Change through continuity – the government's new Széchenyi Plan

For all those who have complained that in economic policy the Fidesz-government is all about stopgap measures and improvisation, there is now the Széchenyi Plan, a fairly elaborate strategic vision of economic policy going forward. For starters, it is important to point out that already the choice of name proclaims a continuity with the Fidesz' previous term in power, when the first Széchenyi Plan was launched.

The choice of name is not the only sign of continuity, however, as the entire document is predicated on the notion espoused by the previous plan, namely that government is one of the key engines of economic growth and development, especially through strengthening domestic SMEs vis-à-vis multinationals. With a whiff of pride, the document notes that the relatively (and unfortunately) underdeveloped role of SMEs in the national economy – now 'conventional wisdom among economists' – was first brought to the fore by the first Széchenyi Plan.

It would be difficult ascertain the factual veracity of this claim. What is undeniable, however, is that both plans' basic ideology meshes well with the growing Keynesian stream that emerged in response to the crisis-stricken global economy. What may have appeared as an unusually statist ideological approach towards growth ten years ago is – at least for the time being – fairly commonplace today.

Importantly, the 2010 document also marks a continuity with the Fidesz' suggested policies in opposition. The plan reiterates one of the Fidesz' key promises, namely that a million legal, taxpaying jobs will be produced within a decade. Those would indeed be sorely needed, given Hungary's second-to-last position in the EU in terms of employment.

This is crucial for two reasons. First, after a notoriously vague campaign and the government's unwillingness to commit to specific goals, it marks an important area where success can be measured, though clearly the timeline is generous enough to make accountability difficult.

More importantly, however, together with other reinforced promises, it provides a further important piece of the puzzle in one of the most important political debates in Hungary: How will the policies of the real Fidesz-government differ from the policies advocated by the Fidesz-opposition, which often appeared populist?

The answer that seems to be emerging now is that the differences will not be as marked as many expected. In some areas, notably tax cuts and the strong desire to loosen the fiscal stranglehold imposed by the EU and the IMF, for better or worse the government is walking the walk, even though it is of course less radical than its earlier communication suggested and appears hesitant at times.

In line with the Fidesz' previous rhetoric, this plan, too, appears to offer a radical departure from the previous government's policies, a point that is driven home by the extremely politicised and harsh introduction, which is an ill fit with the sober and professional tone of the rest of the document.

Nevertheless, when it comes to the nitty-gritty details, the differences are not as pronounced as the rhetoric suggests. As several commentators have noted already, just likes the Széchenyi Plan designates seven priority areas as the main venues for government action, Gordon Bajnai also spoke of the need for focusing the government's attention on certain policy areas.

Interestingly, the politician most reviled by the Fidesz, Ferenc Gyurcsány had also spoken of seven "pre-eminent areas" in his first "state of the nation" address in 2005. More telling than the numerical analogy, however (the Fidesz had originally planned only four focal areas), is the overlap in the focal areas themselves: two areas are the same (health industry and green development) and two overlap substantially (logistics and automotive industry – the former is a key component of the new "transit economy" heading while the latter plays a pre-eminent role in the new "science and innovation" priority).

The following are the key differences between the two sets of priorities: Unlike the 2005 proposal, the Széchenyi Plan designates housing policy and state support for enterprises – both pre-eminent objectives of the Fidesz-government a decade ago –, as well as the broad objective of "employment policy breakthrough" as priorities. Remarkable is at the same time the near absence in the Széchenyi Plan of tourism – apart from a very detailed subchapter on health tourism –, traditionally considered one of the mainstays of the Hungarian economy, and the relative demotion of IT – both were included among the development priorities in 2005.

Still, the considerable overlaps are also hardly surprising. Hungary's basic circumstances have not changed dramatically, and neither has its position in the world economy. A dramatic shift in emphasis would have suggested that the government fails to appreciate our strategic possibilities. Furthermore, strategic plans largely have to be compatible with the National Development Plan submitted to the EU, which is a reflection of previous governmental strategies. Since funding for many of the government's policies will come from EU coffers in any case, a complete departure from previously accepted strategic plans would encumber the financing of development projects.

Yet, the government would no doubt point out that the theoretical similarities are hardly relevant, since recent years have shown that in spite of grand strategies success has been elusive in terms of growth and job creation. Thus the devil is not only in the details, but also in the realisation of policies. Similarities to previous strategies notwithstanding, the true measure of this document will be whether and how the government will apply the strategic objectives therein.

In achieving a substantial effort on the basis of the Széchenyi Plan, two key problems will mar the government's efforts. While there may be some debate among economists as to how much the government can or ought to do to revive the economy itself – rather than merely improving the atmosphere for domestic or foreign investors – no responsible economist doubts that for a development policy to work, priorities need to be identified. And this the Széchenyi Plan does not consistently excel at.

While some priorities, such as the strategic outline for the health industry, are very well specified, some others, notably employment, are vague and overbroad, extending to so many areas that calling them priorities evinces a misunderstanding of the term itself. Once entire and more or less unrelated swaths of the economy are included under a priority heading, it emerges that the original priority is not one, but in fact many.

The second problem is, unsurprisingly, money. The realisation of these strategic priorities – and the overarching goal of creating one million jobs – will also depend on whether the government will be able to allocate the necessary funds. With the EU subsidies having been partially tied up in advance, the need for wrestling more money from the state budget – and thus loosening the strict fiscal restrictions – will become even more pressing. This could herald intensifying conflicts with either or both: the EU/IMF who push for austerity and those who would suffer from budgetary cuts in other areas. If the government will indeed prioritise in its investment policies and divert funds from other areas, then the system of national co-operation and the seemingly solid bond with voters will inevitably show some cracks.