The paradox of success – how the last became the first
What determines failure or success in structural reforms?
Case study: Slovakia and Hungary

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ABSTRACT

This thesis examines the ongoing structural reforms in the Central and Eastern Europe region, namely the cases of Slovakia and Hungary. This study outlines the conditions under which a government is likely to succeed or fail in the implementation of reforms aimed at consolidation of the public finances. The puzzle this thesis addresses is why Slovakia, a seeming latecomer to reforms, was able to manage to establish sound public finance and restructure its welfare state, while Hungary, the leader in the market-building reform during the 1990s transition, did not manage to do so. This study encompasses the period between 1998 and 2008. Within this time period, it examines the Dzruinda governments of Slovakia and the socialist governments in Hungary. The research mainly argues that the main determinants that influenced the outcomes in Slovakia and Hungary were as follows: the type of the crisis, cleavages in the party system and the sequencing of the reforms.

DEDICATIONS:

I would like to dedicate this thesis to my mum for her never ending support.

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LIST OF DIAGRAMS AND GRAPHS

LIST OF ABBREVIATIONS

ANO - Aliancia nového občana/ Alliance of the New Citizen

CEE – Central and Eastern Europe

DS - Demokratická strana/Democratic Party

DU - Demokratická únia/Democratic Union

FKGP - Független Kisgazdapárt /Independent Smallholders' Party

HZDS - Hnutie za demokratické Slovensko/ Movement for a Democratic Slovakia

KDH - Kresťanskodemokratické hnuti/ Christian Democratic Movement

MDF - Magyar Demokrata Fórum/ Hungarian Democratic Forum

MSZP - Magyar Szocialista Párt/ Hungarian Socialist Party

SDK - Slovenská demokratická koalícia/ Slovak Democratic Coalition

SDKU - Slovenská demokratická a kresťanská únia/ Slovak Democratic and Christian Union

SDL - Strana demokratickej ľavice/ Party of the Democratic Left

SDSS - Sociálnodemokratická strana Slovenska/ Social Democratic Party of Slovakia

SMK - Strana maďarskej koalície/ Party of the Hungarian Coalition

SNS - Slovenská národná strana/ Slovak National Party

SZDSZ - Szabad Demokraták Szövetsége – a Magyar Liberális Párt/ Alliance of Free Democrats – Hungarian Liberal Party

SZS - Strana zelených Slovenska/ Green Party of Slovakia

VPN - Verejnosť proti násiliu/ Public Against Violence

ZRS - Združenie robotníkov Slovenska/ Union of the Workers of Slovakia

INTRODUCTION

This thesis examines the ongoing structural state reforms in the Central and Eastern Europe (CEE) region, namely the cases of Slovakia and Hungary. Specifically, the study tries to understand the socio-economic as well as political and institutional conditions which can explain the variation in the outcomes of the structural reforms.

Therefore, this study will outline the conditions under which a government is likely to succeed or fail in the implementation of reforms aimed at consolidation of the public finances. When government wants to stabilize the fiscal policy, it is likely to face a negative reaction from the society due to welfare retrenchment. Therefore, the government faces a dilemma: to undergo the painful structural reforms for the price of possible lost next election; or to bypass the reforms. The costs of retrenchment are in most cases immediately observable by a decline of the ruling party in the opinion polls, while the benefits are harder to see (Pierson 1996). The fiscal adjustments are perceived by politicians as "the kiss of death" (Alesine 2010). During the implementation of the retrenchment policies, politicians face a clash between their policy preferences and the preferences of their electorate. That is why it is easy for governments to increase welfare spending, but then it is very hard to reverse these established trends afterwards (Crouch 2008, 477). This means that the CEE countries are in a hard position. As a reaction to the hard transition times in early 1990s, the CEE countries dramatically increased their welfare spending and willingly offered the early retirement pensions or extra unemployment benefits in order to "pacify" the losers of transformations (Vanhuysse 2006). This policy has not been sustainable in the long term and it created a higher budget burden for further years.

The puzzle this thesis addresses is why Slovakia, a seeming latecomer to reforms, was able to manage to establish sound public finance and restructure its welfare state, while Hungary, the leader in the market-building reform during the transition, did not manage to do so. Moreover, I want to address why the Slovakian reforms were implemented smoothly as opposed to the reforms in Hungary. This study will encompass the period between 1998 and 2008. Within this time period I will examine the Dzurinda governments of Slovakia and the socialist governments in Hungary. All these governments shared the intention to implement reforms which would consolidate the public finances, especially decrease the deficit, boost the GDP and restructure the welfare spending. Slovakia managed to boost growth, attract foreign direct investment, and stabilize the deficit, and decrease the welfare spending without large-scale social protests (except the Roma riots in East Slovakia). On the other hand, Hungary, after a long struggle with a growing deficit, succeeded in decreasing it in 2006, however accompanied by huge social protests.

Methodology and cases selection

To address the research question, this study will focus on two cases of Slovakia and Hungary. I will use qualitative analysis based on a comparative method. The case studies of Slovakia and Hungary will be compared to understand the conditions which influence the outcomes of governments' reform efforts.

In this thesis the dependent variables are the *success* and the *failure* in consolidating the public finances. The *success* is conceptualized as an ability of the government to fulfill their own established goals in order to implement the fiscal consolidation which can require the welfare austerity measure. Moreover, I define the successful reforms as these that created stable growth in Slovakia and protected the country against possible economic crisis (Pirttila 2001). Consequently, the *failure* is conceptualized as an inability of the government to fulfill self-defined priorities in order to restore the sound public finance. Additionally, these reforms failed to boost the economic growth of Hungary and left it vulnerable in the crisis times (Pirttila 2001).

The reasons for choosing the cases of Slovakia and Hungary are the following. Firstly, the long common history of both countries should account for the problem of endogeneity and apply for unit homogeneity. These two countries were closely connected historically through the Austro-Hungarian Empire and the communist period. Secondly, there is a paradox in the current development of these two countries, because they did not simply follow their original historical roots (Greskovits 2008). While Slovakia was supposed to be an outsider and latecomer because of the Mečiar authoritarian regime, Slovakia managed to enter the EU without a delay with the other Visegrad countries and it even managed to consolidate the public finance to such an extent that it was the first Visagrad country who introduced the Euro. In contrast, Hungary was not able to comply with the promises of primary deficit consolidation and therefore did not enter into the EMU in 2006 as was originally planned. Thirdly, Slovakia and Hungary represent two extreme cases. Slovakia was a state with national patterns, but drastically turned its development to become a state in which the neoliberal orientation prevails. Moreover, these reforms were more or less smoothly implemented and they persisted despite a change of government (Wientzek and Meyer 2009). In contrast, Hungary represents an extreme case in regard of the citizens' reaction on the attempt of implementation of the austerity package by government.

Lastly, there are several reasons for not choosing other countries within the Visegrad region for this comparison. The Czech Republic does not seem suitable for this thesis due to better fiscal balancing. The country has never faced such need for fiscal adjustment as Slovakia and Hungary. And even though Poland has similar public finance problems, the two extreme cases of Slovakia and Hungary are more suitable for this particular comparison. Poland enjoys a different international position within the EU and the CEE region.

Additionally in term of size of the country and its population, Slovakia and Hungary seems closer in regard of the unit homogeneity.

Importance of the research

There are two major reasons why this research is important. Firstly, the pressure from the EU, as well as the financial economic crisis in 2008, shows that the fiscal consolidation is a complex issue. The states, such as Hungary, which have increased their debts and domestic consumption, were seriously hit by the international financial economic crisis. Because of the last financial crisis, fiscal consolidation has become a policy priority across Europe and therefore the understanding of the logic and determinants of successful reforms are of crucial importance.

Secondly, the research has potential to fill a research gap in the existing literature on topic of concern. There is a vast amount of literature that deals with the economic reforms in CEE region. However it focuses predominantly on the post-communist development, in particular on a possible explanation for the peacefulness of the reforms (Vanhuysse 2006), or on the impacts of the reforms on the society (Ost 2005). Others deal with the typology issue regarding the welfare reforming (e.g. Fenger 2007; Ingolt 2008; Cerami 2007), focus on impacts of EU enlargement on reforms (e.g. Vachudová 2001, 2008; Offe and Fuchs 2008; Rhodes and Keune 2006) and search for connection between institutional aspects and reforms (e.g. Lipsmeyer 2000, 2006; Cerami 2006, 2007, 2010). Scholars mostly cover the development during the 1990s. However, this research would like to address the development from 2000 further and will address the neglected area of the reform policies in the CEE region.

Moreover, there are only few authors who deal with the question of the successful implementation of reforms in Slovakia and the failure in Hungary. I will build my argument mainly on the argument of Graskovits (2008), however contrarily to him I will stress the importance of different type of crisis on the reforms outcome. Also I will add the role of the party system for ability of the government to undergo the reforms. Further, I will build my party system argument against the argument of O'Dwyer and Kovalcik (2007). All in all, my aim is to connect the essential determinants and provide the logic which stood behind the reforming process.

Greskovits argues that the reason which lies behind the ability of Slovakia to "demonstrate credible commitment to macroeconomic stability" (Greskovits 2008, 274) lies in the Slovak "idealism" that helped to create, at least in the short run, greater tolerance towards welfare losses. I believe that this is a valid argument; however, it seems to me that Greskovits underestimates the role of domestic political crisis. He does not deny the role of the domestic scene, however, he links the Slovak pride with the necessity of European integration, and sees this as a main factor which backed the reformers and created broader support in society. I agree with this argument, but believe that also the political difficulties during the Mečiar rule played the same or even greater role. Moreover, as Vachudová shows, both these approaches are limited, while essential factor was the EU active leverages (Vachudová 2001).

Contrary to Slovaks, Greskovits claims that Hungarian inability to imply reforms has historical origins. He argues that Hungarian elites create the routine of buying favors from public through increasing of welfare spending at the expense of sound public finance. Consequently, this is caused by the two-party system where the polarization is around the agenda of welfare and European issues which blocked the public-sector reforms. I will use this point in my argument and present additional evidence to support it.

Another work which is dealing with the conditions leading towards the successful implementation of reforms is written by O'Dwyer and Kovalcik (2007). These authors claim that the most important determinant for the success of, what they call, “second generation reforms” is under-institutionalized party system which prevents social opposition from finding an effective political voice and organized representation (O'Dwyer and Kovalčík 2007, 9). This means that the elections present too many options for voters who therefore can choose among unfamiliar parties with uncertain prospects. Government coalitions are often fragile, while the opposition is even more disunited. While there is no stable link between the electorate and parties, the opposition is willing to cooperate with the government. However, once the system is institutionalized, it prevents government parties against introducing radical reforms because of the possible future electorate outflows (O'Dwyer and Kovalčík 2007).

Even though this argument seems to be very powerful, I will show that it poses some problems. Firstly, it could be claim that the Poland had also under-institutionalized party system, but no similar reforms to Slovakian did occur. Secondly, as I will show later in my thesis, it could be questioned whether we can speak about weak opposition in the Slovakian case. In my thesis I will argue that rather than the institutionalization of the party system, it is about the cleavages structure which creates more or less cooperative parties.

Last but not least, a work which focuses on the structural reforms in both countries was written by Győrffy (2008). In her article Győrffy starts with the puzzle of what are the determinants of the reforms in the countries with the low society trust. In Hungary she finds that people’s low trust is locked in a vicious circle with populist electoral policies that cause low growth and thus decrease the trust in the society. According to Győrffy, the main difference between Hungary and Slovakia is in the “human actor” aspect. According to Győrffy (2006), people in Hungary are dissatisfied and disillusioned with the new regime and the political elite. People who are disillusioned with the political process and do not trust the political elite, do not believe in the need for reforms when the government proposes them for the betterment of the country. Instead, people just believe in the short-lived promises, which would inevitably lead towards populism (Győrffy 2006). Contrary to this, even though the rust was also missing in the Slovakia, the new Slovak elites were strongly convinced about the need of the reforms and were willing to sacrifice everything in order to implement their ideas. Therefore, once the opportunity for reforms appears, the crucial factor is whether the elite are determined to undergo the reforms. Here I will argue against the argument of Győrffy and claim that actually the political crisis and the right sequencing of the reforms enable the Slovakia to improve the image of the government and see it as the only guarantor of improving the situation in the country, which create strong position for the government for implementation of the reforms.

All in all, in my thesis, I will build on Greskovits' argument; however stress more the importance of the political crisis, which stood behind it. Secondly, I will try to modify O'Dwyer and Kovalcik's argument about under-institutionalization. While they see a link between the level of institutionalization of the system and possibility of reforms, I will argue that the most important issue is about the role of the cleavages and their influence on party cooperation and competition. To conclude, what seems to remain to be still understood is the *logic* of the reforms and the link between the different aspects discussed in this section. While every author tries to highlight just one aspect that led towards concrete outcome of the reforms, I believe that the specific *logic* which leads towards the varied outcome is rather more important.

The logic of the argument

In a nutshell, this thesis will argue, as can be seen in the diagrams below, that the successful implementation of the structural reforms in Slovakia was a combination of the *political crisis* and influence of the international actors. The political crisis led to the desire of the people for change, as they sought an improvement in political climate in the country and "return to

Europe”. Additionally, this was strengthened by the EU leverages and helped the Mečiar government to unite and find broader support in the society. Once the Dzurinda governments took the office, the crucial question was how to survive in the face of the coalition problems and the pressure from opposition. I argue that the cause in the cross-cutting cleavages, which taught the parities to cooperate and compromise. Nevertheless, the reforms process would not have been successfully completed without the right sequencing and balancing of the reforms.

Contrary to the Slovakian reform logic, as is shown on the below diagram, Hungarian elites were not able to escape the vicious cycle. This meant that the parties postponed the reforms until the moment of the economic crisis, and thereafter did not have the popular mandate to undergo such drastic austerity measures. This was caused by cleavages that create two separated camps of political parties, which do not need to, in contrast to Slovak parties, make compromises in order to find allies. This led towards high polarization of the party system, in which the distrust among parties, among political adversaries as well as allies, prevails. The high polarization of the system consequently prevented the parties from finding consensus to implement reforms and moreover did not allow for the right sequencing of the reforms and therefore created another hurdle for policy change.

Diagram 1: Vicious cycle of Hungarian failure

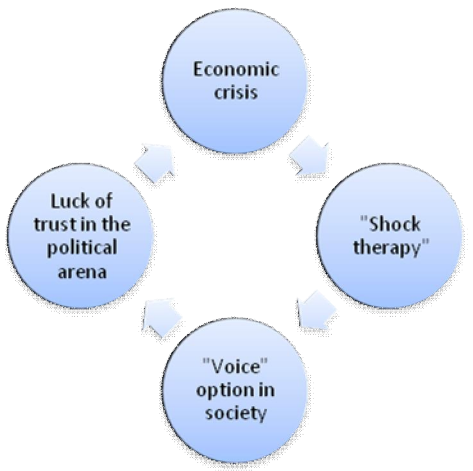
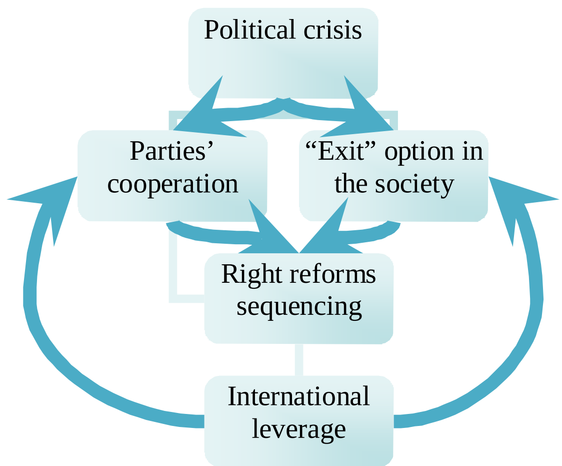


Diagram 2: Logic behind the Slovakian success



The thesis is structured as follows. The first chapter gives detailed description of the reforms. The second chapter provides the understanding of the environment in which the 2000s reforms were implemented. While Hungary went through the cycle of incumbent losses nearly in every election, the political crisis in Slovakia created popular willingness to undergo changes and reforms. This was strengthened even further by the EU leverage. This leads us into to the third chapter. Here, I am explaining why the government in Hungary has been caught in vicious cycle of unbalance public finance, while Dzurinda governments were able to implement the reforms. I am claiming that the role of cleavages play a role in ability of parties to cooperate and make compromises or not, and therefore ability to agree on the reforms agenda. In the fourth chapter, I am going to explain the last remaining piece of the puzzle – the role of timing, preparation and balancing of the reforms. While Hungary did not offer any incentives to the society to accept the "bitter" part of the reforms, the first Dzurinda government promised "better tomorrows" after the implementation of the reforms. With the Dzurinda's successes on the international scene, the people were afraid of losing what they already gained and therefore were more willing to accept the rest of the reforms.

CHAPTER 1 - BREAK THROUGH REFORMS IN SLOVAKIA AND HUNGARY

In this first chapter, I will describe the reforms in question to enable an analysis of these reforms later in the thesis. In order to examine the differences between the Hungarian and Slovakian reforms, it is necessary to clarify what the governments wanted to do and what they actually did. Also, the environment in which the reforms were held will be described, where deemed necessary.

In Slovakia, the reformist Dzurinda government came to power when the macroeconomic situation was in 1998 out of balance, as a consequence of the Mečiar government. The banking and private sectors were in ruins and there was a lack of foreign investment (Fisher, Gould and Haughton 2007). The main aim of the reforms in the first term of Dzurinda's government was the restoration of the democratic order, including respect for civic and minority rights (Rybář 2006, 154). Also, the international credibility of the country needed improving and the economic growth needed boosting through the improvement of competitiveness and investment. The aims of the second Dzurinda government were to address the finance deficit, simplify the taxation system and reduce unemployment and implement the welfare reforms in order to catch up with the other CEE countries (Fisher, Gould and Haughton 2007).

In contrast to Slovakia, Hungarian public finance was in a healthier condition as a result of the so called "Bokros package" during the second half of the 1990s. However, since the early 2000s Hungary's economic situation has been deteriorating and finally Hungary has become one of the worse performing new EU members (Fazekas and Ozsvald 2011, 91). Despite the economic decline, the Medgyessy government did not undergo any structural reforms in health care, education or in pension policies. As a consequence of lasting bad state of the public finance, in 2006 Hungary was on the edge of economic bankruptcy (Korkut 2010, 21). As a result of the imminent bankruptcy, the second Gyurcsány government was forced to undergo some reforms, including structural adjustment measures for the period from 2006 to 2009. The adjustment was planned to include, on one hand, increasing the revenues and, on the other hand, decreasing the expenditure (EC 2007, 30).

Therefore, the governments in both countries approximately around 2000s started with the structural reforms which should have improved their economic situation. In a way, we can see a similarity between the first Socialist government in Hungary and the first Dzurinda government in Slovakia, while both governments did not include any drastic welfare changes and both were facing restoration of their country image for foreign investors. Also we can see that the second term of both governments where more crucial in regard of drastic reforms. However, even though both governments sought to gain the same goal, the outcome was different. Dzurinda implemented nearly all proposed reforms (except the education one), while Hungary, despite initial approval by parliament, canceled most of them.

1.1. Slovakia

Dzurinda's first government aimed its reforms to improve, firstly, the democracy in the country and, secondly, to create a friendlier pro-business environment. Dzurinda government reform program was based on three main pillars: macro-economic stabilization, structural reforms in banking and enterprise sectors, and legal and institutional changes.

The second Dzurinda government launched a number of reforms dealing with pensions, taxation, social benefits, labor market, fiscal decentralization and finance. In 2003, the health care reforms have started. The reforms were implemented in two phases. In the first phase, which took place between 2003 and 2004, the government focused on introducing measures which would stabilize the growing indebtedness. These measures included fees, changes in the process and procedures related to reimbursement of pharmaceuticals and restructuring the hospital system. In the second phase, which started in 2004, the government enacted legislation, which intended to maintain stability an increase the efficiency of the health care system. These reforms resulted in a drop of almost 5% in the number of outpatient visits and a fall in the number of pharmaceutical prescription (Holló 2006, 97). Additionally, in 2003 Slovakian state health insurance provider was privatized. The reforms met their objective of controlling expenditure and reducing annual deficit, while the interests of patients were also took into account (Holló 2006, 98).

It is important to mention that the Slovakian government managed to tackle the health sector issues in a comprehensive way, including demand as well as the supply side. When we compare the Slovak reforms with the Hungarian one, we realize that Hungary focused only on the demand side of the system. Another difference can be found in the fact that the Slovakian government strongly supported the reforms, even in the face of negative public resistance. Despite heavy opposition criticism on the health minister Zajac, the Prime Minister supported his steps and Zajac persisted in his position for the whole four-year term. When we compare this to the situation in Hungary, three individuals held the position of the health minister during that period (Holló 2006, 99)[1].

In 2004, Slovakia introduced the flat tax rate of 19% for corporate, VAT as well as in income tax. And even though this meant a drop in the income tax rate, due to the simplification of the system, the government collected higher tax revenues. This also is in contrast to the Hungarian result of the reforms, where the tax revenues were even after the reforms in 2008 below the OECD average (OECD 2008, 37).

[1] Nevertheless, the following Fico's government reversed the key element of the 2003-2004 reforms. The co-payments for doctor visits and hospital stays were abolished and the co-payments for drugs were lowered significantly and the status of insurance companies was changed back from the joint stock to public agencies.

Moreover, the system in Slovakia favored the people with income lower than a half of the average wage, because they did not need to pay any income tax. This which can be compared to 18% income tax in Hungary in studies period, where there was no such allowance (Zachar and Goliaš 2010, 32). The tax reform and inflation made the middle class, a majority of the population, slightly worse off. Nevertheless, this was not mirrored in the consumption patterns, which increased in the real terms (Zachar and Goliaš 2010, 42).[2] This can be contrasted to the Hungarian situation, in which the consumption lowered as a result of the reform packages of 2007-8 (OECD 2008).

Also in 2004, the social welfare reforms were enacted. The main principle of reforms was that "it pays off to work". The goal was to improve the incentives for the unemployed and to support a pro-active approach when searching a job. As a consequence of the reforms, the low-skilled, the unemployed and the pensioners were hit hard (Győrffy 2008, 17). It should be noted that the main victims came from the Roma community. They represent a half of the all long-term unemployed and more than 80% of them were dependent on the social assistance. This can explain the riots in the East Slovakia in 2004 (Zachar and Goliaš 2010, 21-2).

Finally, in 2005, Slovakia introduced the three pillar pension system. The reforms transferred the greater responsibility for retirement savings to the individuals. Even though the government expected significant resistance against the reforms, they were in the end more popular that was expected (Fisher, Gould and Haughton 2007, 983).

[2] Even the government lost its power in the election of 2006; leftist-national coalition with Fico as an MP did not undergo seriously changes within the reforms. It seems that reforms prevailed and while in 2010 the right-wing coalition was formed, the reforms will probably survive.

1.2. Hungary

Most of the reforms in question were introduced during 2006 by the Gyurcsány government. However, even though they were approved by parliament, some of them were abandoned after the 2008 referendum. New attempt for reforms took place in 2008 and 2009. However early in 2009 Gyurcsány resigned and no major changes were implemented.

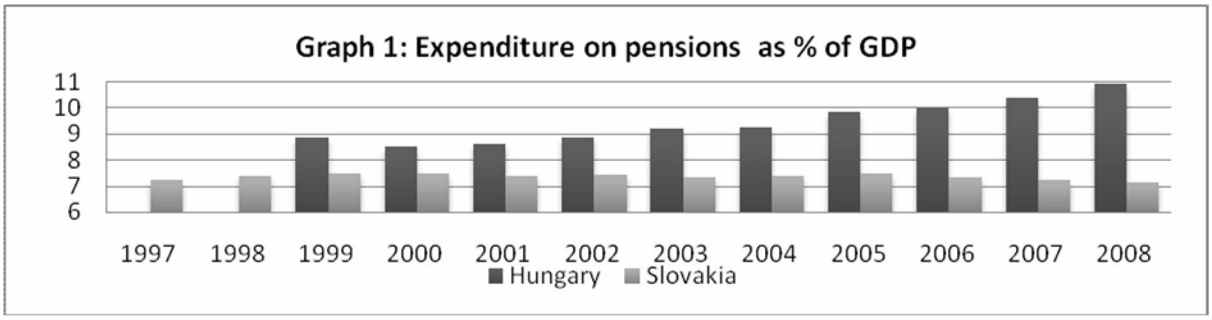
The health care reforms started already in 2005. This program was later extended after the Gyurcsány government introduced the new health care reforms in summer 2006. The bills were adopted by parliament in December 2006. The structural changes were aimed at the improvement of the access, quality and efficiency of the health sector, while reducing the public expenditure. This meant the introduction of co-payments for doctoral visits and hospital care. But the national referendum rejected the fees and despite there were already approved by the Parliament, as a consequence of the referendum the visiting fees and daily hospital fees were abolished (EC 2009). After the referendum, the new Minister for Health was appointed, who continue in the spirit of the reforms as his predecessor, but without the controversial part as fees.

The Hungarian health care system faced several problems. Firstly, it was subsidies on pharmaceutical, which, as a result of the reforms, significantly decreased by 2008 (EC 2009, 30-1). The second biggest problem in the health sector in Hungary was the Health Insurance Fund, which was in deficit between 1992 and 2007. The result of the austerity measure was fiscal consolidation of the Fund in 2007, the first consolidation ever since its establishment (OECD 2008, 62).

When we are talking about the health care reform, it is important to note that the Hungarian population has one of the poorest health results among OECD countries. Despite this fact, little reform action was taken after the mid-1990s. When we compare the life expectancy with Hungary's neighbors, Hungary has the worse result, compared even to Slovakia.

Since 2006 the government also started a reduction of the public sector. At the state level, the numbers of ministries were reduced and decentralization helped to some extent to rationalize the bureaucratic process. Also the number of the administrative bodies and public employment were cut.

In 2006, the Gyurcsány government made some further reforms in pension system. The 2006 reforms focused rather on providing incentives for delaying retirement, because as can be seen from below graph the expenditure on pensions have been steadily rising, while a full 82% pensioners used the early-retirement provisions (OECD 2008, 87-94).[3] Also the reforms introduced that from 2013, the pensions will be subject to the income tax.



Source: Eurostat

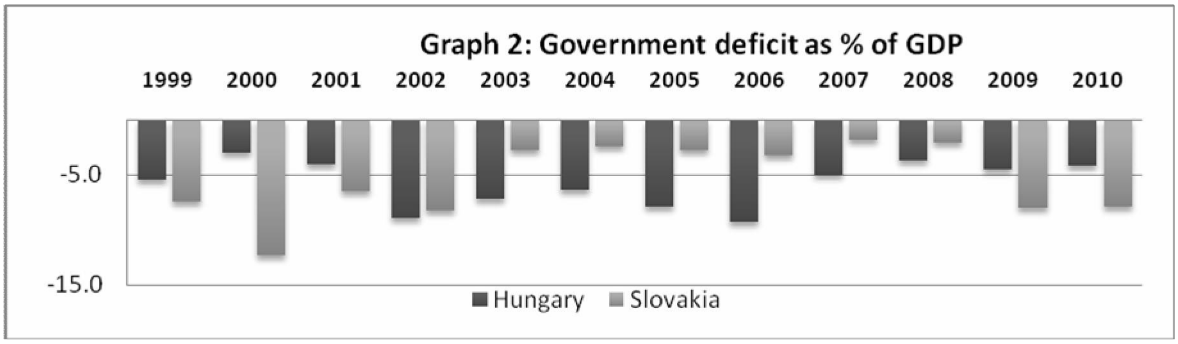
Last but not least, Hungary had a very high tax burden compare to OECD average, in the period studied (OECD 2008). Tax reforms in 2006 focused on shifting taxation from labor to consumption, which was aimed at improving prospects for employment growth and shrinking the size of the grey economy (Forthun and Hagemann 2010, 5). Moreover, a substantial proportion of the 2006-2009 adjustment resulted from enhancements of taxes (e.g. higher value added tax rates and increased corporate taxes) (Forthun and Hagemann 2010, 5-6) The

[3] The main pension reforms were however held already in 1998. Part of the reason was that Hungary faced a higher burden in regard of pension expenditure in the 1990s. It was supposed that the new generation would use the mix public-private system. However, since that time, the population was allowed to switch back from the mixed system to the purely public one at various times since the reforms, according of the governing party.

tax wedge was in 2008 therefore still very high, while the overall social security contribution rates rose to 44.5% of wages (including contributions for both pension pillars and the health fund). However, a minimum income tax rate was at that time significantly lower, at just 18% (Forthun and Hagemann 2010, 21). The government originally also wanted to implemented the so-called "solidarity tax" for companies from 2009, but because of negative reaction from the private sector, which threatened the government by the relocation of their projects out of the country, in the end the tax was not implemented (Greskovits 2008, 290). All in all, the Hungarian income tax revenues were below the OECD average. Even in 2008, the country suffered from poor tax compliance, due to high tax wedge and insufficient administrative capacity, resulting in significant revenue leakage (OECD 2008, 49).

1.3. Conclusion

Even though Slovakia initiated its reforms much later than Hungary, it managed to implement nearly all of the proposed provisions. They successfully introduced the market principle in health sector, simplified taxes and streamlined the social benefits. As a result, the government not just decreased the deficit but also initiated the declined in the public debt, and boosted the growth. While the real GDP growth rate in 2006, at the end of Dzurinda government, reached 8.5%, the growth in Hungary was merely 3.6%. In contrast to Slovakia, Hungary abandoned the previously approved reforms, because they were unpopular among the citizens. Moreover, despite the fact that the government successfully decreased the public deficit, as can be seen on the graph below, it did it at the price of decreasing GDP growth rate, which dropped dramatically from low 3.6% in 2006 to just 1.3% in 2007. Also, the public debt was not reduced by the reforms.



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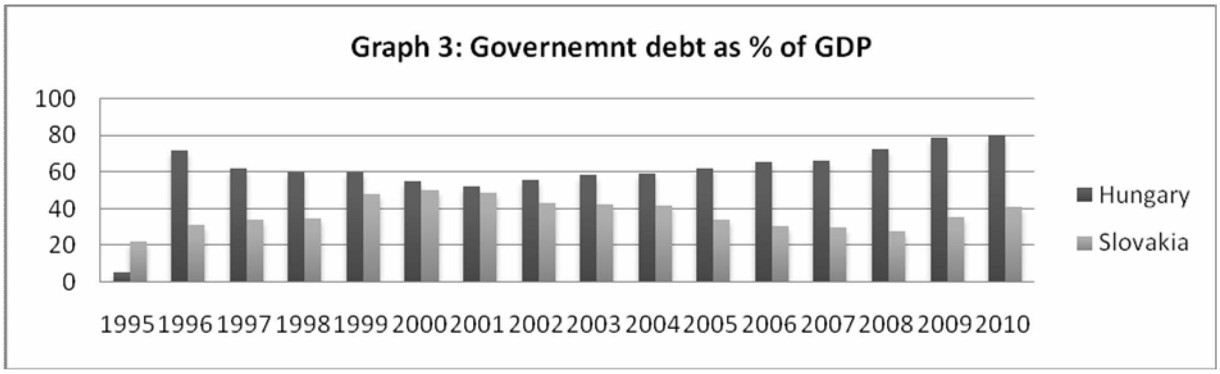


Source: Eurostat

CHAPTER 2 - IMPORTANCE OF CRISIS FOR SUCCESS OR FAILURE OF THE REFORMS

In the second chapter, I will explain in depth the difference between political and economic crisis, and their various implications on the implementation of economic reforms. This is essential for an understanding of the different environment in which the reforms came into life. While Slovakia's political crisis and the EU leverage helped to unite the politicians in opposition against common enemy – HZDS and its allies, and also helped create stronger public support for the political change. The environment in which the reforms in Hungary in 2000s took place was very different. It was not the first time when the Hungarian political elite faced a high deficit and near-bankruptcy. Therefore, we need to go back in time and see what the circumstances of the previous failure were and how the environment for the current reforms was created.

2.1. Slovakian political crisis – one-time opportunity for change

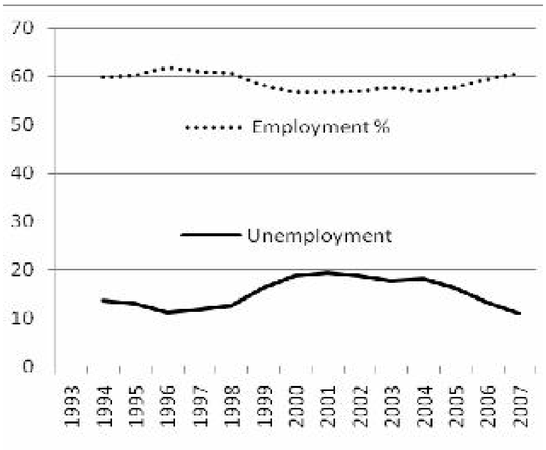
It will be maintained that there are two main factors which created a fertile ground for the implementation of the reform. Firstly, it was the "political crisis" in the country which encouraged people to desire a political change. They were willing, as a consequence of the ruling style of the HZDS, to support reforms aimed at the improvement of the political situation. Secondly, the international actors played an essential role, as they sent a clear sign to the Slovakian public and the opposition that with Mečiar at the wheel the country would not be accept to the EU (Vachudová 2001). Therefore, the EU conditionality played a crucial role in improving the image of the HDZS's opposition in eyes of voters.

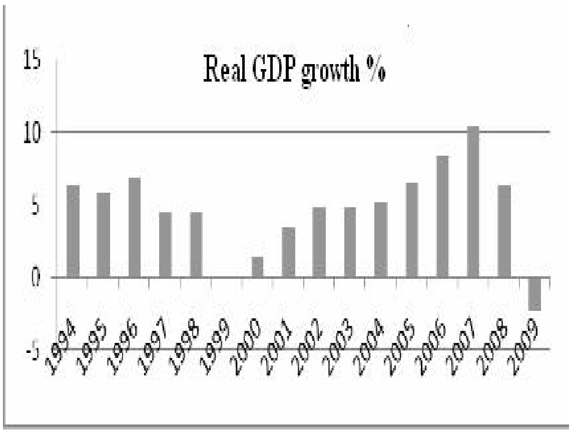
2.1.1.. Political crisis in Slovakia

In contrast, to Hungary which started early market reform prior to the post-communist transition, Slovakia (at that time still as part of Czechoslovakia) did not have a similar experience. As a consequence, the post-transition Czechoslovakian government introduced swift reforms that caused an economic shock and that had a more serious effect in Slovakia, the less developed part of the country. The deteriorating economic situation of the people helped to establish a fertile ground for the populist and nationalist rhetoric of Vladimir Mečiar. Mečiar's personality and HZDS party dominated the political life of the independent Slovakia until 1998. Even though his policies were very popular, because they kept inequality at a low level, the country faced serious problems as a result of these policies (Greskovits, 2008; Győrffy, 2008).

However, as some authors point out, the fall of Mečiar was not primarily due to economic problems, but rather because of the political situation (Greskovits, 2008; Győrffy, 2008). Even though that at the end of the Mečiar rule the country was on the edge of economic crisis, mainly because of high indebtedness of the country (Mathernová and Renčko 2006), the economic indicator as unemployment or GDP started to significantly deteriorate after what the first Dzurinda coalition took office after the 1998 election, as can be seen from the graphs below. However, the question remains about the political causes of Mečiar's downfall. This question is crucial, as there is a direct link between the political situation and the society's willingness accept economic reforms and to undergo economic hardship.

Graph 4: Employment and unemployment in Slovakia, Graph 5: Real GDP growth %





Source: Pogátsa 2009, 378 and 381

The problems started in 1996, when some disagreement occurred within the Mečiar's coalition. There were caused firstly by the issue of ratification of the Slovak-Hungarian Treaty. Secondly by the decision of HZDS to dismiss several members of the governing board of the National Slovak Insurance Company, who were related to the coalition party SNS. The tensions within the coalition prevailed for several months and HZDS showed willingness to rethink the coalition configuration. However, because of privatization scandals and other events, like the kidnapping of the President's son, which was accompanies by strange circumstances, no party from the coalition was willing to cooperate with the HZDS (Haughton 2002, 1333).

Because of authoritarian character of the Mečiar regime, the opposition parties during the 1990s had to suffer from widespread censorship and harassment by the government coalition. The opposition was effectively removed from the all the executive and legislative positions which are usually allocated for the opposition. Moreover, the opposition was not allowed to present in the state-owned TV or radio stations. Therefore, because of these harsh conditions, they were not able fulfill the traditional tasks of the opposition for the most part of 1990s (Abrahám 2002). However, despite different political and ideological orientation of its members the opposition managed to unite itself in the light of problems surrounding the presidential election in 1997.

Since 1996, the opposition started to be successfully mobilize itself. The cooperation among the opposition parties was initiated by the liberal wing within the KDH, including among others Dzurinda. Initially, they started to foster links with other parties such as the Democratic Union and the Democratic Party. These parties formed a loose coalition, the "Blue coalition." However, deteriorating political situation slowly brought other parties to the coalition. Even though the coalition was supposed to remain in a loose cooperation, as a result of Mečiar's effort to worsen the situation for the coalition by creating a new electoral law (which meant for a coalition that all its parties had to cross the five per cent threshold), the coalition has tightened. As a result, the "Blue coalition" transformed itself into a single new party – SDK (Haughton and Rybář 2004).

There were several factors which catalyzed the opposition frustration with the political situation in the country. Firstly, the government coalition was weakened during the presidential elections, when they could not agree on a presidential candidate, and this moment was used by the opposition parties to their advantage. The difficulties during the presidential elections were used by the opposition during the campaign against Mečiar. The opposition advocated a referendum about a direct presidential election, which was perceived as a threat by the ruling elites. The Mečiar government's started fearing the result of the referendum and therefore they managed to block the referendum. This caused a huge public outcry and swung public opinion that destroyed any remaining illusions about the ruling parties (Bútorová 1999, 204). Second, it was the clear signal sent by the EU (that the EU would not offer a membership to Slovakia because of political situation in the country) and other international organization, which helped to empower the pro-Western opposition. However, I will discuss this point later in the thesis.

The Mečiar era was not only difficult for the opposition parties, but also for the ordinary people. According to the survey done by Institute for Public Affairs in 1997, the majority of the citizens negatively evaluated the developments in the areas of public safety, social justice, opportunities for young people, international status and opportunities for citizens regardless their political allegiance since the elections in 1994 (Bútorová 1999, 197). Even more alarming seems to be the fact that according to a survey conducted in June 1998, 55% of respondents believed that it was best not to enter into a conversation about politics with anyone. People were afraid of discussing political issues and if did, they kept these discussions in a close circle of people (Bútorová 1999, 199).

While the anti-liberal rule had been suppressing the opposition parties for many years, democratic elements grew elsewhere. The democratic voice was heard among the non-partisan actors, such as NGOs or civil organizations. These organizations significantly influenced the 1998 election campaign. Their role contributed essentially to the high turnout during the elections and also helped to strengthen the democratic political forces (Bútora and Demeš 1999). Because of the deteriorating democratic standards the turnout was unusually high at 84.4%, compared to 75.7% in the 1994 election.

2.1.2. International isolation and the role of the leverage of international actors

As Greskovits argues, international shaming and exclusion of the country from the regional and international integration resulted in a true turning point in Slovak's politics. "Isolation and fiasco in competition with regional peers, the Czech Republic and Hungary, challenged Meciarism at its core as they undermined its capacity to mobilize and harness Slovak national pride for its own political survival" (Greskovits 2008, 285).

However, it was not just the "national pride" as Greskovits mentiones above, but it was also the leverage from the international organization, which contributed, together with the above mentioned political crisis, to the regime change in the country and to create more favorable environment for reforms. As Vachudová argues, the increasingly explicit conditionality of the EU accession process had causal effect on shaping such domestic political scene, where the nationalist pattern prevails in the political arena (Vachudova 2001). While the support for the EU accession among Slovaks was obvious and is stressed by a number of scholars (e.g. Greskovits 2008; Haughton and Rybář 2004; Pridham 2003), the role of the international actors in the reform process is not immediately obvious.

Vachudová claims that in the states where the opposition against communism was not strong, nationalist pattern prevail in the country after the fall of communism. Nationalists promised the electorate slow economic reforms, in order to prevent widespread unemployment. However, as a result of this policy, the narrow circle of the post-communist elite enriched itself, while their inefficient firms should have been restructured or forced into bankruptcy. Those winners of earlier stage of slow reforms blocked further reform efforts in order to protect their gains. However, at the same time when the reform was stalled, the interests of groups which would normally develop in a functioning market economy was suppressed. It was these groups who after mainly formed the opposition (Vachudova 2001). According to Vachudová, the EU leverage helped to remove the rent-seeking nationalist politicians from office by damaging their Westernizing image and therefore made pro-Western parties more attractive to voters.

Even though the EU's conditionality itself did not change the government behavior, it helped to mobilize those parts of the society which economically suffered under the Mečiar rule. Once the EU began to judge the quality of reform in the aspiring member states and link its assessment publicly to a state's prospect for EU membership, the preferences of domestic actors has changed. It weakened the nationalists' preferences by revealing the costs of the ethnic nationalism and economic corruption while providing the compelling alternative to

Mečiar's political and economic elite. As was showed above, the EU's criticism was mirrored in the growing number of local civic society groups and opposition parties. The EU's judgment persuaded the electorate that the nationalist pattern of the government was not, contrary to the government's claims, leading the country into the EU (Vachudova 2001).

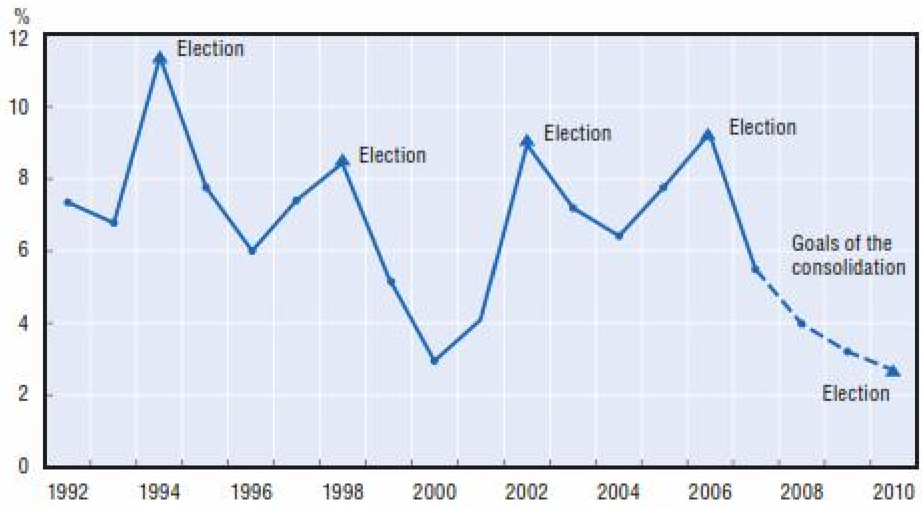
As a result of the political crisis and the EU leverage, a broad coalition was formed. The international pressure urged people to realize the cost of the "political crisis". "It would be incorrect, however, to see the EU as instrumental in bringing about the change of government in Slovakia in 1998. Although the EU's snubbing of Slovakia in 1997 was used in the 1998 election campaign, opponents of the Meèiar-led coalition were driven primarily by a desire to remove Meèiar and his allies from power and overcome the illiberal tendencies of the previous four years" (Haughton 2007, 241). The active leverage strengthened the willingness of people to undergo changes and reforms, but it did not caused it in the first place.

2.2. Hungarian economic cyclical crisis

Hungary faced the inherited inability of the government to stabilize the fiscal policy for years. As Bohle claims, any "attempt to deviate from the inherited patterns of social appeasement were short lived" (Bohle 2010, 4). When we look on the Hungarian economic and political development, we can easily spot one feature. As was showed above, the government expenditure has been always highest during the time of election. And since the fall of communism, each government which tried to implement austerity measures and decrease the deficit, paid the price in form of lost election, with the only exception of the Gyurcsány government. Therefore, it was not for the first time, when the Socialist governments after 2000 postponed the reforms until the moment of economic crisis. That is the why we firstly need to understand the roots of vicious cycle of Hungarian failing reforms' efforts. The essential importance is that once government left the policy of "muddling through" as a result of bad economic situation of the country and started implemented the austerity measures, it did it (in contrast to Slovakia) without the mandate from its citizens (Kornai 1996).

Graph 6: General government deficit: history and goals[1]

% of GDP



1. The dotted line from 2008 to 2010 shows the deficit path as outlined in the Government's Convergence Programme of November 2007. The figure for 2007 (5.7% of GDP) corresponds to the government estimate of the year's outturn as of March 2008. This figure compares with an original target of 6.8% of GDP.

Source: OECD, 2009, p.13

2.2.1. Economic reforming in 1990s

Hungary has had a long tradition of experimentation with economic reforms (which started as a consequence of the 1956 revolution). The legacy of the "goulash communism" left a blueprint for the future macroeconomic instability of the country, while it protected material welfare at the expense of the unbalanced budget and economic stagnancy (Kornai 1996).

The first government in the new era, who implemented economic reforms, was the government of Miklós Németh, who governed the country through the end of the communist rule. He took measures which avoided financial crisis in the country. Even though it is impossible to argue that the communist party had a chance to win the election, “the electorate showed his party no mercy” because of his reforming efforts (Farkas 2008, 23). His successor Jozsef Antall, the first democratic government learned to “muddle through” economic problems (Kornai 1996). Even though the Antall government underwent important reforms in banking area and started privatization (which had positive effect on foreign investment inflow into the country), his government also left the country with high unemployment, decreasing state revenues and increasing public expenditure. The country was “close-to-financial-meltdown-situation” in macroeconomic terms (Greskovits 1999, 16).

The growing unemployment was result of the economic transition. Even though the Hungary had undergone some reforms already in communist period and the entrepreneurship was quite widespread within the society, these entrepreneurs were not able to compete in the new environment. Many of the small businesses bankrupted during the early 1990s, which dramatically increased unemployment. That is also why in the moment when the new democratic government tried to finally decrease the indebtedness of the country by raising fuel prices, the society reacted with riots. In order to “pacify” (Vanhuysse 2006) the dissatisfying society, the government used welfare leverages, which however increased the budget burden. This policy was targeted by the opposition parties, which in the same time accused the government of social insensitivity and wrong economic balancing. This pattern of political competition became the norm of nation’s political life thereafter (Farkas 2008, 24).

The second effort to reform the public finance came from minister of finance, Lajos Bokros and his famous “Bokros package” in 1995. The package was a response on the spreading financial crisis originating in Mexico and deteriorating economic situation as well. Even though the structural reforms played at the end of the day just a marginal role, the package “represented a sharp break from a tendency of overspending, which characterized the economy both before and after the package" (Györffy 2006, 254). The package proved to be effective in terms of reduction of the public deficit (Farkas 2008, 24). However, the package at the same time restored the macroeconomic stability at the expanse of welfare spending, reduction in real wages and strict limits on the salaries paid in public sector (Greskovits 2008, 277).

In a nutshell, the reforms were prepared as a reaction to a very critical situation in total secrecy and the moment of surprise was essential to its success (Györffy 2006). That meant that the population was not prepared for such a shock, and the situation was even worsened by the fact that at that time the unemployment was rising. Therefore, the people perceived the package as "a lasting nightmare …, (*which*) produced loss of trust in Socialists' and Liberals' sensitivity on issue of social welfare" (Greskovits 2008, 282). Moreover, as Kornai argues, people voted for the Socialist party because they thought that it would improve their lives, take asides with the poor, needy, workers and pensioners. They were hoping for the social ideas. Therefore, the government did not have the mandate from its voters to introduce the stabilization program of such severe restrictions and austerity (Kornai 1996, 970-1).

Originally, the plan covered more drastic changes as well, but because the society reacted so negatively, once the crisis was over, the initiator of the reform - minister of finance Bokros - was forced to resign and no major reforms took place for a decade after his leave (Györffy 2008, 10).

Fidesz, during the time in opposition had opposed any several economic hardships, however once in office; it had to face the public deficit by itself. It should to be point out that on the first glance it seems that Orban government skillfully reduced the deficit from 8.2% of GDP in 1998 to less than 3% of GDP by 2000. On one hand, this correction can be compared to those done by Horn government or by the later Gyurcsány second government. But on the other hand, this comparison is misleading. Firstly, in 1998 the deficit was so high, mainly because of items such as renationalization of the bankrupt Postbank. Secondly, the new Orban government did not include the developments in public infrastructure financed by the Hungarian Development Bank. Bank's operations were separated from the state budget; even though this step was highly criticized by the EU (Farkas 2008, 25).

Although the Bokros package helped to suppress the economic problems for some time, in the beginning of the new millennium, Hungary faced a new economic crisis. The financial crisis in Asia and Russia forced even the Orban government to undergo some economic hardships. In order to conciliate the voters back, before the election in 2002, Orban government boosted household incomes and social expenditures. These included the rise in minimum wages (by altogether 80%), introduction of large scale development programs in infrastructure, tourism facilities, public construction and subsidization of loans for residential construction and renovation. As the result of this Orban's policy, the wages surpassed productivity gains and rose along with the interest and exchange rates in the last years, which as a consequence meant that Hungary was losing its competitiveness. Foreign capital started to relocate to their most labor-intensive operations to lower-wage countries, especially to Slovakia (Greskovits 2008, 284).

2.2.2. Economic problems since the 2002 election

In the 2002 election competition, there were two main issues that dominated the campaign – the issue of social welfare and the issue of EU membership. Even though the economy already signaled problems, the Socialist started promising "a transformation with welfare". The Socialist won the election, however with the marginal losses, which offered a fertile soil for the opposition to question the legitimacy of the new government. The situation graduated into radical right-wing riots after the accusation of electoral fraud and recounting of votes.

This gained its peak after what the media found that the Prime Minister Medgyessy had a career in communist intelligence services. Losing the personal credibility, Prime Minister tried to improve the situation by increasing the public-sector salaries, pensions, and extending the subsidized housing loans. This policy was however opposed by National Bank of Hungary. Its president, Zsigmond Jarai, former Minister of Finance in the Orban government, rejected to take consequences of such policies, mainly because of the bank's responsibility to meet the Euro criteria. The disagreement between the National Bank and the Government sharpened the political situation in the country, while Jarai's steps were supported by the opposition (Greskovits 2008, 282-3).

Because the previous Orban government proposed the Euro entry in 2006, it was the Socialist responsibility to meet the Maastrich criteria. Moreover, as a result of political instability, Medgyessy postponed the reforms in pensions, health care, higher education, and public administration. The opposition used the hard time of government, and simultaneously criticized the government for insensitivity in the social issues as well as inability to entrance the euro zone (Greskovits 2006, 192-3). Further, because during this time the borrowing from the international markets became easier, within less than three years the volume of foreign debt doubles (Győrffy 2007, 11).

Even though Medgyessy tried to postpone the solution for lasting problems, as health care or pensions, he had to face the deteriorating economic situation. He tried to solve it by cutting spending on welfare, public services, while in the same time increasing revenues from taxes and privatization. Nevertheless, the situation worsened even more, especially in the political arena, because the opposition initiated a referendum to block the coalition's plan (Greskovits 2008, 284). As a consequence, the Socialist party was defeated in the first European Parliament election in June 2004. After this, the Prime Minister Medgyessy resigned and was succeeded by Ferenc Gyurcsány (Greskovits 2006, 193).

During the 2006 campaign, Gyurcsány did not mention his plans and policies and did not stress the need for reform (Farkas 2008, 27). The election turned to be just personal fight between Orban and Gyurcsány, and the whole campaign was reduced to slogan "Yes to Gyurcsány!" However, almost after a decade of inefficient policies, the country stood in 2006 at the edge of bankruptcy with the highest borrowing rate in the developed world. After what Gyurcsány took the office, he launched a fiscal consolidation program and this policy even dominated in his the victory speech.

In contrast to what he promised during the campaign, that he would compromise the solidarity and economic competitiveness, the reform policies of his second term was based on immediate tax increase, reducing gas and electricity subsidies, and the introduction of fees for higher education and health care services, which provoked social protests. At the end however, these reforms lagged behind because of constant political turmoil, and some of them were even halted by the 2008 referendum (Korkut 2010, 21-22). Moreover, the situation was worsened even more by the Gyurcsány's "infamous speech" in 2006, where he confessed that he lied during the election campaign about the economic situation of the country. The speech sparked civil unrest though all Hungary.

The analysis above showed us two patterns. First, the 2000s reforms were triggered, as it happened in 1990s, by unsustainable economic situation. And second, it showed once more that the politicians did not have an electorate mandate for introducing such drastic reforms. The vicious cycle of public finance irresponsibility started back in 1990s and until now, no government was able to break it. One of the reasons could be that the pressure from international bodies was not strong enough. Once the accession for Hungary was sure, it lost its means as leverage. Therefore the citizens were not (in contrast to Slovakian) motivated to undergo painful reform in sake of "return to Europe" (Vachudová 2008).

2.3. Conclusion

In this chapter I clarified that the type of crisis which triggered the reforms significantly matters. While Slovak population sought the change in the political scene, there was a higher willingness to undergo reforms since the beginning. The EU leverages also helped to realize the population the price of the Mečiar rule and even emphasized the need for reforms in political as well as economic sphere. Contrary to this, Hungary was caught from the early 1990s in the vicious cycle. The Hungarian governments were afraid of implementing drastic reforms and if it happened, they did in as a result of oppressive economic situation. However, while the population was not informed and did not have any leverage (for instance, in form of the EU accession, as Slovaks did), they did not understand the necessity of reforms and therefore the government lacked the mandate to implement such drastic measures.

CHAPTER 3 - PARTIES COOPERATION AND DISTRUST

Previous chapter left us with the fact that the reforms in Slovakia and Hungary were started in very different environment. Now we need to understand the factor which helped to Dzurinda governments to remain in office all four years, despite the implementation of unpopular reforms. Initially, in both countries we can find similar party system. Since 1994 in Hungary and until 1998 in Slovakia, the party system can be characterized by high polarization. However, the key difference has been that Slovakia party system is characterized by cross-cutting cleavages that teach parties to negotiate and cooperate in order to find allies. This has been important once the parties step into the office and are searching for solution for lasting problems of the country. In contrast to this, Hungary has cleavages which divided the party system into two camps that have never needed to cross its boundaries in order to find allies and support. This creates a high competitive party system, in which parties do not trust each other. That negatively affects the parties' cooperation in the government.

3.1. Cooperative parties in Slovakia

The previous chapter showed that the first Dzurinda government started in an environment created by the political crisis, which created a higher people's desire for a change and reforms. Even though we saw that the opposition became more united, what is still not clear is the reason behind the ability of both Dzurinda governments to implement the reforms.

O'Dwyer and Kovalčík argue that the underinstitutionalization of Slovakian party system kept opposition weak and disunited, while empowered government to undergo unpopular reforms (O'Dwyer and Kovalčík 2007). However, one can give a counter argument that the Polish party system is even more under institutionalized then the Slovakian one (Casal Bértoa 2011), however no similar reforms to Slovakian occurred in Poland. Moreover, even though the winner of 1998 as well as 2002 election was Dzurinda, opposition parties enjoyed high results as well. Concretely, HZDS was in 1998 even in 2002 the party with the highest percentage of votes and the new-established party Smer in 2002 gained nearly the same percentage of votes as did the Dzurinda's SDKU. Even though it took time for HZDS and Smer to find a way for close cooperation, the parties started to become closer especially during the second Dzurinda term (when all the drastic reforms were implemented), while challenged the government by confidence vote. Therefore, it is at least questionable, whether we can speak about weak opposition.

So, how did Dzurinda manage to remain in the two terms in office and headed off the more cooperating opposition? This point is crucial for our topic while governments' cooperation was essential for introducing of the reforms.

It is very interesting that despite lots of coalition tension, both Dzruinda governments managed to implement the reforms. The first problems emerged immediately after the 1998 election, because many politicians elected on the SDK's list advocated a return to the original five-party coalition form. The inability to maintain the party escalated in 2002 when Dzurinda established his new party SDKU. Moreover, the initial glue of the first coalition – the mutual aversion towards Mečiar - started to lose its strength very soon after the coalition gained power (Haughton and Rybář 2004, 125-6). Also the second Dzurinda government faced several problems, but despite the disunity over the speed and extent of the neo-liberal reforms, at the end, all four coalition parties backed the agenda (Haughton and Rybář 2004).

One possible answer on the how Slovak governments managed to successfully went though all stages of reform proposing and implanting, could be possibly found in the leadership style of Dzurinda, which theoretically could helped to maintain the coalition together. However, the evidence shows us a different picture. It was actually his "increasingly domineering personal style of leadership and reluctance to compromise" that just worsened the tension among parties (Haughton and Rybář 2004, 236). Therefore, we can refute this argument. What remains? Firstly, we need to go deeper into the principle of party system in Slovakia to be able to understand why Slovakian parties became cooperative. This partisan pattern afterwards also helped them to even find solution for lasting problems of the country. Further, again it was the international pressure on Slovakian parties that essentially helped the coalition to survive.

3.1.1. Role of cleavages for higher cooperation

The Slovakian party system started to emerge between 1990 and 1992 and was shaped around conflict over the character of the new political regime (between VPN versus the Communist party) and the role of the church in the state (KDH versus the Communist party). Another conflict line in the country resembled with the traditional Rokkanian cleavages, including the church-state and centre-periphery conflicts and also the need over radical transformation of planned economy into market one (Rybář 2006, 156-7).

The main cleavage was formed around nationalism, articulated by HZDS and SNS. Shortly after its establishing, HZDS started to call for an independency of Slovakia. As a consequence, during the 1990s, the Slovakian party system was characterized by the conflict between the HZDS and anti-HZDS, or anti-liberal and liberal, camps (Rybář 2006, 157).

This created a high degree of political polarization between the government and the parliamentary opposition. The authoritarian-democratic divide did not replace other divisions among Slovak parties, but made them significantly less important. Therefore, during most of 1990s, the two opposing blocks of political parties were competing in the Slovakia parliament. Although the party composition was not fully stable, if some party emerged, it had to join one of the two established camps. In the heart of one camp was KDH, surrounded by the communist successor SDL and the coalition of Hungarian parties. This block stood against the ruling coalition in which most dominant party was HZDS, followed by SNS and ZRS. The fierce competition for the executive position consolidated the two-block mentality, as high political polarization and urged the party leaders to maintain the existing political alliance, despite the heterogeneous character of coalition (Rybář 2006, 158-9).

We need to stop here, and clarify several things. The high polarization can be compared to the Hungarian one. However, what differs between Slovakian and Hungarian party system is the relationship between cleavages. When the cleavages are cross-cutting, as in Slovakian party system, it is nearly impossible for parties to find ideologically close partner, because even though parties can be closer in one dimension, they can have very different view on the other. This established typical pattern for Slovakian party system where most of the coalition government have always included political forces from at least two different political camps. The first Dzurinda government consisted of SDK (itself coalition party included liberal DU, religious KDH, conservative DS, social democrats SDSS and green party SZS), post-communist SDL, populist SOP and the ethnic SMK (also coalition party in principle). Also the ideologically more homogenous second Dzurinda government follow similar pattern, while included Christian KDH, Catholic Hungarian SMK, liberal-secular SDKU and neoliberal-clerical ANO (Casal Bértoa 2011, 17-18).

The established cooperation among parties was essential, once lot of new centre-oriented parties emerged after 1998. During this time, the political fragmentation of the parliament gained its peak, while the two-camp polarization started to lose its importance. With the exception of SMK, all other parties disintegrated. The SDK split into the Slovak Democratic and Christian Union (SDKU) and other smaller groupings. Also the ex-communist SDL was left by Rober Fico, who established his own centre-left party Smer. Moreover, the SDL broke into two parties because of disagreement about the strategy towards the other centre-right parties in the government. A similar fate met also other parties, especially from the HZDS camp. Several deputies from HZDS left the party and also the SNS broke up into two parties because of the intra-party struggle over the leadership (Rybář 2006, 154-5). Additionally, new parties were established, for instance the liberal party ANO, formed by media magnate Pavol Rusko (Haughton 2003).

This emerging of new parties meant that the old polarization between HZDS counter anti-HZDS camp started to be less stable, while the new dividing lines become more visible (Rybář 2006). However, while the parties were had to cross cleavages in order to find a coalition partner, the new boost of parties did not create a stalemate on the political scene. Moreover, it helped parties to learn to do compromises, while they were searching for allies. This cooperative and consensual attitude was crucial also after what these parties stepped into government coalition. A concrete example can be shown on the situation of the first Dzurinda government, when it had to adopt a number of stabilization measures aimed at reducing the deficit. This was very difficult task especially for an ex-communist party SDL, which held the post of finance and labor ministries. For that reason, originally SDL managed to water down the initial proposal and weaken the impact of the reforms. However, after what SDL realized that this was not sufficient enough, it changed its position and was willing to continue according the government strategy despite the ideological difference.

However, there was also second important aspect which persuaded SDL to agree with government's proposal. Even thought this reform exacerbated the tension at the heart of SDL, most of the members of party were prepared to "make sacrifices in order for Slovakia to achieve entry into NATO, OECD and especially the EU" (Haughton 2003, 79). Therefore, when the coalition faced several problems and was on the verge of collapse, the common aims of entry into the Euro-Atlantic clubs held the coalition together. Further, it was again the direct pressure from international bodies, which had essential part on the maintenance of the coalition. For instance, the reason why the Hungarian party SMK did not walk out of the government half-way through the term was that its friends and allies in international bodies advised it that if the coalition split, the Slovakian chance to join international organizations would decline (Pridham 2002, 218). The EU factor did help to bring about agreement among coalition parties.

3.2. Hungarian party polarization

In the previous chapter, I explained that the Hungarian reforms have been introduced always as a result of economic crisis in the country. As a consequence, politicians did not have the mandate from electorate for implementing economic hardship neither the people were motivated by such a leverage as EU membership to undergo the reforms. What now we need to explain is the why this vicious cycle emerged in Hungary at the first place.

One possible explanation is offered by O'Dwyer and Kovalčík who argue that the institutionalizing Hungarian parties “concern for their future prospects prevents government parties from allowing their ministry appointees to propose radical policies” (O'Dwyer and Kovalčík 2007, 9). This explanation seems logical, but I will take one step forward and ask, why this institutionalization of party system emerged preciously in Hungary. For this, we need to firstly understand the relationship of cleavages in Hungarian party system, and secondly, its impacts on the political competition, which create party system, which lack the cooperative aspect and trust.

3.2.1. The role of cleavages for political distrust

In the beginning of the 1990s the Hungarian political party was divided on two dimensions. The first division was based on clericalism, anti-communism and nationalism, dividing the socialist from the right wing parties and having the liberals (Fidesz, SZDSZ) in the middle. The second dimension was based on anti-communism, pro-market orientation and social liberalism, which divided the Christian democrats and the socialist from the liberals (SZDSZ, to some extent Fidesz). However, in the last decade, this second dimension disappeared, while the first dimension just gained on its relevancy. Moreover, there was growing similarity between the Free Democrats and the Socialist party on the one hand, and the Fidesz and right wing parties on the other (Enyedi 2006, 180).

This stabilization of a cleavage structure started after the 1994 election, when the ex-communist MSZP, was searching for a coalition partner. Even though the MSZP had a majority in the parliament, they were afraid of leading the government alone because of need to tackle the enormous budget and deficit. While they rejected as a potential coalition partners the radical nationalist parties (FKgP and MDF), and the Fidesz refused to cooperate with them; only potential coalition partner which left was paradoxically the anti-communist movement SZDSZ (the Alliance of Free Democrats). Even though the support for the Socialist fluctuated after the introduction of Bokros-package, the party at the end of the day managed to persuade a significant part of the society that the package put country on the sustainable and rapid economic growth. As a result nearly two-party system developed (Tóka 2004, 306-8).

This was strengthened even more, when Fidesz created coalition with the Christian Democrats and Hungarian Democratic Forum before the 1998 election. As a consequence, the Socialist and Free Democrats became even closer as well. Therefore, it is obvious that the political space started to be dominated by two parties – the Hungarian Socialist Party (MSZP) and Fidesz. The fragmentation of Hungarian system dropped dramatically in the last decade. Since 2002 the parliament contains only few parties, while the two major parliamentary fractions possess close to 90% of the seats. This leads towards high competitiveness between parties in the elections. Because all main parties have stabilized electorate, the oversized coalitions have been typical form of governments, which results from the deep distrust among parties, opponents and allies alike (Enyedi 2006, 182-6).

Therefore we can see that since 1994 the three main cleavages have structured the Hungarian party system, dividing the political spectrum into two stable political camps. In the first camp, which can be describe as secular, post-communist and urban, we can find SZDSZ and MSZP, and in the second one, described as religious, anti-communist, socially conservative, are Fidesz with MDP, KDNP and FKgP. “This had led to an almost two-party system where parties of centre-left and centre-right colligated among themselves, but never in a manner that would mean cooperation across the ideological boundary (centre-left with centre-right)” (Casal Bértoa 2011, 16).

As a result, Hungarian elections are highly competitive, while the competition is mostly closed for new parties. The patters of coalition are quite stabilized and the possible government-membership is restricted to few parties. Therefore, there are strong attempts of parties to isolate each other and to create constrains for a coalition making process. Once the party is within one camp, it has to refuse to just consider the partnership with the other camp. The elites have produced a polarized political space, leaving no room for a centre-force. And while the voting system is established in the way in which the citizens are given the choice to vote according to their preferences, the well-known candidate from big parties have only change to win, while the Hungary is constituted by only one single district. This means that even popular candidates from small parties had just little chance to gain a seat in the parliament (Enyedi 2006, 180-2). The two main parties' electorate occupied a relatively well-defined social space. The high polarization and limited parties in the system means that the politicians of the government-parties perceive the members of the opposition (and vice versa) as life-enemies “whose complete eradication from the public sphere is an unlikely, but worth-trying project” (Enyedi 2006, 191).

In conclusion, the form of cleavages has determined the political competition in the country. While the parties strictly stick to their ideological boundaries, they are not use to negotiate or make compromises neither in order to find allies nor in order to establish public policies. Moreover, the system which basically allows to dominant just two main parties, create even rivalry between the big and small parties (Enyedi 2006) and improve the distrust in the political arena. This way established cleavages create very high competitive environment between two main parties. The opposition is waiting until the governing party does a mistake, in form of unpopular steps, and use this moment for its own benefits. Therefore, it is hardly to imagine that the parties would propose hardship measure in form of painful restructuring of health care, education or pensions, without emerging of critical situation. As a consequence, the government postpones the reforms until the last moment and hope that it would be its opponents, who will have to deal with the consequences. If such moment occurs, the opposition use the hard time of government for gaining popularity while proposing populist measures. This can explain why as a result of the 2008 referendum, the coalition broke up.

The parties are not willing to make scarify in order to improve the economic situation in the country. Even though the small party of the Alliance of Free Democrats was willing to continue in the reform despite the referendum; the Socialist party was too much afraid of result of such behavior and sacked, as a consequence of a defeat in a referendum on health reform, Health Minister Agnes Horvath who was represented SZDSZ. Even though SZDSZ supported the government until the end of the mandate in order not to lose the confidence in parliament, they refuse to continue in cooperation as a government party.

3.2.2. Missing element of international pressure

One obvious question when we compare Hungary with Slovakia is the why the EU did not have the same influence also on Hungary, as it did on Slovakia. One important difference with Slovakia is that in 2000, Slovakia was still fighting for its membership to the EU or NATO. However, this phase was already closed for Hungary, who underwent most of necessary reforms during 1990s. But once the membership started to be sure, it shifted the party landscape in Hungary.

In early 1990s, there was consensus among Hungarian parties about the orientation towards the West and mainly to the EU. While Hungary started with the transformation of plan economy into market economy earlier than the other Central and Eastern European countries, there was some consensus among parties on the main direction of domestic policies. Since until the half of 1990s, when the Hungarian party system started to be established and the cleavages was constituted, it was also the time when the Euroskeptic left tan quadrant remained thinly populated. However, once the membership was near and secure, the parties took advantage of new opportunity to oppose European integration and took stronger left tan positions, which would be previously unacceptable. Especially, Fidesz took more conservative Euroskeptic pattern after 2000s. Although Fidesz is not typical Euroskeptic party, it has negative attitude towards EU encroachments on national sovereignty and cultural identity (Vanhuysse 2006). Therefore, we can detect development of party system, which even influence the reforms efforts.

By adopting a market-oriented, non-nationalist and pro-European political agenda immediately in early 1990s, the parties created some consensus on the direction of domestic policy-making (Vachudová 2008). This helped to the Socialist persuaded the electorate about the necessity of reforms in 1990s. However, while the political polarization increased since 1990s dramatically and the EU membership was closed chapter in Hungarian history, main parties used this chance and shift their attitudes towards more critical rhetoric towards the EU integration project. And even though there is political consensus about the entrance into euro area, there is no agreement about the timing and sequencing of necessary reforms. "Hungary' euro entry strategy was caught up in a divisive process of "bottom-up" Europeanization, in which different domestic actors used Euro Area accession to open up new opportunities in electoral and party competition. The result was a politics of Euro populism, deadlock and drift" (Greskovits 2007, 185).

3.3. Conclusion

In this chapter I provide the explanation for the causal mechanism, which helped the Dzurinda governments, despite the tough situation, to implement the reforms, while Hungary did not. Slovakian party system is based on the cross-cutting cleaves that forced parties to be more cooperative and consensual than the Hungarian one. Hungarian cleavages contrarily divided the political scene on two strictly defined camps that never cross its boundaries in order to find allies. Moreover, the Hungarian system leads towards high competition not only among the camps, but also among the small and big parties, which amplified the distrust in the political arena. Additionally, while the political cooperation of government in Slovakia was supported by international bodies, in the Hungary such incentive was missing and the issue of accession to Euro area just resulted in populism and deadlock.

CHAPTER 4 – TIMING AND PREPARATION

The previous chapters showed the impact of the political/economic crisis and the role of cleavages for successful/failure governments' reforms effort. What remains to be understood, is the last part of my argument. As Dewatripont and Roland (1995) argue, if the initial reforms have been a success, people are willing to accept less popular reforms, because they do not want to lose what they already gain from the first reforms. Therefore, it was the right sequencing that helped Dzurinda to win the second term in order to undergo the reforms. The correct sequencing can therefore create a momentum by strengthening the support for the reforms. This, I believe, is the last key difference between the Slovakia and Hungary reforms strategy.

While Dzurinda government implemented in the first term the "sweet pill" to order to increase the people's willingness to go through the rest of the reforms, the Hungary just offer the "bitter" part of the reforms. As Dewatripont and Roland continue in their argument, incorrect sequencing (starting with the painful reforms) undermines popular support and may unnecessarily leads to reforms reversal.

4.1. Slovakian preparation and gradualist approach

Last two chapters explained how the political crisis and the cleavages in the party system prepared better environment for Dzurinda government to undergo the reforms. The last but not least factor, it seems to be crucial that Slovak governments implemented the reforms gradually, while kept the welfare reforms for the second term. That helped Dzurinda to stay in the government and to keep the social outcry at bay. Therefore, two more things are important. First, the sequencing of the reform managed to downplay the society unrest while people chose "exit" (Hirschman 1970) in the 2006 election, but not earlier. And second, the preparation of the government for reforms that ensured for adequate and nearly full implementation.

4.1.1. Milder reforms of the first Dzurinda government

The first Dzurinda government's primarily aim was to focus on the macroeconomic stabilization of the country in order to reverse the effects of democratic backsliding and economic mismanagement of the previous Mečiar government. In order to succeed in this, the Dzurinda government started program of reforms based on three main pillars – macro-economic stabilization, structural reforms in banking and enterprise sectors, and legal and institutional changes (Fisher, Gould and Haughton 2007, 979-80).

The reforms in the first pillar were aimed at stabilizing of the macroeconomic situation of the country. They were triggered by the downward pressure on the currency that forced the new government adopt a number of stabilization measures (Mathernová and Renčko 2006, 633-4). As Mathenrová and Renčko claim, the ability of government to improve the macroeconomic parameters reassured the markets that had initially doubted about the ability of the coalition to implement the reforms.

The reforms in the second pillar were done in situation of emergency. During the 1990s, the banking sector was characterized by insufficient assets, undercapitalization, bad debts, permanent losses, and incompetent and unmotivated management of state banks (Zachar and Goliaš 2010, 3). According to auditors, the banks immediately needed government's help. The government decision was to restructure and privatize the banks. It should be stressed that the preparation phase – diagnostic phase, reform design, and implementation – were coordinated with the World Bank. This documents the well-preparation of the government for the reforms (Mathernová and Renčko 2006, 633).

To reach a political consensus was however very hard task for the government, because the price for rescuing the banking sector was estimated as 13% of 2000's GDP. Even though the cost seems high, it was worthy, while the government investment was paid back in three years. This makes the bank restructuring program one of most effective public investment in the world (Mathernová and Renčko 2006, 634).

The last pillar of the reforms was aimed at the improving a legal and institutional environment for enterprises. It was necessary to improve the bankruptcy code, corporate governance rules and access to capital. This task was again very difficult because the government faced the possible domino effect, due to huge level of inter-enterprise arrears, which would lead to the insolvency of a great number of companies. Moreover, the reforms were opposed by judges because they lost their opportunity to benefit themselves through the coalition with bankruptcy administrations and debtors (Mathernová and Renčko 2006, 634). Nevertheless, the government was successful and as a result of the reforms, the sector started to grow, become profitable and less indebted (Zachar and Goliaš 2010, 4). Again, the international body, in this case the European Bank for Reconstruction and Development helped significantly to the process (Mathernová and Renčko 2006, 635).

All in all, Slovakia benefited from the fact that it was latecomer to the reform and therefore was able to use the advice and experience of other transition countries from the region. Consequently, this allowed making the reform transparent to other international institutions and to the markets. This success helped boosted the international credibility of the government, and also provide the cabinet with space to prepare the necessary structural and institutional space for further reforms (Mathernová and Renčko 2006, 633).

Even though the government expenditure rose dramatically in these years, there were not mirror in social cutting. The government implemented some reduction of public expenditures in social areas, but the major reforms were kept until the second Dzurinda government. This seems that this was also one of the factors that helped to the government to kept possible outcry of people at bay.

4.1.2. Radical reforms of the second Dzurinda government

When in 2002 more homogenous coalition emerged from the election, the government had chance to launch a number of reforms, dealing with pensions, taxation, social benefits, labor market, fiscal decentralization and finance. But before I will talk about the reforms themselves, it is necessary to answer the question, why Dzurinda was able to win once more.

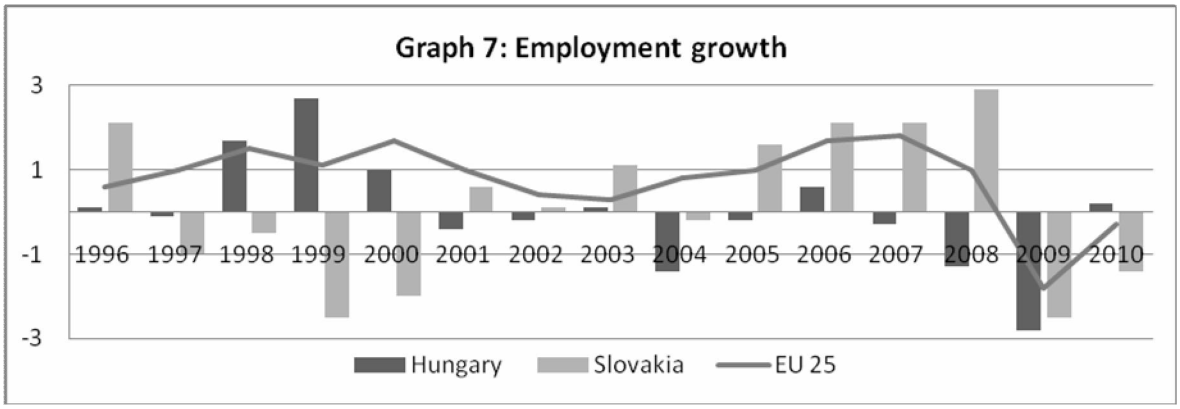
While the success of Mečiar opposition in 1998 election can be see more easily, it is little bit harder to see the reasons for persistence of the parties in the government also after the 2002 election. There are several reasons for that result. Firstly, it was the successful implementation of the first reforms which was very gratefully welcomed by the international community. The first Dzurinda government managed to lead the country out of the international isolation. This was mirrored in the campaign of SDKU which placed the achievement of the entry into the EU and NATO into the centre of its program, while the theme of “Future is in Europe” was in the spotlights (Haughton and Rybář 2004; Haughton 2003).

Even though the people were disappointed to some extent with the economic development, as Haughton (2003, 75) claims, they were willing to give the party one more chance, because they believed that this was the only party that was able to ensure the entry into the EU and NATO. Moreover, there was still a fear of Mečiar returns and the SDKU smartly used this also in their campaign, while portrayed just two choices: the one where “We’ll finish what we’ve started. We are on the right path”, counter the return to the path “which Slovakia rejected in 1998. A return to Vladimir Mečiar, to the politics of hatred, violence, intolerance and international isolation” (Haughton 2003, 74).

The correct sequencing of reforms which use the “sweet pill” earlier in order to gain the acceptance of the “bitter pill” of later reforms (Dewatripont and Roland 1995) managed to create constituencies for continuing reforms. As was showed above, the government focused just on the pro-business reforms in the first term, and did not implement drastic welfare cut in the same time, which would drastically undermine the popular support.

Once the government was reaffirmed in the position, it was able to continue in its work. Again, the government was very well prepared for the reforms. This can be seen from the fact that most of the government advisor or even politicians themselves came from the expert circles. People came to the government from different groups of the society, included former journalists (ex. Zitnansky, Beblavy), NGOs (ex. Miklos, Niznansky) as well as economic/business community ((ex. Barto); Fisher, Gould and Haughton 2007, 992-3), which helped to minimize the populism at bay. Additionally, the consensus among parties in government was very crucial. Their willingness to endure such drastic reforms was tested in 2004 referendum, which was invoked by the opposition party Smer. The referendum asked whether the people want to have early election. Even though the referendum was held in the same time as the presidential election (the first round of the presidential election was also held on the 3rd of April 2004), it was not valid, while not enough voters came. This can be explained as an “exit” choice (Hirschman 1970) of people on that issue.

Moreover, it is possible to claim that the government was quite successful not only in the right sequencing of the reform, but also in balancing of their impacts (Mathernová and Renčko 2006). It seems that the government prepared country in advance for following austerity packages, while for instance, managed to increase the employment as can be seen from below graph.



Source: Eurostat

But there are also other reasons, why to believe that the sequencing and balancing of the reforms was important. Firstly, the government introduced the flat tax, which benefited the rich, but the government kept in mind also the need of the poor, while the people with minimum wage did not need to pay tax. Secondly, even though the government implemented lots of social cuts, it was also friendly to those who had a pro-active approach to their lives (Fisher, Gould and Haughton 2007, 981-2). The reforms were design in that way that "works pays". For instance, the new social benefits scheme was proposed in such way that those unemployment people, who did not have proactive behavior towards work (people tried to actively search for a job, participate in training and etc.), gained less in the new scheme that they would have according to the previous one. However, those unemployment people, who were more pro-active about employment, can gain more than they would gain previously (Zachar and Goliaš 2010, 23). All in all, although we cannot say that the reforms did not have negative impact on Slovak society (as can prove the Gypsy riots in the East parts of Slovakia), the government tried to downplay it.

Because the government sequenced the reforms (Wei 1997), it managed not only to downturn the outcry of the society, but also managed that the society chose the "exit" (Hirschman 1970) in form of the 2006 election.

4.2. Too much gradualism in Hungary

When we compare the reforms sequencing in Slovakia and Hungary, we can spot one essential feature. While Hungary underwent most of the market-creation and pro-business reforms in early 1990s, it was not able to continue and manage to stabilize its public finance in long term. In previous chapters, I explained that the vicious cycle of irresponsible public polices was caused by the polarizing party system, in which parties lack the trust to each other. This led to postponing of the reforms until the moment of economic crisis, when the country faced the treat of bankruptcy. This resulted in the situation, when the government was not able to promise any "trade off" to electorate in order to undergo the reforms.

As Dewatripont and Roland (1995) showed, the right sequencing of the reforms is important for their success. When the government starts, as it happened in Hungary, with the less popular reforms that just increase the burdens of society, it undermines the popular support and lead to reforms reversal. It is therefore necessary for the government to firstly offer the "sweet pill" to the society to gain the acceptance of the later "bitter one" (Dewatripont and Roland 1995). However, when we look on the reforms of the Medgyessy government, it decreased the spending on welfare and public services and increasing revenues from taxes and privatization. Moreover, the Gyurcsány government, immediately after he came into the office, introduced the health care and educations fees, cut public spending and planed to increase the retirement age.

The key problem seems to be that even though Hungary implemented the gradualist approach in early 1990s, Hungary (in contrast to Slovakia) waited too long with implementation of further reforms. While Slovakia implemented the reforms gradually, however in shorter period of time, the outcomes of reforms were still uncertain to individuals. As Wei claims, “the key to *(reforms)* result is that individuals do not know before a reform whether they will be winners or losers” (Wei 1997, 1237). In contrast, however, while Hungary implemented one part of reforms in early 1990s, the Hungarian society in 2000s already knew that it would be on the losers’ side. Hungarian voters had the experience, for instance from Bokros package, that they would be the one who would pay the price. Moreover, the result of Medgyessy’s effort to balance the budget ensured them that they were right.

Additionally, Hungarian voters were not provided with the possible “compensation”, for instance in term of “return to Europe”, as it happened in Slovakia. Moreover, while Slovakian reforms seems to rather restructure the expenditure on social policies, and people with pro-active attitudes were not necessary worse off, the burdens were increased in Hungary for everybody. Therefore, not only that as explained earlier the government did not have the mandate for such reforms from electorate, but also the government did not offer any leverage in form of “sweet pill” to society. As a result, the Hungarian society chose “voice” (Hirschman 1970) in form of angry protests, which calling for Gyurcsány resignation.

What was also striking compare to Slovakian reforms was the speed with which the Hungarian government passed the reforms legislation. By the end of 2006 in a very short time were passed many regulations from a variety of policy fields (Ágh 2009, 2). This shows that in Hungary, the reforms are not product of long learning about the problems, rather short-term solution with aim just to head off the coming bankruptcy. There is a missing collective learning in the policy area, which means that public policy-makers did not (as in other European countries) develop their strategies continuously (Lakner and Tóth-Czifra 2008).

The policy-makers in Hungary confuse the long-term structural reforms and short-term stabilization (Farkas 2008). As Farkas argues, the stabilization can be done even without the structural reform strategy and can be result of immediate political action. However, the goal of real public finance reform should be creating such framework, which would ensure that imbalanced would not occur any more (Farkas 2008, 30).

4.3. Conclusion

The last piece of the puzzle, what determinate the successful and failure of the reforms, is in the sequencing and preparation of the government for reforms. While the Dzurinda governments managed to offer leverage to its citizens in form of “promise of better future”, Hungarian governments fail to do so. Moreover, while Slovakian citizens were not sure whether they would be on the winner or loser side before the draconian welfare reforms were implemented, Hungarian citizens knew from the previous experience that they would lose at the end, and that they would be the one who would pay the price. Moreover, while Dzurinda balanced the reforms better, Hungarian reforms negatively affected most of the society at the end.

CONCLUSION

To summarize, this thesis showed different path of the reform process in Slovakia and Hungary that led to different outcomes. As a consequence of a political crisis and the EU leverage, the Dzurinda governments enjoyed a social climate that helped him to implement the first reforms. Moreover, both of Dzurinda's governments were able to remain in office and to find a consensus. The consensus was made possible by the manner in which the cleavages were formed. Last but not least, Slovakia managed to "piecemeal" the reforms in such way that offered a promise of "a better future" to the electorate. Moreover, as the citizens did not have similar experience with reforms from the past, they were not initially aware of the possible the impact of the reforms on individual citizens. This helped the government to avoid any significant social outcry and the reforms merely resulted in the "exit" of electorate in the 2006 election.

In contrast to Slovakia, Hungary did not posses any of the above mentioned characteristics. The politicians were forced to undergo the reforms because of economic necessity and they lacked the mandate to do so. The postponing of the reforms until the last possible moment was caused by the way in which the party system operates. The cleavages did not allow the political parties to cooperate neither before election nor after during the governing period. This also leads to the inability of government to provide the society with some "carrots" in order to gain public support for the reforms.

Structural economic reforms are a very complex issue. The approach to these reforms used in this thesis pointed out the most important factors, which were crucial for the different outcomes in of the reform effort in Slovakia and Hungary. Nevertheless, I am aware that there can be some other aspects, which I were not dealt with in depth in the previous chapters, given the limited scope of this thesis. Therefore, I would like to briefly tackle at least some of the alternative explanations.

First anticipated objection to my argument is that the reforms in Hungary were implemented in worse economic climate than in Slovakia. The Hungarian citizens already faced a very high burden from the previous reforms in the 2000s. The taxation was high and the health care system seemed to be in a bad condition, even when compared to Hungary's regional peers. The Slovakian life expectancy as well as the aggregate employment rate were significantly higher in pre-reform stages in Slovakia compared to Hungary. Therefore, the Hungarian government implemented the reforms in much worse social-economic situation than the Slovakian government. Even though this can be the thru, it would not help us in any way to understand the nature of the successful reforms. Moreover, it can be hardly proved that the worse result in life expectancy or employment really stood behind the social outcry in Hungary, because what is more important is what the people's perception on the situation is.

The second challenge that my argument is potentially facing is that the right sequencing of the reform was not the real reason that helped Dzurinda to be reelected in 2002. Rather, Dzurinda's reelection could be due the fact that the country started to growth as a result of economic openness. Some authors argue that even if the government did not implemented the pro-business reforms, the employment and GDP would rise anyway, as a result of the inflow of new FDI. As Hayek once said "the high growth today is usually not a sign of something being done right today, but simply of the unleashing of potential that was curtailed in the past" (Pogátsa 2009, 383). Therefore, it is possible to argue that "what we can see is a simply a belated recovery after a belated privatization" (Pogátsa 2009, 383). However this can be right, it does not falsify my argument. This point can be seen as another factor, however, which cannot be seen as a real explanation for my research question.

Where we can go from here?

Every research should have the potential to tell something about possible future developments. This goes behind the scope of this thesis, but let me say few words here about this issue. In terms of the Hungarian future, it is a very complicated task indeed to predict any future developments in the field of the economic reform. However, it seems to me that once the communication among the political parties and between political elite and the society is established inadequately, it can hardly be improved in hard economic times. It is probable that the Hungarian parties will continue with their “muddling the problems” as they did it so far. As the ex-minister of finance Lajos Bokros said, “an economic policy, which was unnecessarily pro-cyclical in good times, cannot be made anti-cyclical in bad times” (Fazekas and Ozsvald 2011, 93). Even though the Orban government is currently making some reforms without the explicit approval of the society, given the historical experience, one can question the sustainability of such policy. The steps of the government once again merely reacted to the immediate need for economic reforms, but did not deal with the lasting structural problem of the Hungarian public finance.

Additionally, the 2008 referendum can also tell us something. Firstly, the content of the referendum was linked towards the fiscal and budgetary policies. Therefore, it is reasonable to expect the rise in the number of referenda in the future, which will make it even harder for policy-makers to propose austerity measures. Secondly, the referendum showed that such an ordinary event in a democratic country, like a referendum, can break up a majority government. However, the main problem with the 2008 Hungarian referendum was that it does not offer any alternative, but merely blocked the proposed reforms (Lakner and Tóth-Czifra 2008). As a result, the competition among political parties will probably rise, which will in turn decrease the clarity of public policy alternatives.

It is equally hard to predict the future of economic reforms in Slovakia. Nevertheless, it is probable that, despite the current volatility of the political environment, the cleavages will remain cross-cutting and there will be a high change that political parties, despite their disagreement, will find a consensus on the future of the economic reforms. On the other hand, the EU leverage already lost its relevance, when they joined in 2004, will make harder for the coalition find the common agenda in order to find compromises, as it happened in Hungary. Therefore it is also possible that if Slovakia needs to undergo any reforms in the future, the society as well as political parties will lack the motivation to do so. Moreover, the society will be more skeptical about economic reforms in the future, as they will remember their experience with the impact of the previous economic reforms.

Additionally, since 2002 it is obvious that SDK/SDKU-DS and Smer started to dominate the political scene, which has a potential to create a similar two-camp polarization as in Hungary and slowly suppressed other cleavages. This polarization could close the party system, as it happened in Hungary, and create a political stalemate about the future development of the country. As Mair (1997) claims, it is very important for the post-communist states to keep political party system rather open, in case that the public policy has to be determined. The closed party system, which prevents the entry of new parties into the Parliament, creates high competitiveness and polarization among the political blocks and thus a hurdle to alternative policies.

Every research should also be applicable to other case studies. Given the very limited scope of this thesis, it is impossible to conduct an in-depth study into the applicability of the argument out of the regional space of Central and Eastern Europe. This is maybe something that could be a subject of further research. However, I believe that my thesis have some potential be applied in the regional area. As was already noted at the beginning the thesis, there are differences between the Visegrad countries. And therefore the specific national characteristics have to be kept in mind. Nevertheless these countries share historical legacies and they faced similar problems throughout the transition in the post-communist period, and therefore they are often analyzed in literature as one unit. When we briefly look at the development in the Central and Eastern Europe, we can see similar effort to implement the reforms as in Hungary or Slovakia through the region. Despite these efforts, just few of these countries were able to reach similar success as Slovakia.

So, what could be learned from this research? Firstly, the circumstances matter. The government should be clear about the need for reforms and communicate this need to the society. A society that perceives the need for change is more willing to undergo even the "painful" part of the reforms. Additionally, this willingness can be strengthened further by attractive incentives. Secondly, the policy advisors need to be aware of the party system of the particular country and about its potential effects on politics. Another crucial matter, which has to be kept in mind when proposing any reforms, is the cleavages in the society. Are there cleavages that helped parties to cooperate or rather divide them into two competing political camps?

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