

Lecture

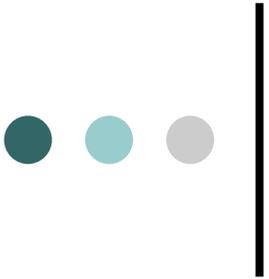
**The Vienna Institute for
International Economic Studies**

**Wiener Institut für Internationale
Wirtschaftsvergleiche**

June 21, 2010

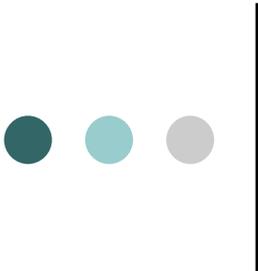
Professor Julius Horvath, Ph.D.
Central European University Budapest

**Slovakia: Election 2010
Political and Economics Choices**



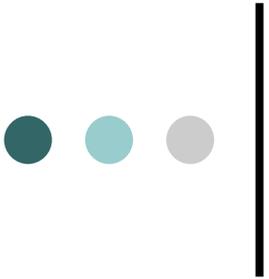
Structure of the Presentation

- **1. Slovak Election 2010**
- Pre-Election Atmosphere
- Results: Ability to form coalition
- Slovaks and Hungarians
- Hungarians versus Hungarians
- Tasks for the New Right-Wing Coalition
- Slovak Politics and Contributions to 'Save' Greeks



Structure of the Presentation

- **2. Slovak Development Model 1992-2010**
 - The Dependent Economy Model
 - Education
 - Slovakia and the Euro
 - Break-up of Czechoslovakia
 - Meciar 1992-1998
 - Miklos and the Liberal Turn of 1998-2006
 - Fico 2006-2010

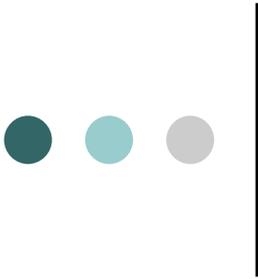


Pre-Election Atmosphere

- Dividing political lines in Slovakia:
- Populist Nationalists versus the Others (liberals)
- Ethnic (Slovaks versus Hungarians)
- Confrontational versus Non-Confrontational Stance towards Budapest
- Relationship to Prague – not an issue these days
- Older division line: left versus right;
- Bratislava versus the Others
- West versus East;

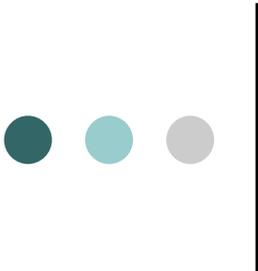
Pre-Election Atmosphere

- Before election Smer confident of re-election: question was which party would be a new coalition partner as Fico weakened the nationalists (SNS) and Meciar's party (HZDS) attempting to get some of their vote
- Dzurinda did not run for the Parliament (party financing scandal) instead Radicova; Radicova gained 44.4% in the Second Round of Presidential election in 2009, and 38,0% in the First Round of Presidential election in 2009
- Radicova has left-leanings and thus helps to position SDKU towards social themes similar to Smer; this made it difficult for Smer to campaign that SDKU is an elite party with no concern for those down



Main Results of Slovak Election 2010

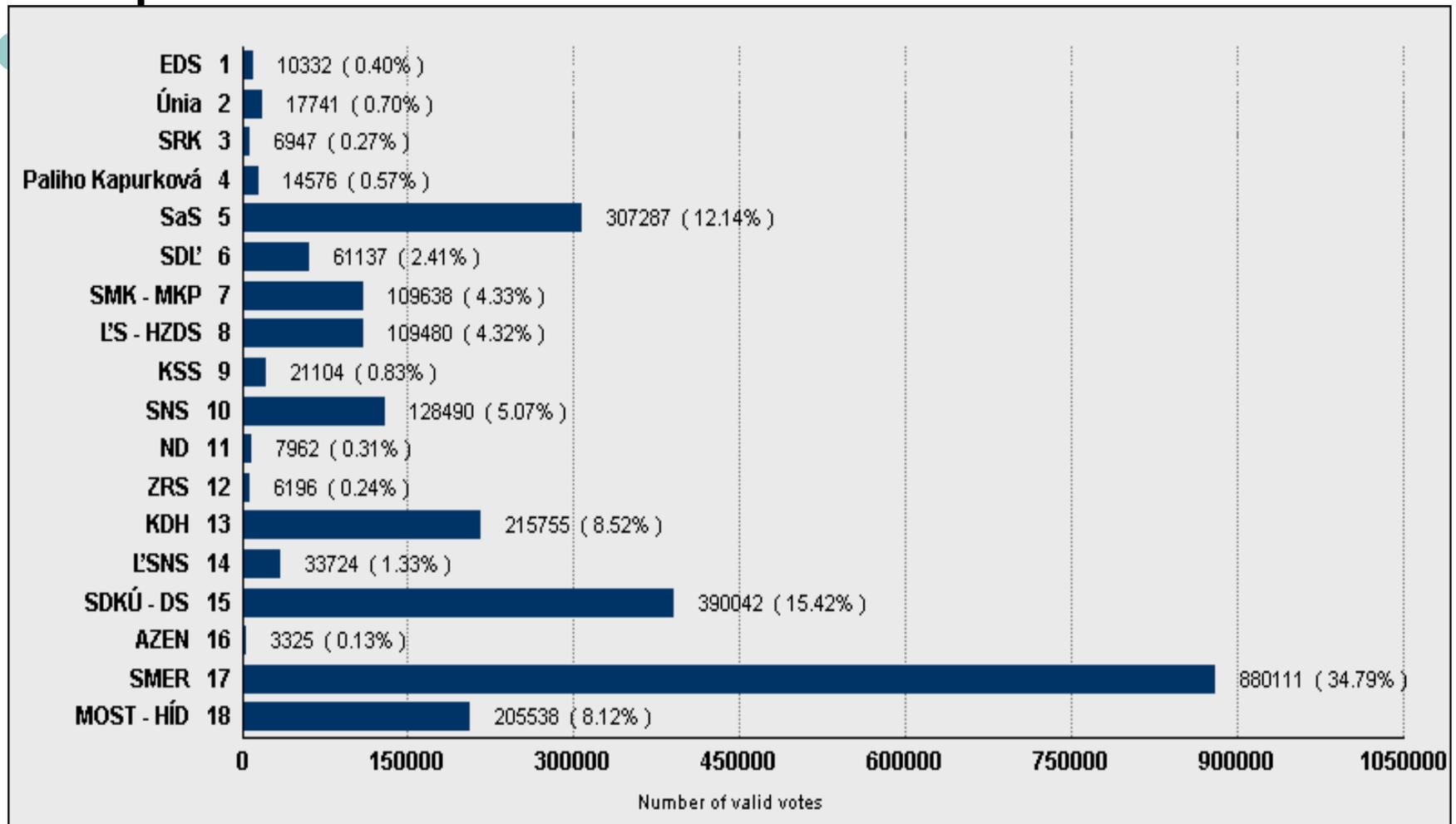
- Smer won 35% of the vote, 6% more than in 2006;
- SaS, a free-market party launched by Slovakia's flat tax guru Richard Sulik, won an unexpected 12.1%.
- Most-Hid, to heal the country's ethnic divide, 8.1%.
- SDKU 15.4%, down 3% to 2006;
- KDH headed by former EU commissioner Figel won 8.5%
- Smer two partners in government--the xenophobic Slovak National Party (SNS) and the populist party of the former premier Meciar did poorly; SNS, racist, and strongly anti-Hungarian, 5.1%. Meciar party failed to beat the 5% threshold
- Hungarian party SMK failed to get 5%



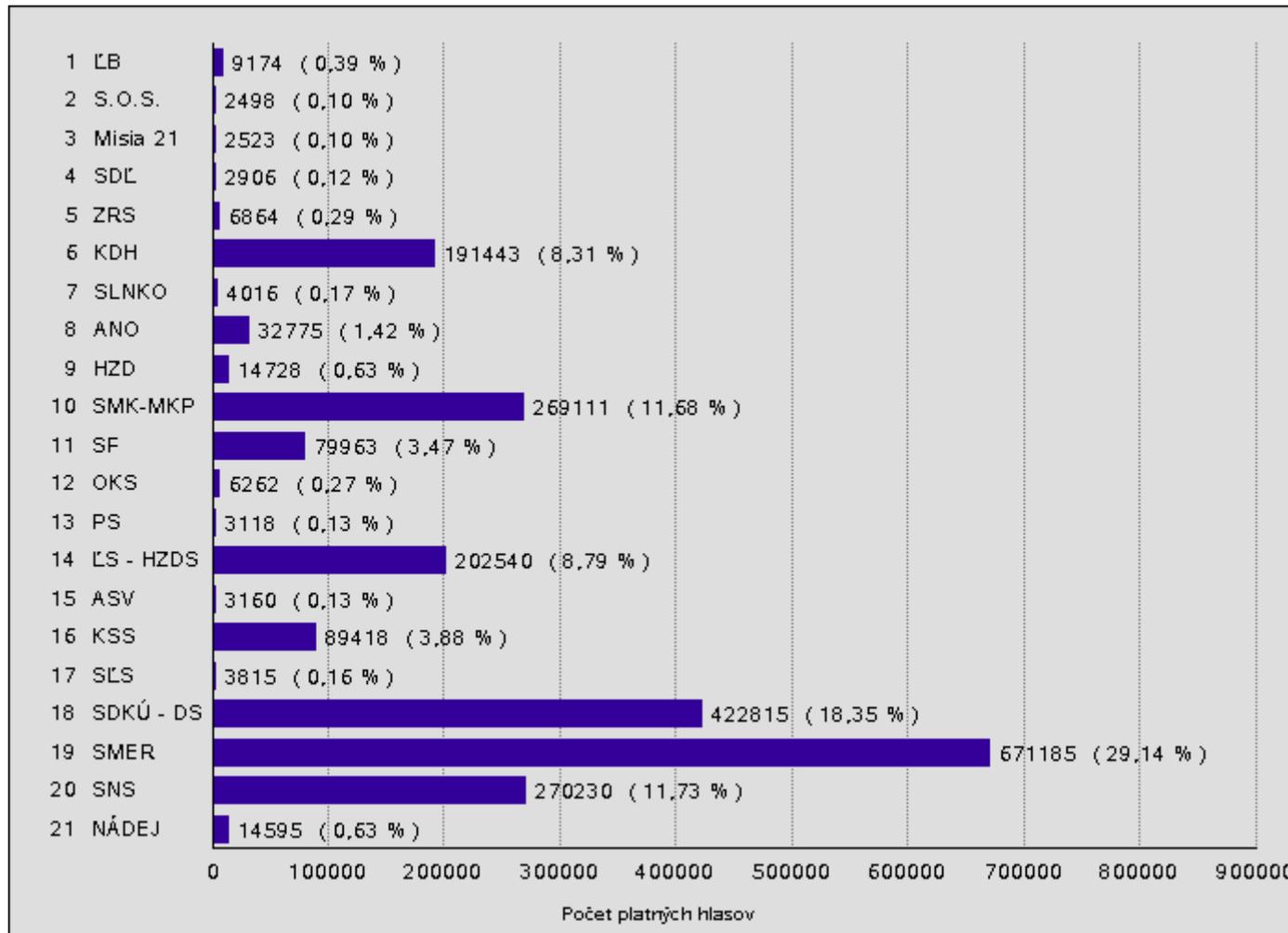
Main Results of Slovak Election 2010

- SDKU, KDH, Most-Hid and SaS are as centre-right parties of a Christian-democrat or liberal persuasion;
- A desire to frustrate Fico sufficient to keep them together;
- President on June 14th asked Mr Fico to form a government. This mandate is valid till Wednesday this week;
- Source of the graphs about Slovak election is the webpage of the Slovak Statistical Office, www.statistics.sk

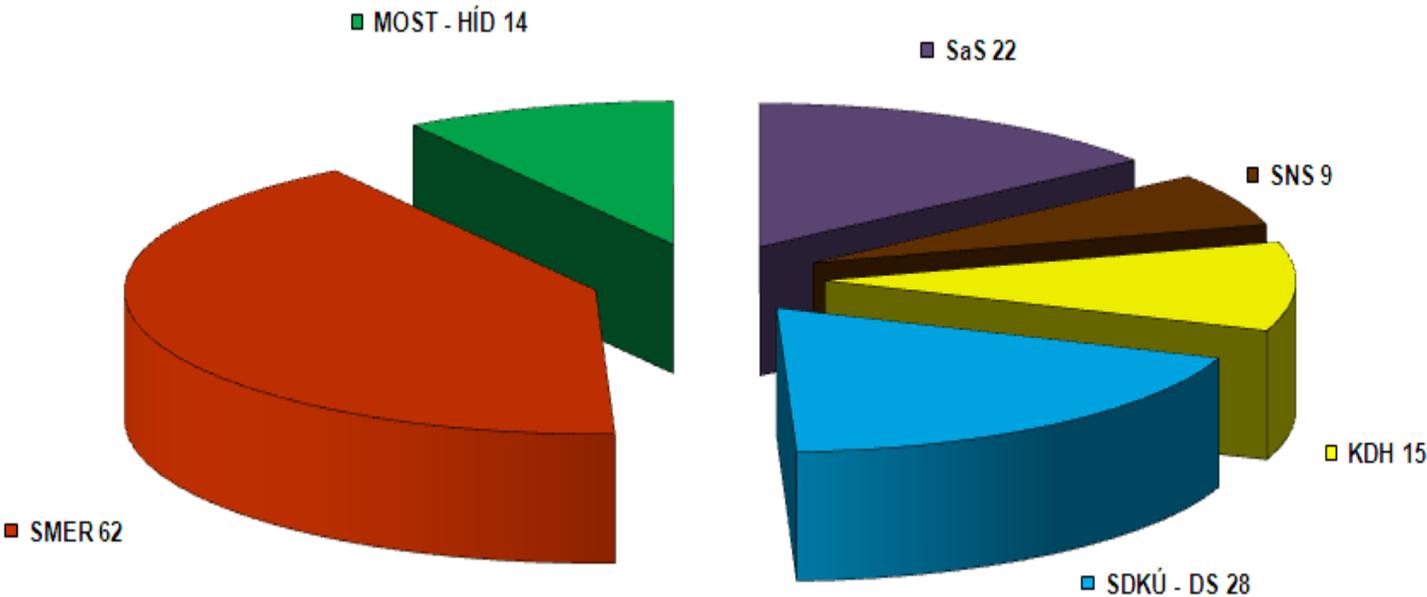
Slovak Elections 2010: Main Results



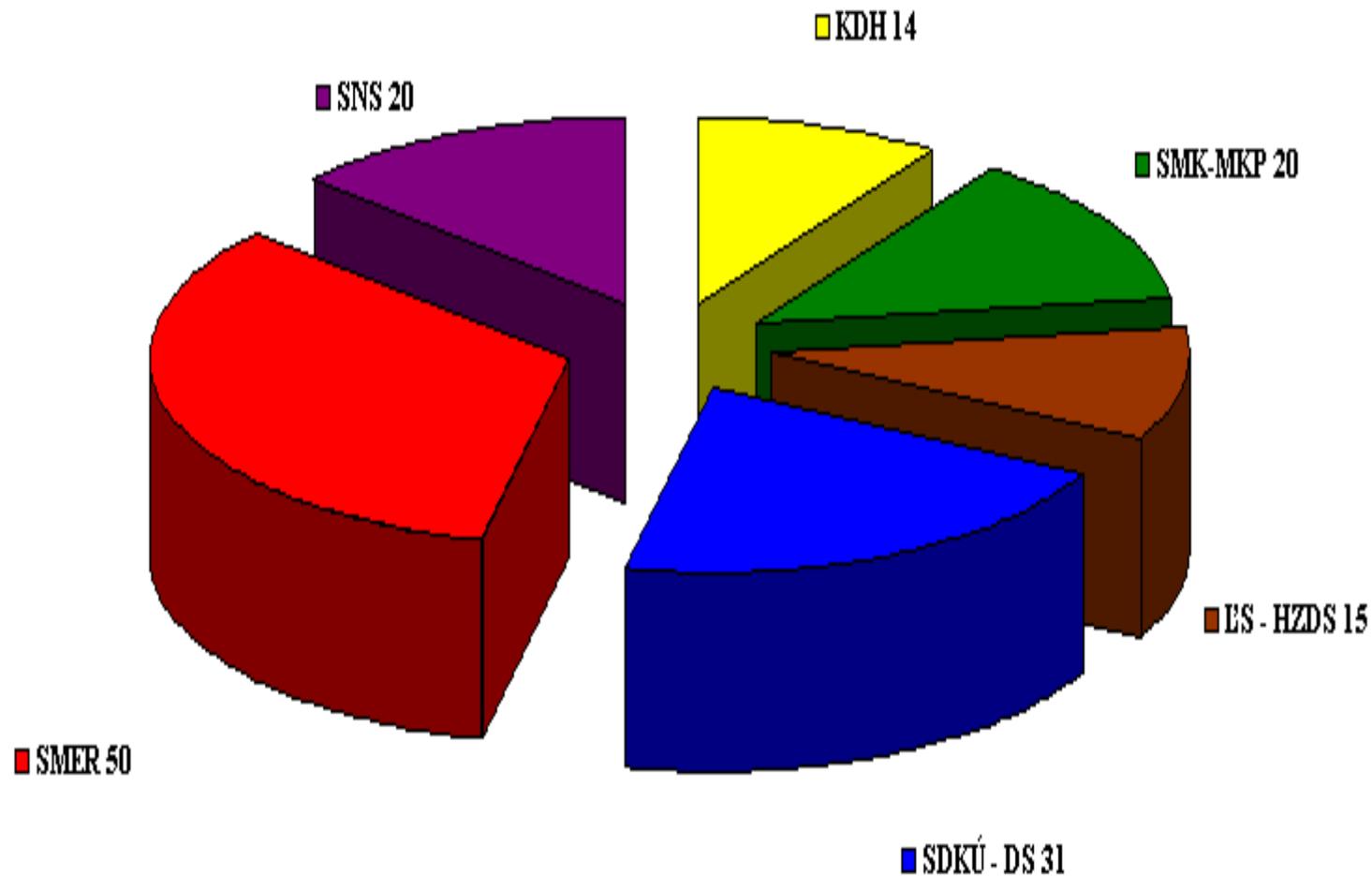
Slovak 2006 Election Results



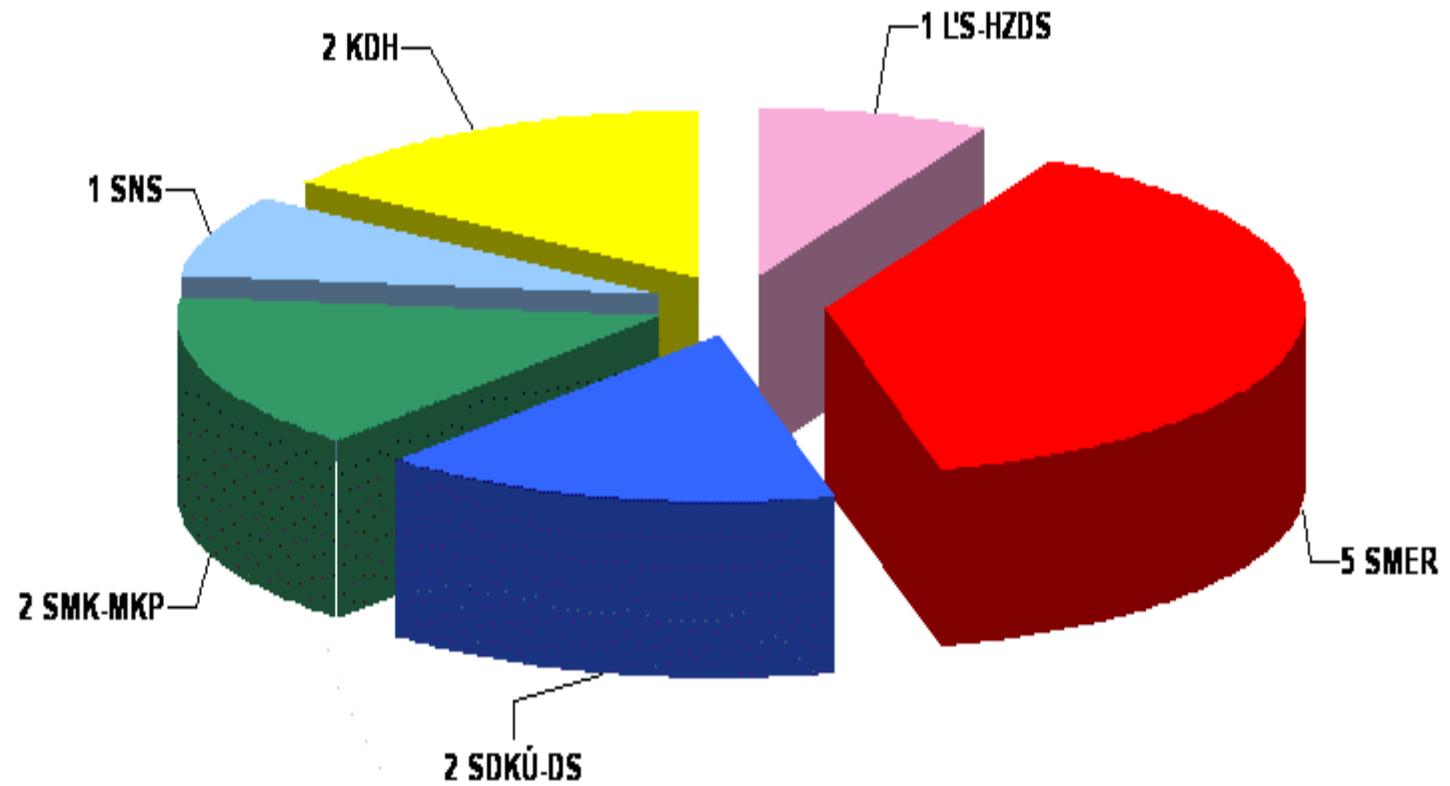
Number of Seats in the New Slovak Parliament
Total 150 Seats; 71 (coalition) : 79 (opposition)



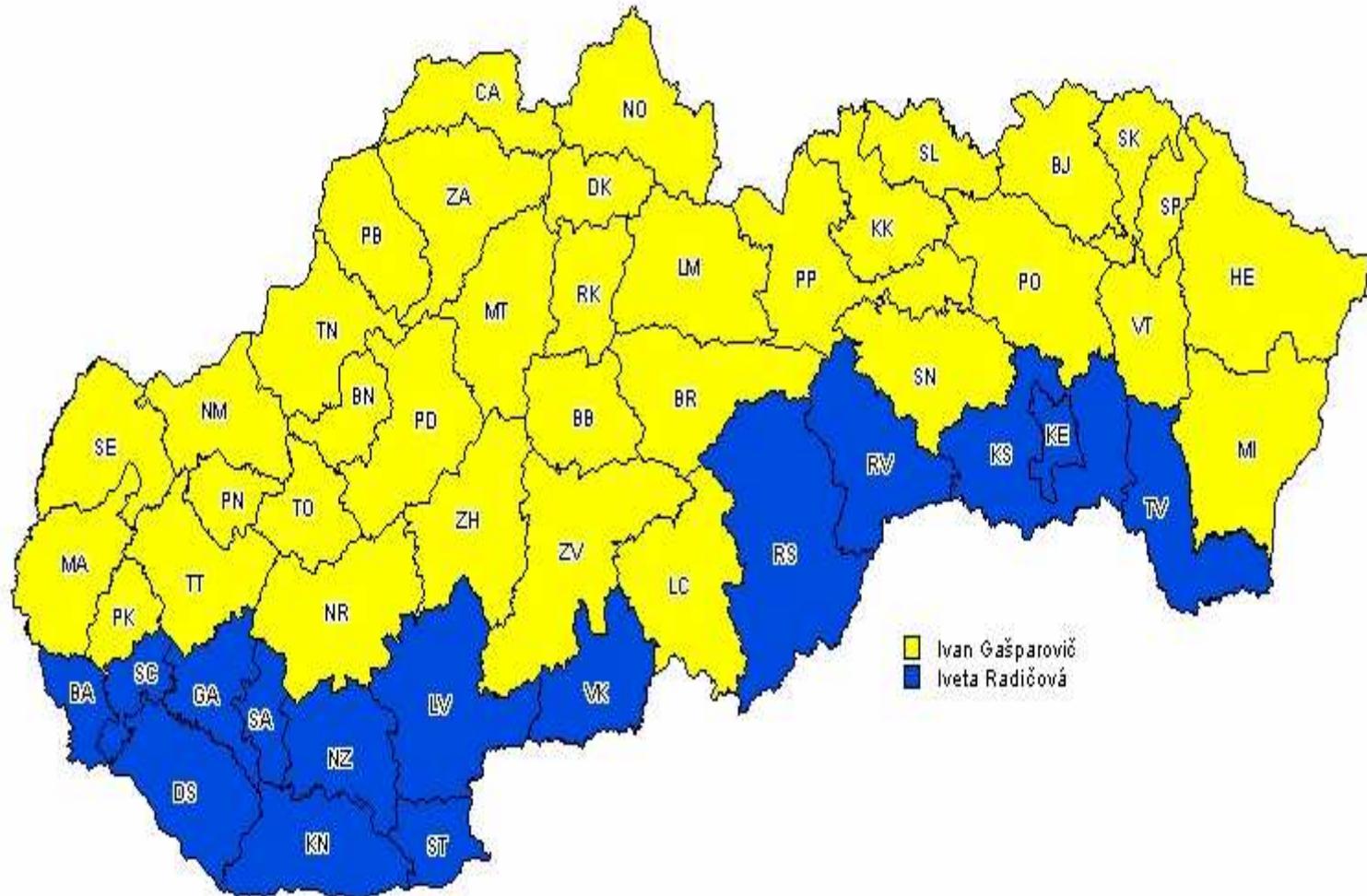
Number of Seats in the 2006-2010 Parliament
Total 150 Seats; 85 (coalition) : 65 (opposition)



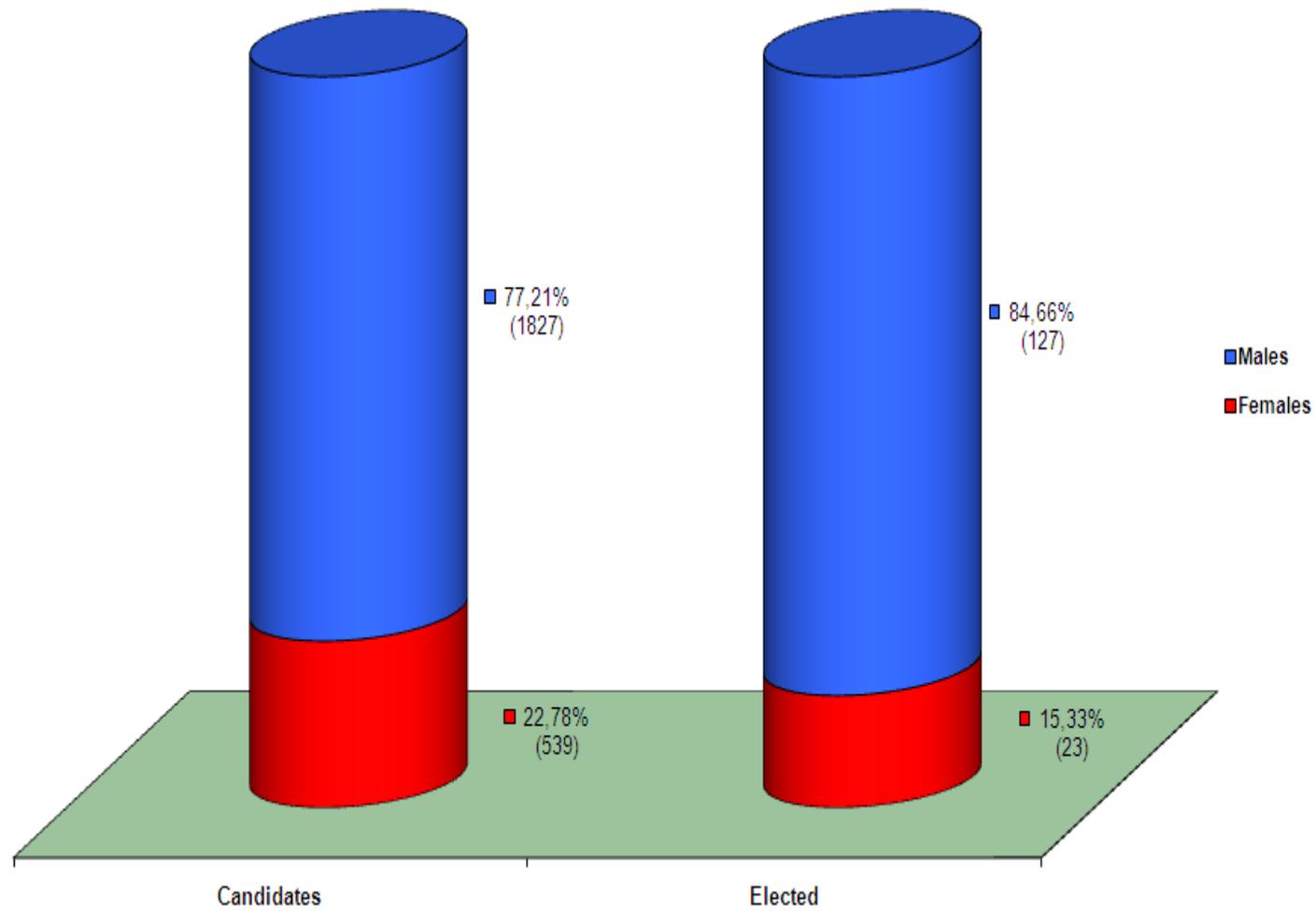
Election to the European Parliament 2009 7:6 (Coalition vs Opposition)



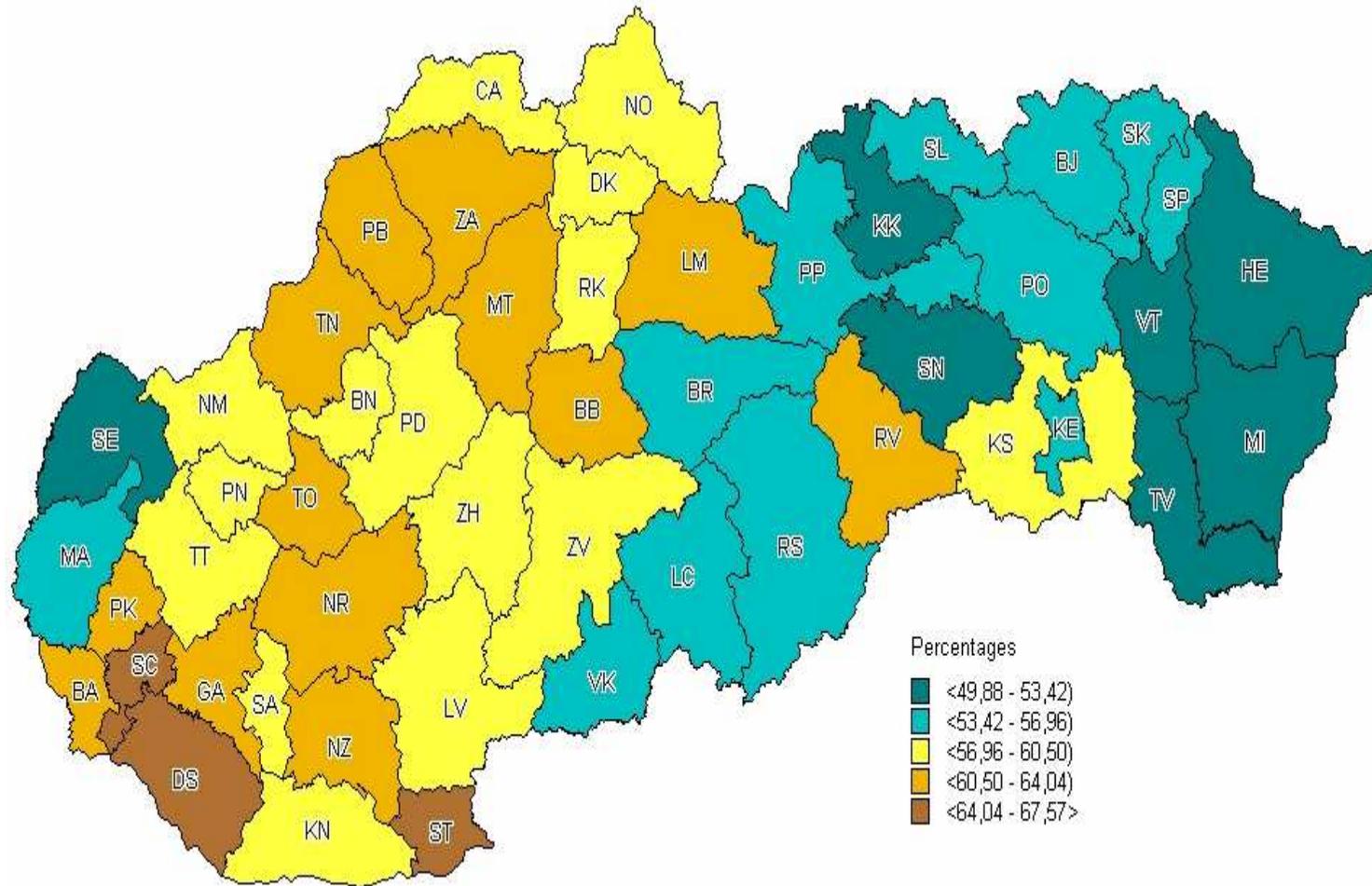
Presidential Election 2009



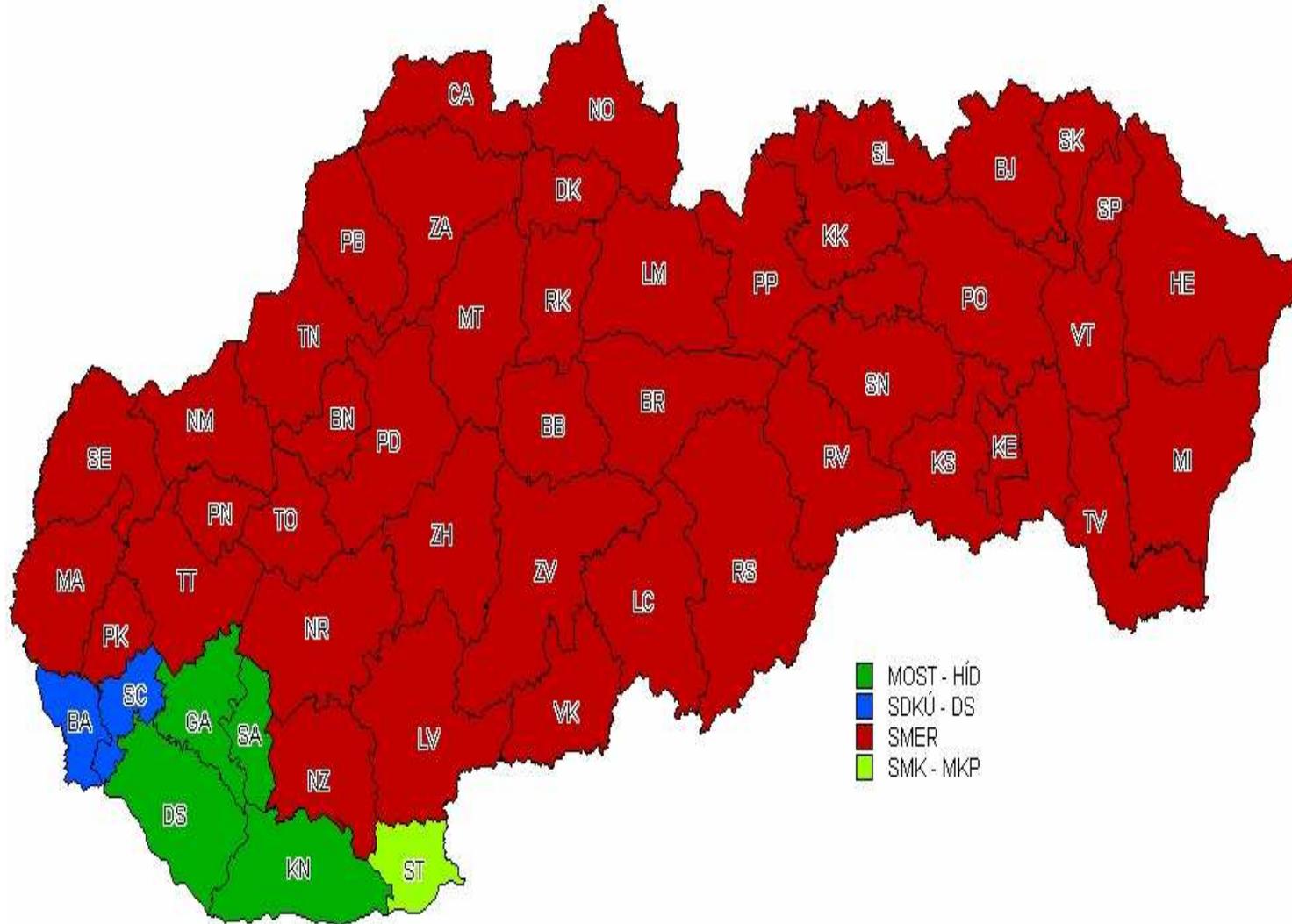
2010 Election Results: Gender Candidates to Parliament and Elected into Parliament

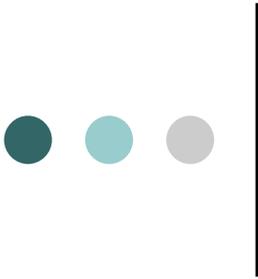


Voters Turnover: 58%;



District Winners of 2010 Election





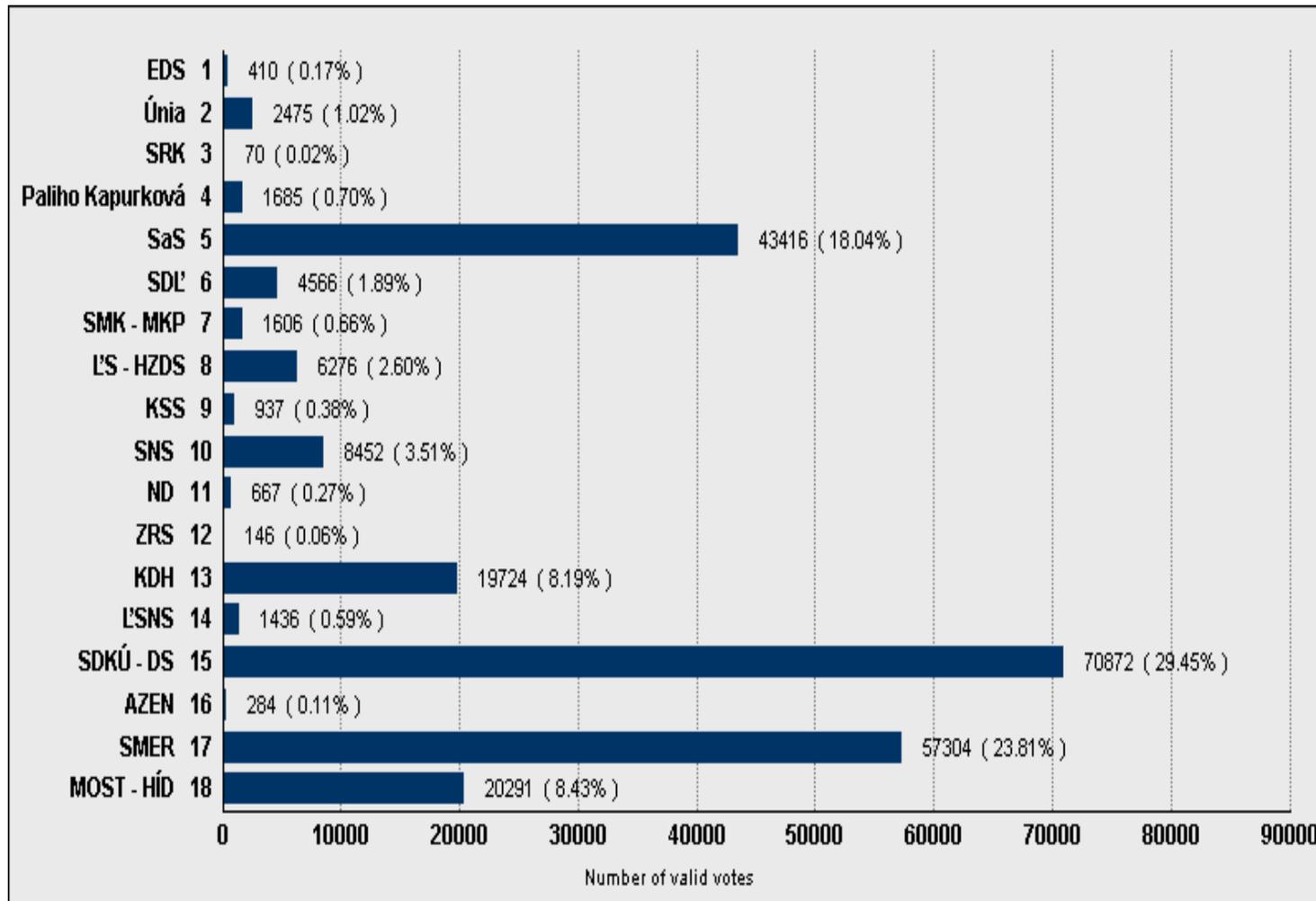
Some Regional Results

- Bratislava – opposition 64%; governing coalition 30%
- Kosice – opposition 64%; governing coalition 30%
- Banska Bystrica – opposition 50%; governing coalition 39%
- Zilina – opposition 34%; governing coalition 59%;
- Cadca – opposition 19%; governing coalition 73%;
- Humenne – opposition 29%; governing coalition 55%

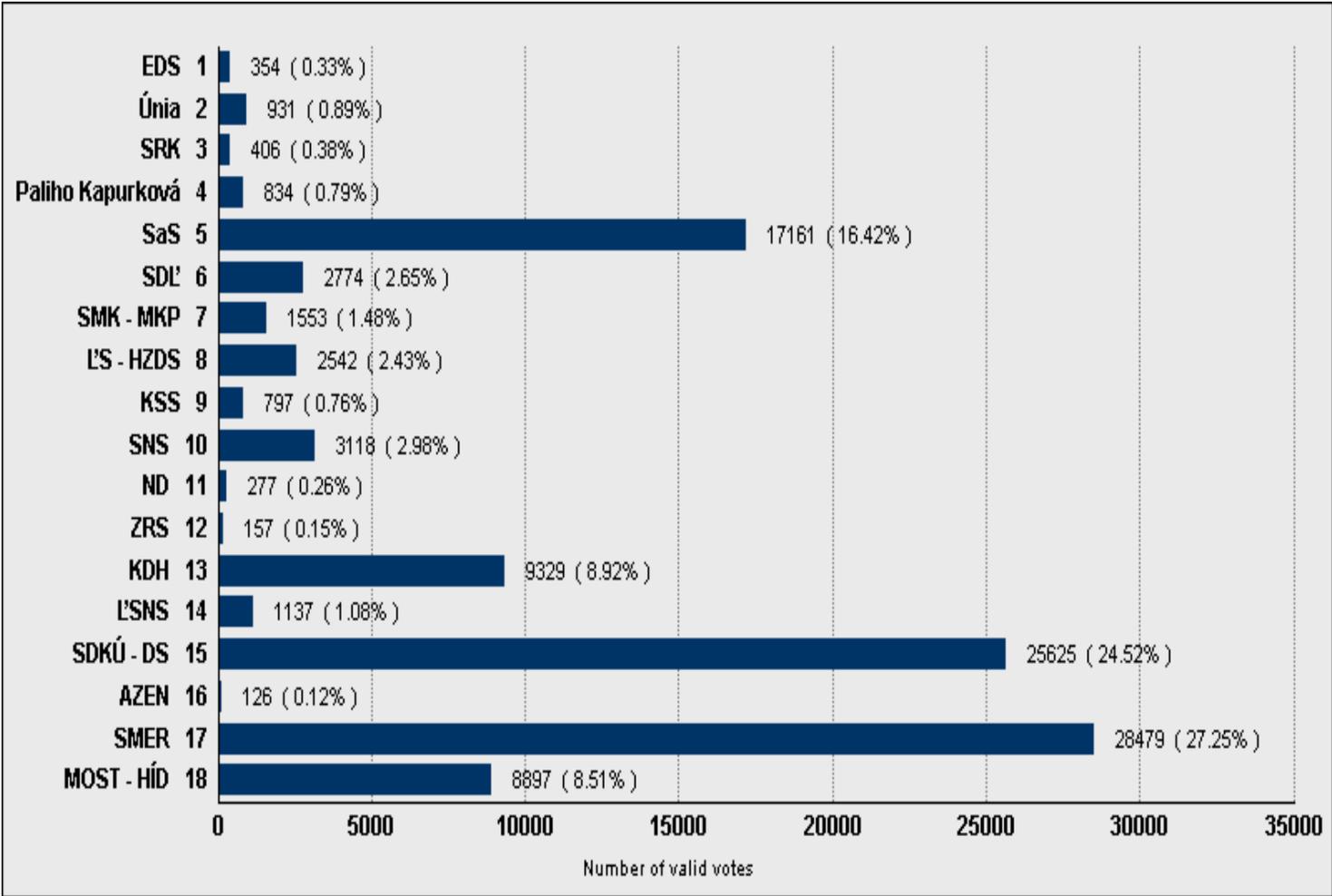
- Southern districts:
 - Dunajska Streda: opposition 60%; governing coalition 4%
 - Komarno: opposition 52%; governing coalition 10%
 - Nove Zamky: opposition 45%; governing coalition 39%
 - Sturovo: opposition 43%; governing coalition 6,7%

- Note the $100 - \text{Opposition \%} - \text{Coalition \%} = \text{Lost Votes}$

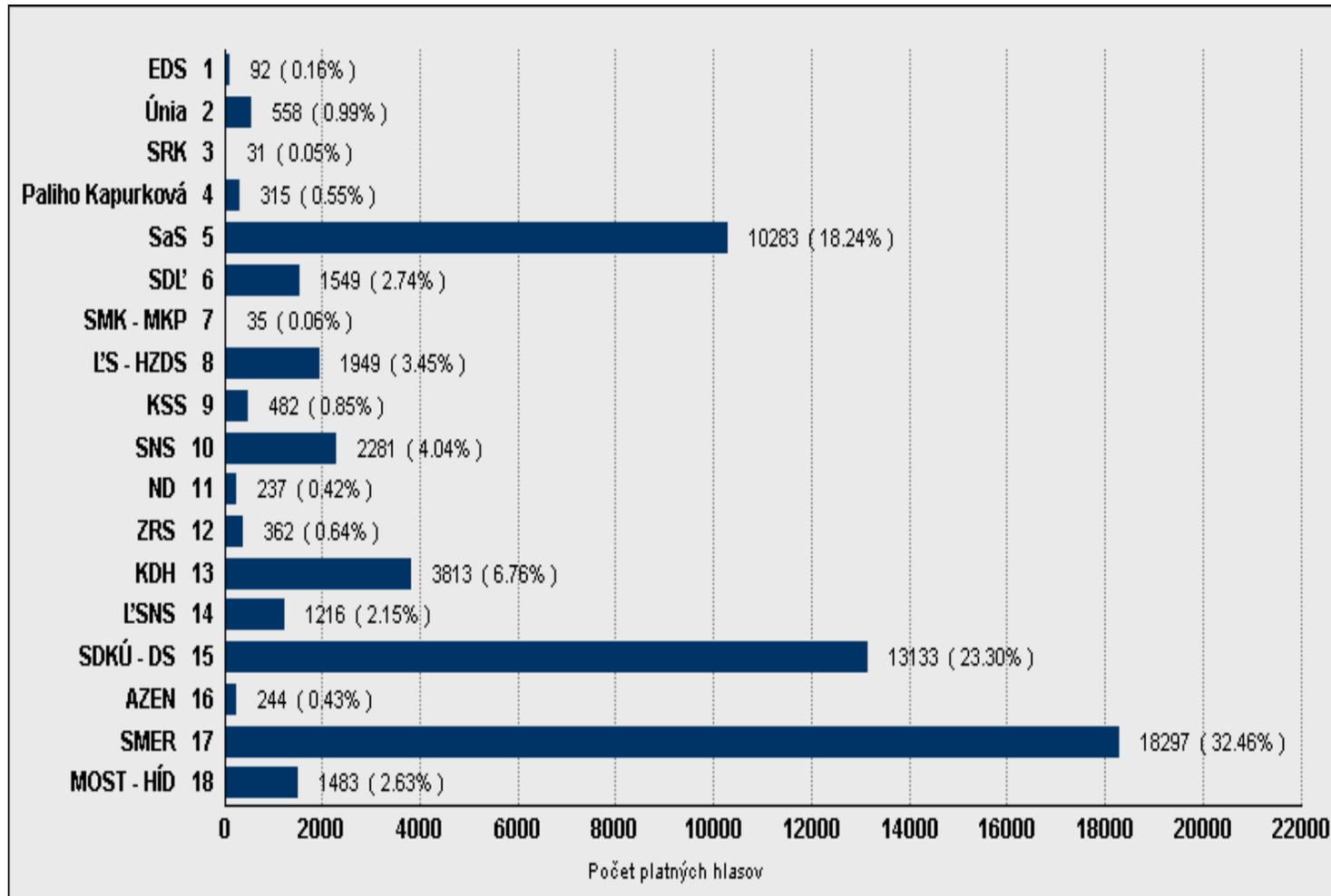
Bratislava: Election 2010



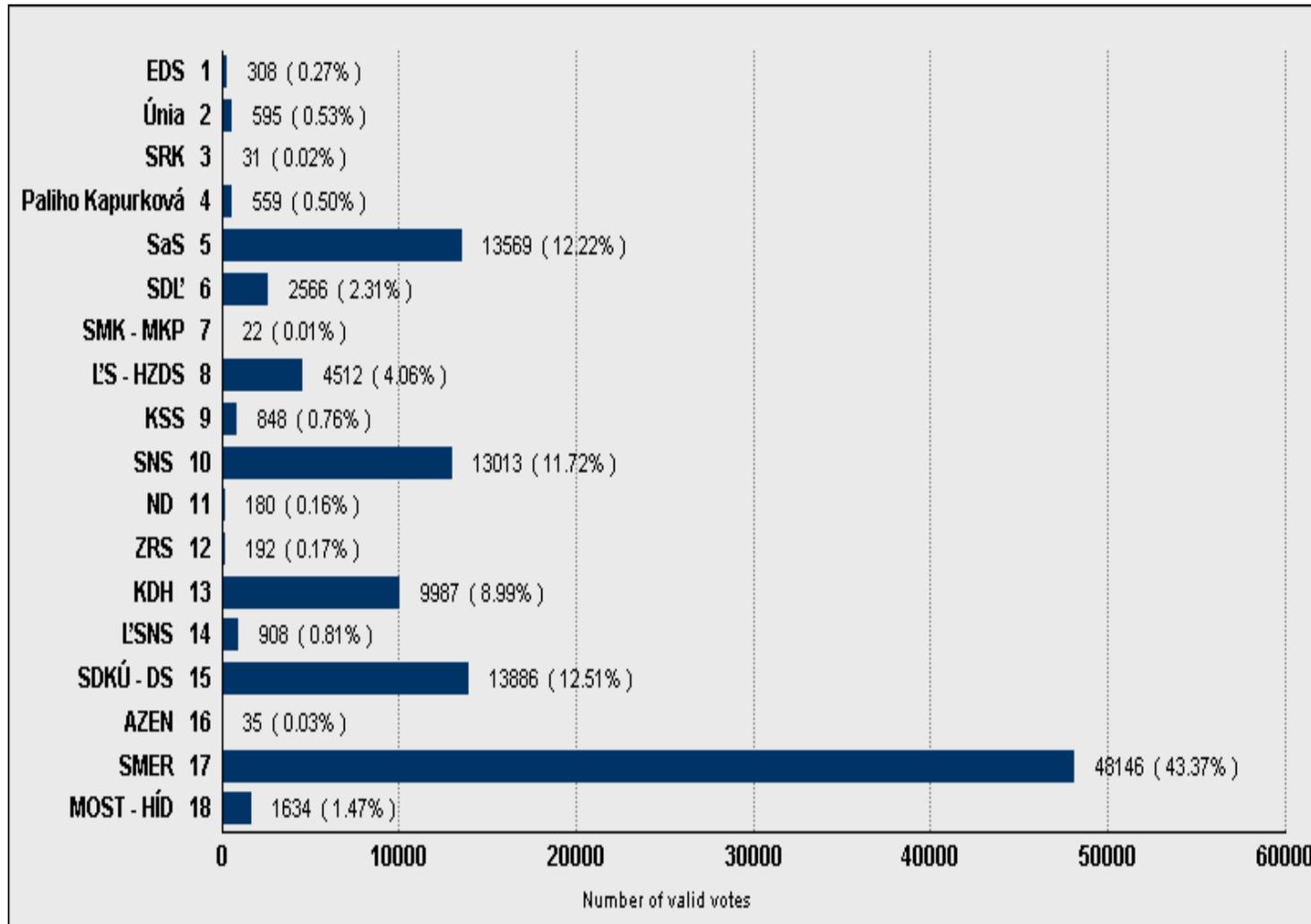
Kosice: Election 2010



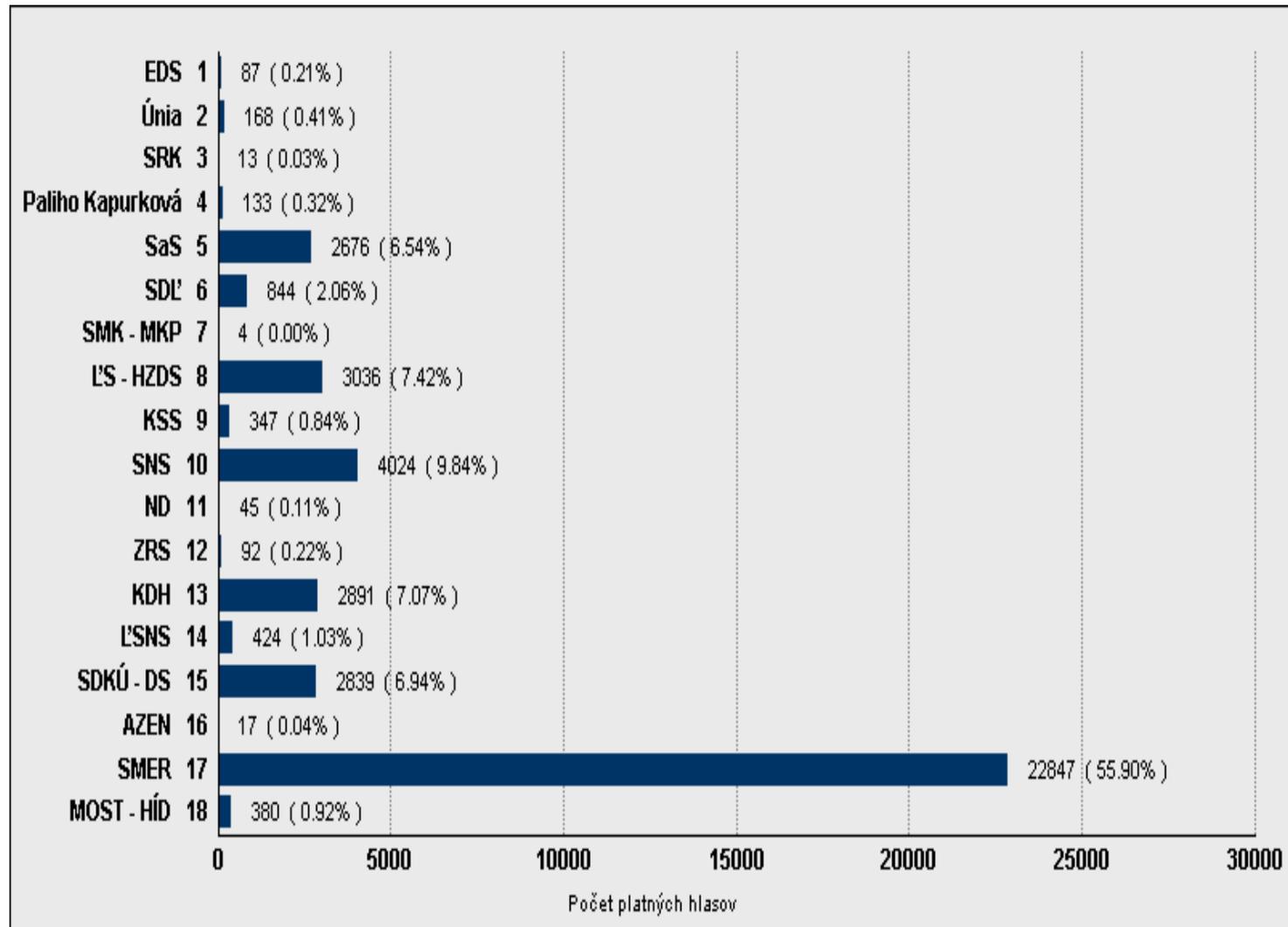
Banska Bystrica: Election 2010



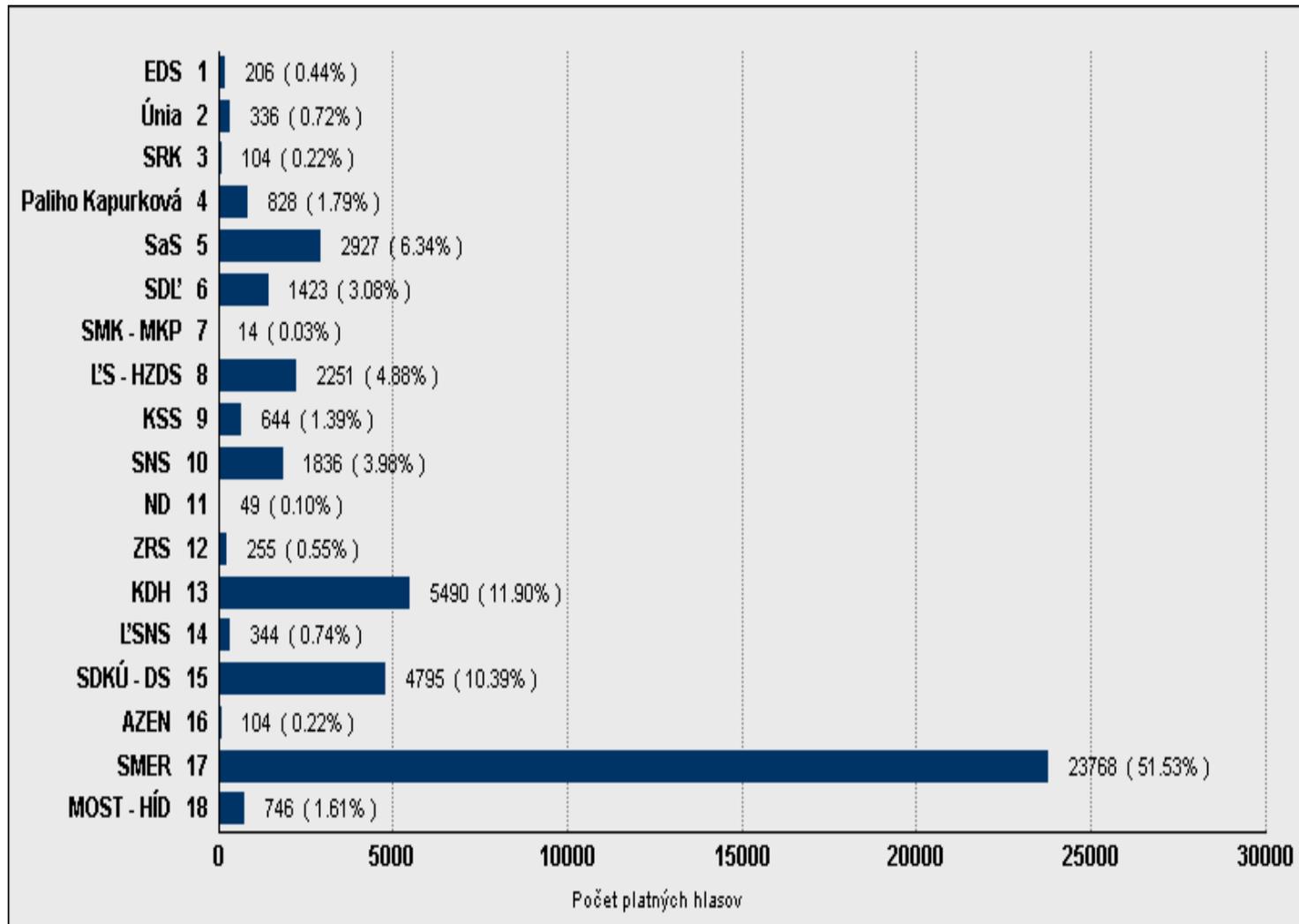
Zilina: Election 2010



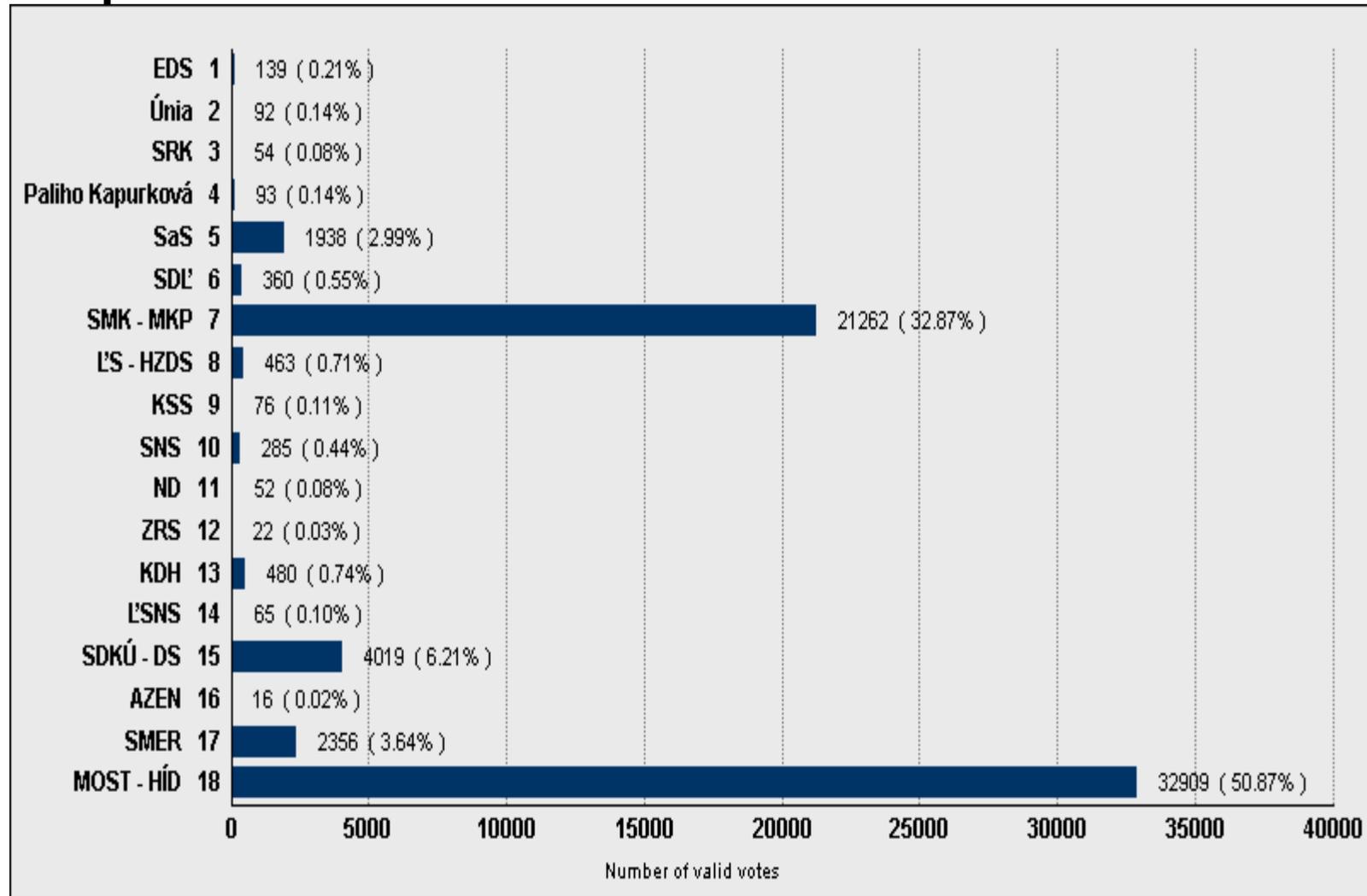
Cadca: Election Result 2010



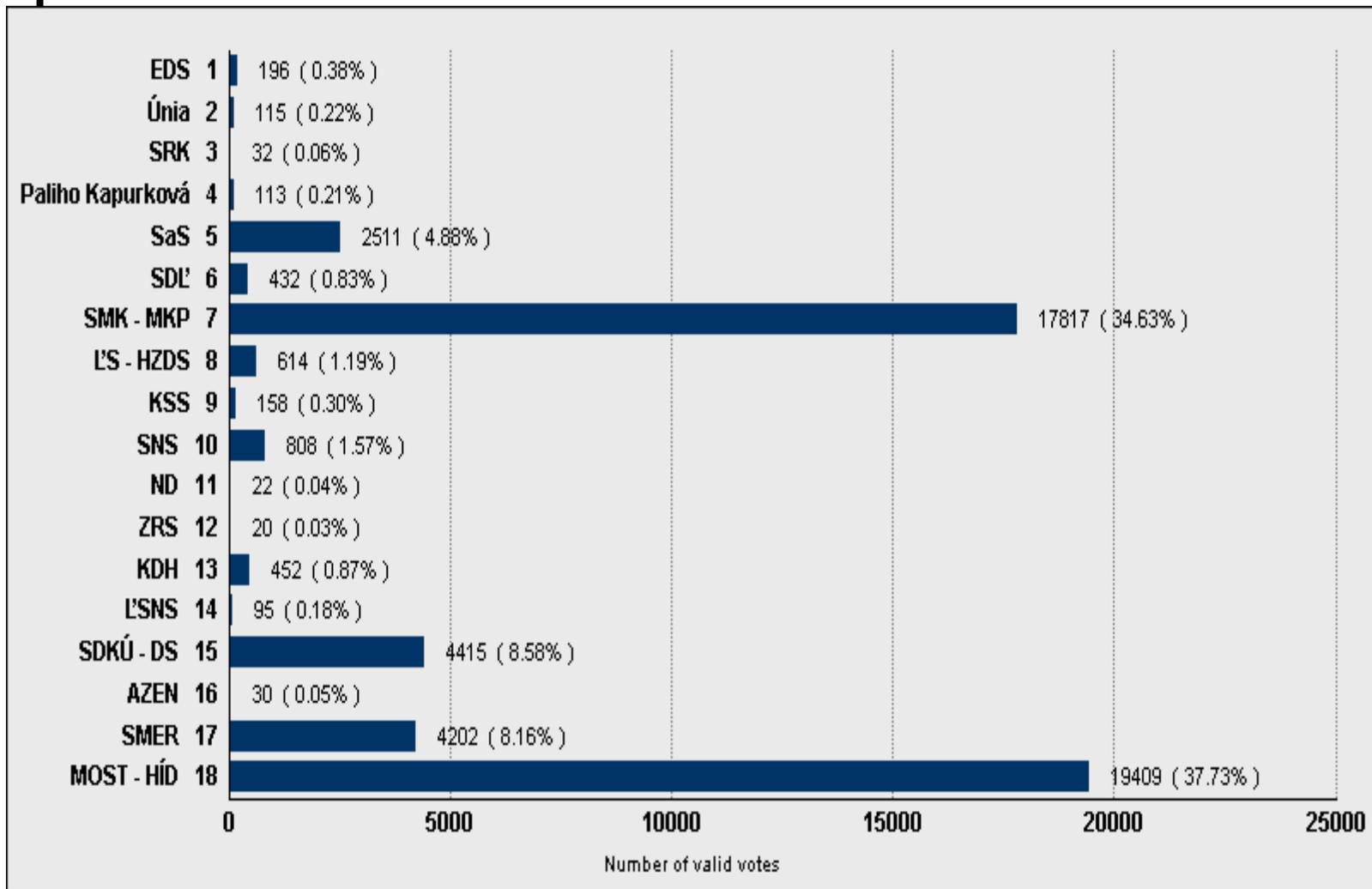
Humenne: Election 2010



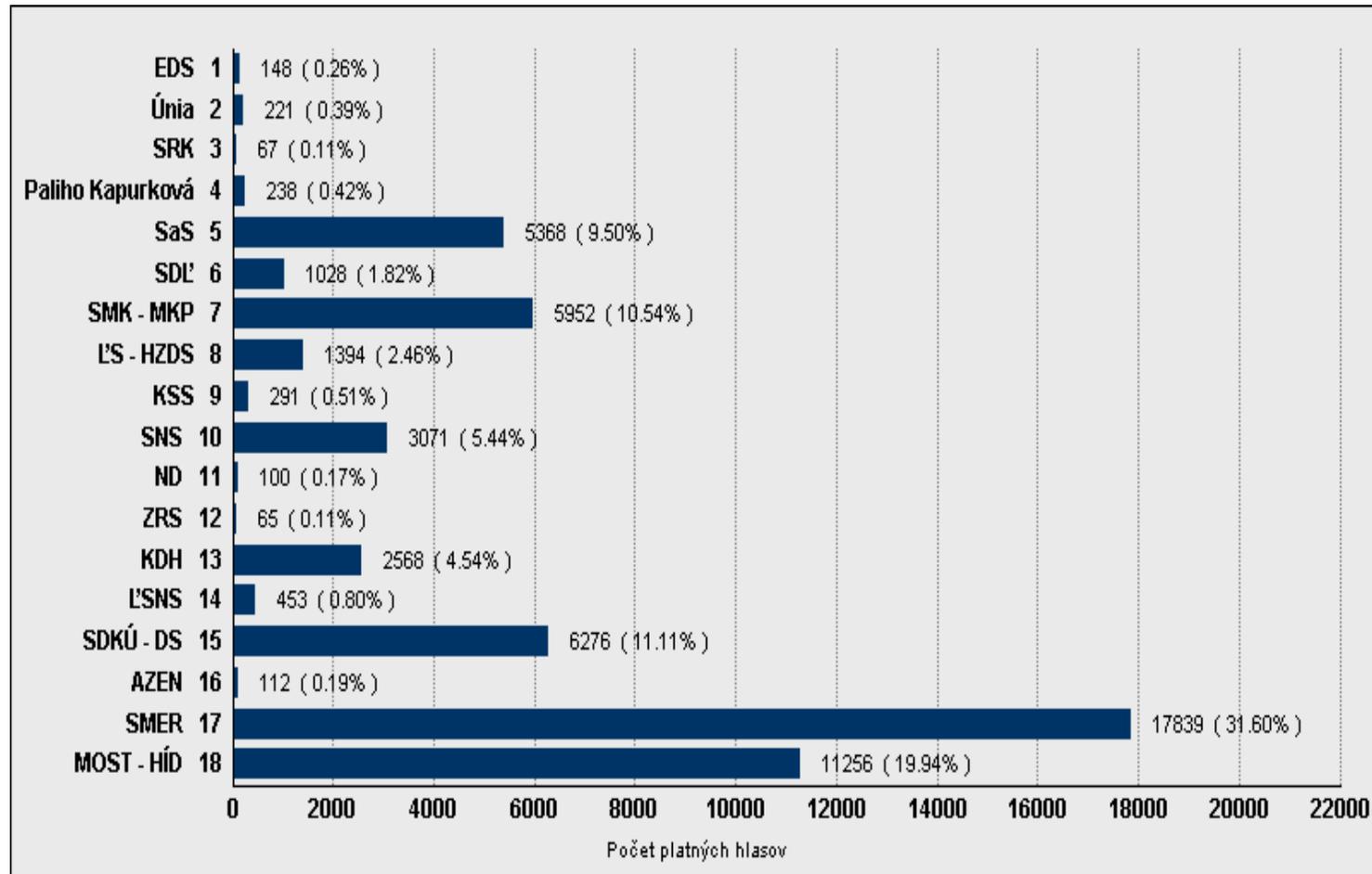
Dunajská Streda: Election 2010



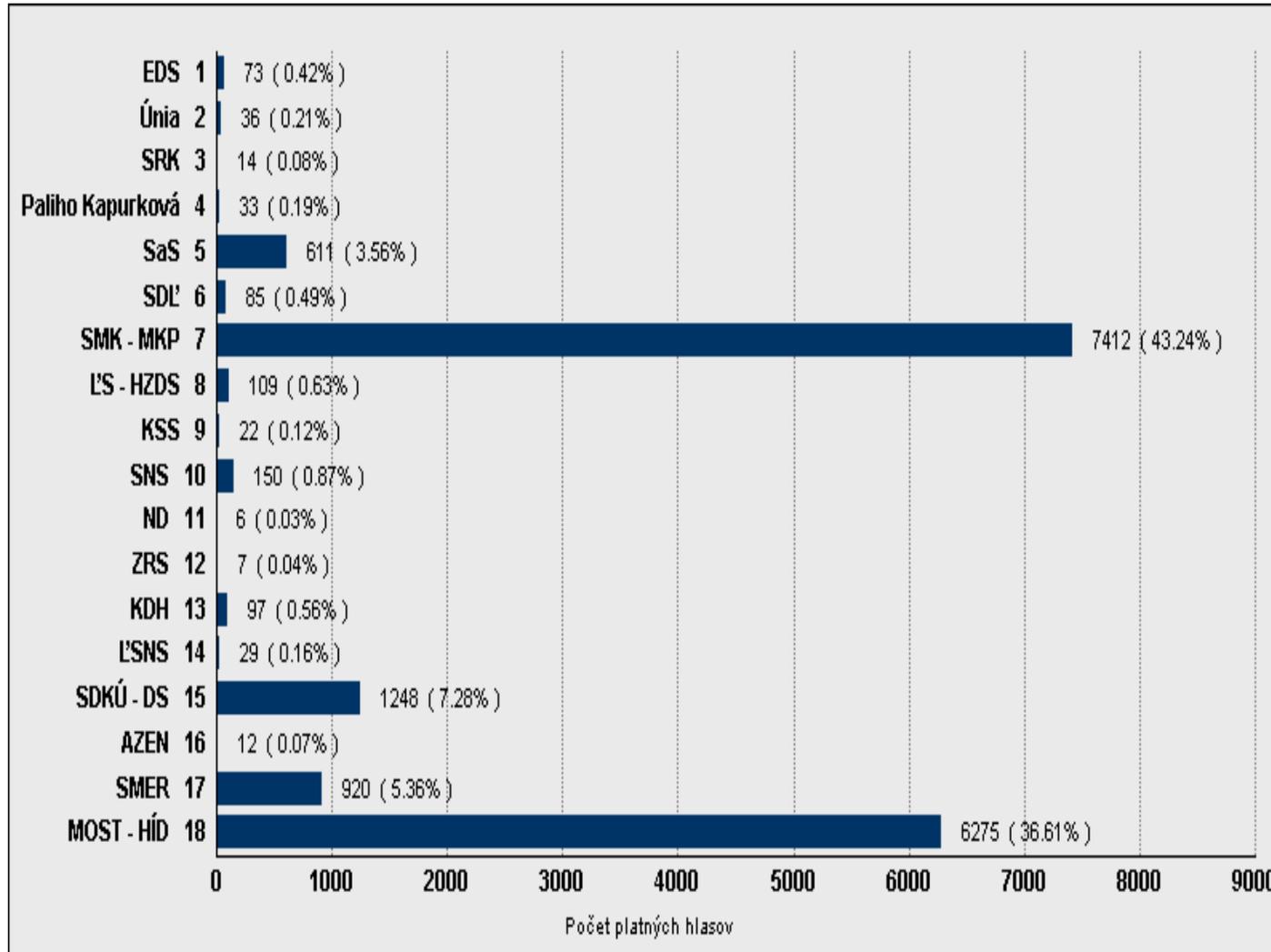
Komarno: Election 2010

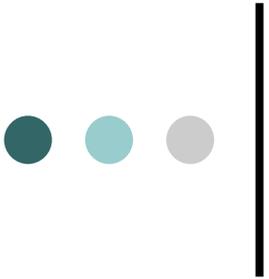


Nove Zamky: Election Result 2010



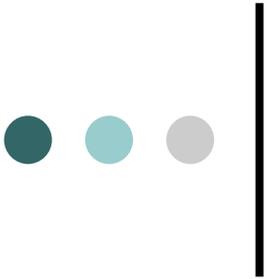
Sturovo: Election Results 2010





Overall Vote for Hungarian Parties

- 1992: 228 885 votes (Spolužitie a MKDH) 8,66%
- 1994: 292 936 votes (Spolužitie, MKDH, MOS) 9,71 %,
- 1998: 306 623 votes (SMK) 9,12%,
- 2002: 321 069 votes (SMK) 11,16%,
- 2006: 269 111 votes (SMK) 11,68%
- 2010: 315 176 votes (Most 8,12%; SMK 4,33%) 12,45%

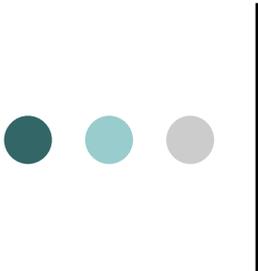


Slovaks and Hungarians

- In 1921 around 750 000 Hungarians within the new Czechoslovakia; currently around 600 000, 11% of population;
- The interwar as well as the postwar Czechoslovakia – to a varying degree – assimilation of the Hungarian minority;
- Today, the Hungarian minority up to 85% in certain towns and villages in southern Slovakia, Dunajska Streda, Komarno, Sturovo; there are villages in Southern Slovakia populated almost exclusively by Slovaks; much inter-marriage

Slovaks and Hungarians

- ● ● ○ In most Southern towns with Hungarian population the bilingualism is the norm;
- Budapest disliked 2009 Slovak Language Law that restricts the usage of the minority languages in the public sphere;
- 2010 Hungarian Law on Double Citizenship; response harsh;
- 2010 Slovak citizenship law strips of their Slovak passport those members of the Hungarian minority in Slovakia who actively seek dual citizenship



Hungarians vs Hungarians

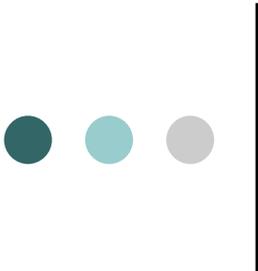
- 3 months before election polls showed that 51% of Hungarians wanted to vote for SMK; 28% for Most-Híd.
- Hungarian citizenship law accepted just before the Slovak elections weakened SMK.
- SMK accepted the nationalistic tone of SNS and Smer; Most-Híd represented an effort for decreasing tensions;
- Hungarians in the South Slovakia punished the Fidesz/SMK confrontational line

Hungarians vs Hungarians

- Most Híd election campaign in both Slovak and Hungarian, while SMK only in Hungarian
- Hungarian voters saw that both Fico and Radicova would not be happy in coalition with SMK
- Some of the Hungarian voters preferred not to vote; in 2006 SMK gained almost 12%, in 2010 more than 12%; more Slovak vote for Most in 2010 than for SMK in 2006;
- Preferential vote for known mostly conservative Slovak intellectuals on the Most Hid list;
- SMK did not seem to realize that Fidesz' law about Hungarian citizenship was foremost proposed to weaken the agenda of Jobbik; the interest of Hungarians in Slovakia were not considered as of prime importance

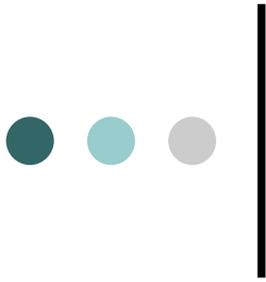
Tasks for the New Ruling Coalition

- Miklos: the new cabinet has to “halt the fast and dangerous increase in indebtedness”; the budget deficit expected about 7% of GDP in 2010
- Slovakia’s economy shrank by 4.7% in 2009
- Restoring good relations with Hungary will also be a test for the new government.

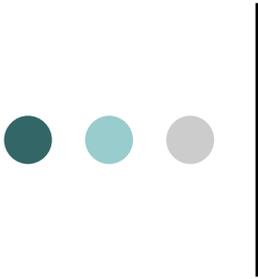


Slovak Politics and Loan to Greece

- Slovakia has been asked to contribute to a loan to stabilise Greece' position.
- Slovakia might profit from the transaction, a positive spread between the interest paid by Greece and the interest paid by Slovakia to finance the loan;
- Slovakia was also asked to participate in the new euro area stabilisation fund, Slovakia's share in the fund around €4.5bn.
- Slovak participation in the rescue of Greece is unpopular with the electorate, hostile tabloid headlines exaggerated
- Fico postponed the final decision on Slovakia's role until the new parliament is in place.



- **Slovak Model of Transition to Capitalism**



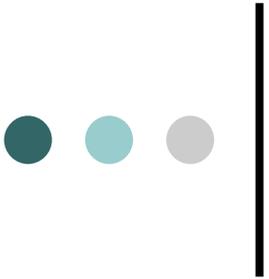
Slovak Development Model: Geography Matters

- Geographical position of the Central Europe [CZ, HU, SK, PL) is crucial for its development (see Giersch, Fischer):
 - - cost-cutting in western Europe (result of global competition with Asia, and America) may produce more outsourcing to the Central Europe, and
 - - high degree of rent-seeking activities more to the east and to the south of the Central Europe — may represent limitation to the relocation drive from the Central Europe
- Nölke and Vliegenthart (2009), DME, a dependent market economy type of capitalism for Central Europe including Slovakia:



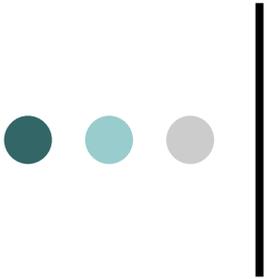
Development Path: Dependent Market Economy Model of Capitalism:

- Comparative advantages in the assembly and production of relatively complex and durable consumer goods;
- Skilled, but cheap, labor with knowledge of a medium level technology;
- Transfer of innovations within transnational enterprises;
- Provision of capital via foreign direct investment
- Dependence on investment by transnational corporations
- Export sectors predominantly foreign owned.



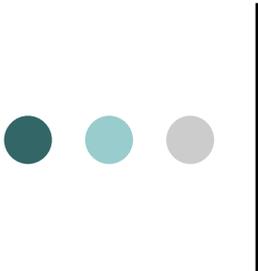
Development Path: Is the Current Model Sustainable?

- The absence of substantial investment into research and development, and education.
- The limited innovation capacity may be worrisome in the long run
- Doubt as to whether stabilization of the current position in the world economy is really desirable,
-



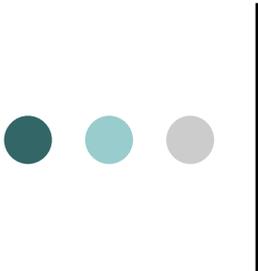
Education

- Situation in education is bad; no university is in international rankings;
- New private universities mostly of low academic level;
- Around 20 000 students at Prague, Brno, Vienna, Budapest universities



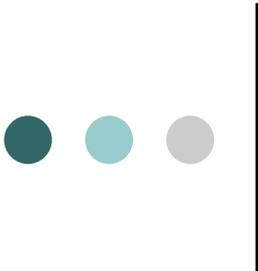
Euro and Slovakia

- The Slovak policy makers inherited from the former Czechoslovakia an attitude to stable currency policy
- Stable currency was typical for the period of the existence of the Czechoslovak state; (Rašín, Engliš, Potáček, Klaus) but also afterwards in the Slovak Republic (Masár, Jusko, Šramko)
- When large exogenous shocks Czechoslovakia was typically able to keep stable value of currency, while in Hungary and in Poland currency on some occasions underwent heavy weakening
- Euro introduction:- symbol of political importance (belonging to the West); - tying one's hand to an extent (defense against potential populism even if solid conservative monetary tradition)



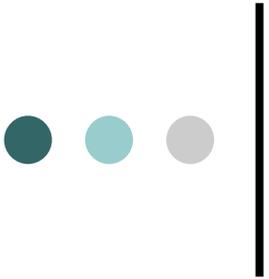
Euro and Slovakia: How Important is the Portuguese Example

- In November 2005 the koruna into the ERM II with a central parity of 38.4550 koruna per euro; entered in 2009 at 30.126;
- Strong commitment by Slovakia to join the euro, a sharp drop in interest rates and expectations of faster growth both led to a decrease in private saving, an increase in consumption, inflow of foreign investments; and real estate bubble in Bratislava
- Before the financial crisis high growth, decreasing unemployment, increasing wages, and increasing current account deficits
- In 2007 the future looked great: 10% growth; inflation 2.4%, current account balance -5.3%; in 2008 over 6% growth
- In difference to Portugal Slovakia is not facing productivity problems; and there is no such strong wage pressure as in Portugal, as Slovak trade unions are weak and the atmosphere is not particularly populist



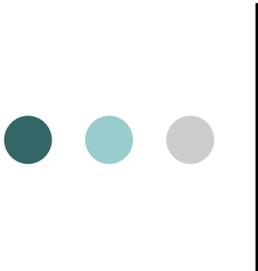
Slovak Economy: 1990-2010

- Political Swings:
 - 1992-1998 Autocratic Government
 - (Non-Pro Western, Nationalistic, Populist, Some Democratic Deficit)
 - 1998 -2006 Democratic Government
 - (Pro-Western, Non-Nationalistic, Conservative-Liberal)
 - 2006- 2010 Hybrid Government
 - (Pro-Western, Nationalistic, Social-Democratic)
 - 2010-2014
 - (Pro-Western, Non-Nationalistic, Conservative-Liberal)



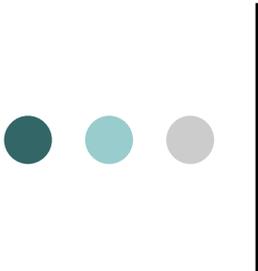
Slovak Economy: 1990-2010

- Economic Reform Swings:
 - 1992-1998 Crony Capitalism
 - (Slovak capitalist class created; irresponsible fiscal, responsible monetary policy)
 - *1998-2006 Slovak Tiger*
 - (conservative liberal reform, FDI inflow, high growth)
 - 2006-2010 Middle way
 - (keeping previous reforms but combined with signs of crony capitalism, and irresponsible fiscal policy)
 - 2010-2014 Return of Liberals



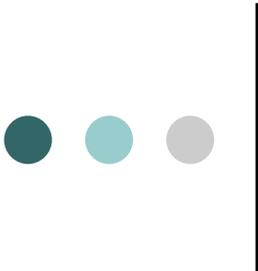
1990-1992- Break-up of Czechoslovakia

- Velvet revolution: strong asymmetric effects in Czechoslovakia
- In December 1992, the average unemployment 10.4% in Slovakia and 2.6% in the Czech Republic; The min-max regional unemployment 0.3 and 6% in the Czech Republic and 3.8 and 19.3% in Slovakia
- Meciar initially darling of Bratislava intellectuals
- Meciar's simple populist with grip on popular feeling; Meciar's anti-liberal and nationalist opposition to Czechs: one should take account of Slovak special conditions;
- Meciar promises to minimize social effects of reforms while Klaus called for sacrifices



1993-1998: Meciar's Period

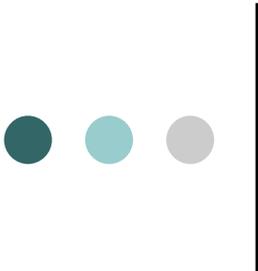
- As time passed by Meciar portrayed as the father of Slovakia and his opponents as enemies of Slovakia
- Distribution of state property to cronies of HZDS; Meciar's non-transparent program of direct sales to Slovak political allies; this has a huge impact on Slovak political and economic life;
- High fiscal deficit, stable money and inflation; Fiscal policy tight till 1996, in 1998 deficit up to 8.6% of the GDP
- Slovakia left the “mainstream” road towards European integration. The only candidate country that could not fulfil the Copenhagen democratic criteria.

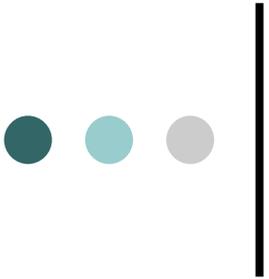


1993-1998: Meciar's Period

- Strategic partners were excluded from direct privatization sales;
- The emphasis on promoting local entrepreneurs through sales to domestic managers and employees, both insider stake-holders and outsiders.
- Meciar's opponents: civil society; think tanks, NGOs as MESA 10, F.A. Hayek Foundation, Centre for Economic Development; IVO (Institute for Public Affairs);
- Liberalism as the framework to launch anti-Meciar changes;

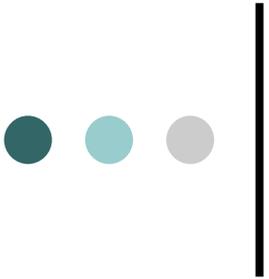
1998-2006: Miklos' Period

- 
- 1998 election participation 84.4%
 - Coalition against Meciar: former reform-communists, conservative Catholics, and market liberals;
 - Population afraid of isolation in the international integration, and after initial national surge perceived situation as critical
 - Placing entry to the EU at the heart of the campaign;



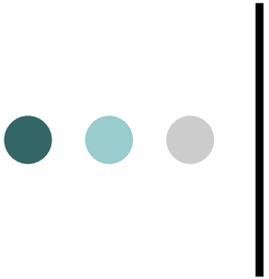
1998-2006: Miklos' Period Liberal Spirit Prevails

- Miklos and liberal belief: in the culture of Slovakia promoting social solidarity creates a moral hazard which rewards rent-seekers, and punishes entrepreneurial spirit
- Curbing benefit dependency and encouraging work effort good for long-term reduction of poverty, but the shortrun costs high for poorer Slovak families; regional disparities
- Pro-business environment: Slovakia liebling of Forbes;



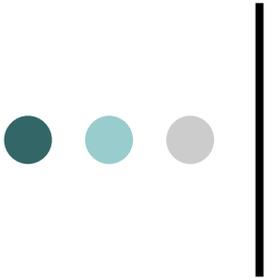
1998-2006: Miklos' Period Tax Reform

- Tax reform is seen mostly as a good solution to the moral problem: pervasive tax evasion in the country which ruins the moral basis of capitalism
- In 2004: a flat tax rate of 19% on personal and corporate incomes, VAT rate was also unified at 19%.
- The tax system easier to administer; elimination of most exemptions.



1998-2006: Miklos' Period The First Period: 1998-2002

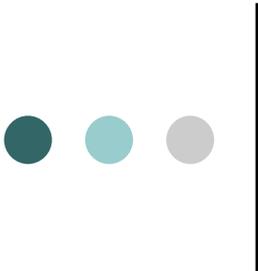
- In 1998-2002 the communist-successor Party (SDL) hold key portfolios of finance and labor; in this period government under fire from liberally oriented newspapers and civil societies for not implementing broader reforms;
- Internal tensions in the SDL contributed to Fico's departure from the SDL and formation of the new Smer party in 1999;



1998-2006: Miklos' Period

The Neo-Liberal Turn: 2002-2006

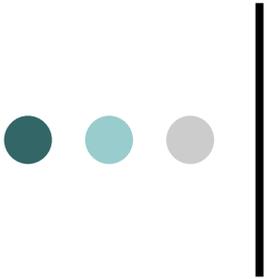
- Part of the neo-liberal reform: increased flexibility of the labor market; incentives to return to the workforce faster; unemployed to seek actively employment and visit the labor office twice per month;
- Trade union: low credibility from the communist times;
- Healthcare: to make hospitals and consumers cost-conscious; introduction of profit-driven insurance joint-stock companies; co-payments and fees;
- Education seen as the toughest problem;
- Tougher justice system



1998-2006: Miklos' Period

What Caused the Neo-liberal Turn?

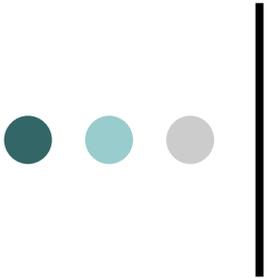
- Success of the 2002/2006 reforms is partially due to the electoral results in 2002: reform-communists and Slovak nationalists out of parliament; 18.7% of the votes cast wasted;
- Neo-liberal base in young, urban and educated citizens; many of them western education; they took top ministerial and influential positions;
- In 2002 SDKU called for lower taxes but only the KDH called in 2002 election for the flat tax; Neo-liberalism avoided the large rent-seeking redistributions typical for example for Hungarian transition;



1998-2006: Miklos' Period

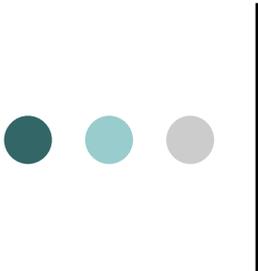
People behind the Neo-liberal Turn

- 1998-2002 Miklos was the deputy prime minister for the economy, team of young helpers;
- Robert Zitnansky, Miroslav Tvarozka, Miroslav Beblavy, Ludovit Odor, Viktor Niznansky, Peter Pazitny, Jan Oravec, Eugen Jurzyca, Martin Bruncko, Martin Barto, and others convinced that neo-liberal reforms are solutions;
- These neo-liberal young experts not beholden to specific interest groups, mostly not to Meciar created Slovak capitalists



2006-2010: Fico's Period

- The non-sufficient compensation of the losers contributed to the election failure of liberals in 2006.
- The euro adaptation supported
- The reform path still kept to a large extent
- Re-introduce populist and especially nationalistic feelings into politics
- Support of those who enriched under Meciar period



References

- Fidrmuc, Jan, Julius Horvath, and Jarko Fidrmuc, *Journal of Comparative Economics*, 1998
- Fisher, Sharon, John Gould and Tim Haughton, “Slovakia’s Neoliberal turn”, *Europe-Asia Studies*, Vol. 59, No. 6, September 2007, 977-998
- Nölke, Andrea and Arian Vliegenthart, *Enlarging the Varieties of Capitalism: The Emergence of Dependent Market Economies in East Central Europe*, *World Politics*, 2009, pp. 670-703
- Paul, Ellen L., *Perception vs Reality: Slovak Views of the Hungarian Minority in Slovakia*, *Nationalities Papers*, 2010
- Blanchard, Olivier, *Adjustment within the euro. The difficult case of Portugal*, *Portuguese Economic Journal*,
- IMF *World Economic Outlook*, Reports on Europe, different issues
www.mnb.hu, and www.nbs.sk for graphs
- Most of the graphs about election are taken from the Slovak Statistical Office webpage, section on elections; www.statistics.sk