister then immediately withdrew the contested decision. The Socialists thus seem to be more conscious about their relations to the Church than the Liberals.

3.5. International Cooperation

Since 1989, there has been a consequent foreign policy orientation towards the West supported by both Left and Right and their respective governments. Milestones of this development were the accession to WTO (1995), OECD (1996), NATO (1999), and the EU (2004). EU-accession was supported by the Western countries and their global organizational frameworks. Hungary has become a reliable partner of the transatlantic community.

In the Kosovo conflict and the second US-war on Iraq, Hungary took the side of the Western alliance. Regarding Iraq, there were two contradictory lines within the government. The disagreement between the US and the EU on the strategy to follow in Iraq brought some confusion into the Western orientation

in Eastern Europe. Hungary went on with other states to support the US-intervention but withdrew from military participation in 2004 because the government did not get the necessary support from the opposition in Parliament. However, the government provided technical support to the US troops and sent a small technical division to Iraq as a symbol for the Hungarian support.

A second pillar of Hungarian foreign policy is the concern for the millions of ethnic Hungarians in the successor states of the Austro-Hungarian Empire after 1918. Since before 1989 the minority issue was a taboo, its boom afterwards is not surprising. As in the case of Western integration, there was a consensus between the main political parties to find a peaceful way of supporting Hungarian minorities abroad. In 2001-2002, Fidesz and its coalition passed a so-called „Status Law” on the provision of cultural, educational, and welfare services to all registered ethnic Hungarians abroad. By that time, there already was a strong lobby within the Hungarian political elites striving for full Hungarian citizenship for all ethnic Hungarians. But while in government, Fidesz did not fully support this in order to avoid problems in the process of EU-accession. In 2004 however, when the NGO *Magyarok Világszövetsége* (World Federation of Hungarians) started a referendum campaign, Fidesz, now in the opposition, joined it as a means to de-legitimize the social-liberal government. The government actually promised more aid for the Hungarian minorities abroad but declared the citizenship issue as voted down by the public. It expects that EU-membership within an enlarged community will provide enough space for the communication with the ethnic Hungarians in other countries. Both governments have tried to maintain a good relationship with Hungary’s Central and Eastern European neighbours and at the same time provide efficient help to the Hungarian minorities abroad and thereby preserve their Hungarian identity.

These differences show that at no time since the transition to democracy at the end of the 1980s, has a consensus on foreign policy issues been as out of reach as it is at present. In 1989, EU-membership and solidarity with the Hungarian minorities abroad were the ultimate and unifying goals for the new democratic forces. Today, the political parties and blocs appear divided over crucial foreign policy issues (EU; Hungarian minorities abroad).

4. Trends in development

4.1. Democratic development

The criteria of monopoly of state power, of political community, and of secularisation had already been met before; this did not change during the period 2003-2005. The elections were free and fair. In August-September 2004, there

was a government reshuffle by the coalition parties in a constitutional manner. Freedom of choice and civil rights are guaranteed. Both social-liberal governments have made some efforts to provide equal opportunities and fight racial, sexual, and social discrimination, but implementing these programmes will require a longer period of efficient resource mobilization by the political elites and civil society. EU-membership is a stabilizing factor.

The new elite's anti-corruption campaign has proved ineffective. As recent cases and past experiences with the first social-liberal government in the mid 1990s show, the Socialist and Liberal elites are not any less corrupt than the Christian-democrats and Conservatives. The problem has deep economic and cultural roots within clientelism, informalism, and political culture.

The local government reform and regionalisation are blocked, and did not benefit from EU-accession in the short run. The efficacy of local government depends much on the region's resources and socioeconomic development. The great East-West and urban-rural discrepancies should therefore be met by adequate development policies.

As before, the basic constitutional organs ensured stability during the last two years. There is still some tension between institutions like the Constitutional Court or the Central Bank and progressive governments, as the latter tend to perceive institutional checks and balances as hindrances to their radical reformism. But the Constitutional Court preserved its importance during the two Socialist led governments and blocked some expansions of governmental power. The effects of the referendum on December 5, 2004, were polarizing. There is a growing alienation between Hungary and the Hungarian minority communities abroad, with the latter feeling rejected, betrayed, and left alone by their mother country. While the government parties are trying to restore the unity of the Hungarian political community on a European-republican basis, Fidesz and MDF stress the national identity instead.

4.2. Market economy development

Macroeconomic indicators attest Hungary a high standard among the new EU-members. Due to progressive taxation on middle and high incomes, and tax reduction on incomes by the „Third Way” Socialists' tax policy, income differences may not increase rapidly. The government has developed this redistributive tax policy even further within the 2005 budget.

Hungary progressed in making its economy EU-compatible. There is a growing transparency of and reliability in the financial and capital market. Stability once brought a considerable influx of foreign direct investment to Hungary. As transparency is now being demanded from all the new Eastern European mem-

ber states, Hungary has lost its previous competitive advantages, and foreign direct investment is being more equally distributed in the region. All currency constraints have been removed. Foreign trade has been liberalized according to EU-standards. The economic, banking, and fiscal regulations resemble EU-standards. However, in 2004 the Gyurcsány government worked out an agreement with the banking sector to introduce progressive taxation on banking from 2005 onwards. The government intends to reallocate the peak profit for welfare and public benefits, according to its „Third Way” vision.

EU-accession will enable Hungary to keep up with Rhineland type social market economy and neo-corporatism in the long run. Inflation is under control. It was not possible to reduce corporate and income taxes as drastically as the Socialists’ Liberal coalition partner intended, as it was necessary to reassign the tax burden to the well-off and redistribute income for the benefit of the poor. There have been severe cutbacks in the public expenditures, but they were coupled with new welfare measures raising expenditures and taxes as well as demanding more control and bureaucracy. Both governments have fought against the high budget deficit, but with only modest success so far.

III. Overall evaluation

Starting conditions: The starting conditions for the further consolidation of Hungarian democracy were quite favourable, as there were no problems concerning stateness and well performing economic structures had been established. Some civic and rule of law traditions in Hungarian political culture and history proved conducive to a stable constitutionalism and the acceptance of minority rights. On the other hand, the Medgyessy and Gyurcsány governments inherited economic and fiscal policies with populist expenditures and a highly polarized public from the 1998-2002 Fidesz government. Moreover, the former conservative government had threatened the functions of parliamentarism, the electoral system, as well as the all-party media consensus, and followed a nationalist turn in foreign policy.

Status and development: Some of these counter-productive elements to an improvement of the already consolidated democracy could be revoked, as the reorientation in foreign policy, the media policy, and the work in Parliament clearly show. In terms of the quality of democracy, Hungary is not far from the „old” EU member states.

Management: Despite some accomplishments in foreign (EU-accession) as well as in domestic policy (reinforcement and further consolidation of democracy, support for civil society), some problems remain: the missing shift of

economic, social, and fiscal policy from populism to growth and competitiveness; the slow-down in the implementation of regionalisation and decentralisation; the political polarisation within Hungarian public, and the tensions with neighbouring countries over the citizenship status of ethnic Hungarians. Both social-liberal governments tried to build up a wide political consensus based on Europeanism and republicanism, but Fidesz is reacting with Euro-scepticism and nationalism from the opposition. Among the elites and the general population, there is a basic acceptance of non-violence as well as a commitment to democratic and constitutional norms. There is no home-grown terrorism that goes beyond provocations such as the (forbidden) use of fascist and communist symbols. Political extremism and violence do not pose any threat to the consolidated Hungarian democracy.

IV. Party acronyms mentioned in the text

Fidesz has changed its name many times. During the period in question, it was called *Fidesz-Magyar Polgári Párt* – later in 2003, instead of „*Párt*” there is „*Szövetség*” – , so the short name is Fidesz.

Magyar Szocialista Párt, HSP, Hungarian Socialist Party, Socialists, Social Democrats

Szabad Demokraták Szövetsége, SZDSZ, Free Democrats, Liberals

Magyar Demokrata Fórum, MDF

Munkáspárt, Worker’s Party, Communists

Not mentioned in the text

Magyar Igazság és Élet Pártja, MIÉP

There are some irrelevant extra-parliamentary Green parties.

FkGP, the Smallholders of Torgyán, *Kereszténydemokrata Néppárt* and the Christian Democrats practically vanished during the period in question, so they are not mentioned in the text.

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SUMMARY

Hungary Between the Last Elections and the New Government (2002-2004)

MÁTÉ SZABÓ

Hungary has developed into one of the most stable parliamentary democracies among the new EU member states. Stateness is not a contested issue. The elections were free and fair and enjoyed high participation. The 2002 elected legislature and social-liberal coalition were able to hold office. In 2004, the coalition parties carried out a government reshuffle in a peaceful and constitutional manner. The Constitutional Court proved its independence by blocking the expansion of governmental power. Freedom of choice and civil rights are guaranteed. Both social-liberal governments (2002-2004; 2004 pp.) made efforts to provide equal opportunities by introducing anti-discrimination programmes. Civil society is receiving financial aid from the government, and it has been incorporated into the policy implementation process, especially in the area of social welfare. Corruption is widely spread within public administration, and no effective counter measures have been taken so far.

RESÜMEE

**Ungarn zwischen den letzten Wahlen
und der neuen Regierung (2002-2004)**

MÁTÉ SZABÓ

Ungarn hat sich zu einer der stabilsten parlamentarischen Demokratien der neuen Mitgliedstaaten entwickelt. Die Rechtsstaatlichkeit ist unumstritten. Die Wahlen waren frei und fair, die Wahlbeteiligung hoch. Die 2002 gewählte gesetzgebende Gewalt und die sozial-liberale Koalition konnten in Amt treten. 2004 haben die Koalitionsparteien die Regierung auf friedlichem Wege und verfassungsmäßig umorganisiert. Das Verfassungsgericht demonstrierte seine Unabhängigkeit, indem es die Expansion der Regierungsmacht blockierte. Die freie Wahl und die Bürgerrechte sind gewährleistet. Beide sozial-liberale Regierungen (2002-2004; und die seit 2004) waren bemüht, die Chancengleichheit durch Antidiskriminierungsprogramme zu gewährleisten. Die Zivilgesellschaft erhält finanzielle Fördermittel von der Regierung und wurde in die Durchführungsprozesse eingebunden, besonders auf dem Gebiet der sozialen Wohlfahrt. Korruption ist in der öffentlichen Verwaltung weit verbreitet, bisher wurden jedoch keine effektiven Gegenmaßnahmen ergriffen.