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Lessons from the Political Economy of Authoritarian Capitalism in Hungary

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ideas into movement

The future of capitalism is not necessarily democratic. Authoritarian capitalism is gaining foothold not only in non-democratic states, such as China, but even in countries with strong liberal institutions. From Greece to the US, an increasing number of countries show its symptoms. We need to look beyond the façade of the most visible political manoeuvres in order to understand how economic and political disciplining of citizens to create decent capitalist subjects can be combined into a political economic model that ensures accelerated capital accumulation through increased political repression. Hungary is one of the most striking cases. Hungarian elites followed the good governance blueprints of international institutions, implementing liberal political and economic reforms between 1990 and 2010. For long, the country was considered to be a frontrunner of the third wave of democratisation[1], yet now is considered to be a frontrunner of democratic backsliding. Orbán's political economic model has been stable for eight years now - Fidesz gained the same amount of seats at the parliamentary election on 8 April 2018 as four years before, and thus Viktor Orbán's party remains the dominant political force in the country. There are obvious direct political reasons for this, such as the heavily gerrymandered electoral map, the biased media landscape as well as the divisions paralysing the fractured opposition, among others. Yet, to understand the emergence of authoritarian capitalism in Hungary, we have to dig deeper into the contradictions of post-socialist liberal policies and institutions to unearth its social and economic roots.

Looking behind the Curtains of Hungarian Authoritarian Capitalism

For a decade and a half it seemed that Hungary was on her way to prove Fukuyama right. The country was one of the first to liberalise its economy and political system in the second half of the 1980s. Nationalist mobilisation during the 1990s was low with centrist politicians dominating the public sphere until the end of the 2000s. High levels of foreign direct investment (FDI), a technologically complex export structure and well-developed independent institutions characterised the country. A bipolar party system emerged, dominated by the Hungarian Socialist Party (MSZP) on the Left and the Federation of Young Democrats (FIDESZ), the party of Prime Minister Viktor Orbán, on the Right. Membership in the EU and other international bodies further strengthened the perception of democratic consolidation. Hungary was ranked by the European Bank for Reconstruction and Development (EBRD) as the leading post-socialist country based on the Transition Index between 1995 and 2001 every year consecutively.[2]

But since 2010, instead of democratic consolidation, Hungary has taken a completely different route. Following eight years of government by the coalition of the Socialists and the Liberals, Viktor Orbán took power with a sweeping electoral success in 2010 followed by another definitive victory in 2014, and a third one in 2018. The ink barely dried on the ministerial nominations in 2010, when the government started to systematically dismantle the core institutions of liberal democracy. The new parliamentarian majority unilaterally passed a new constitution in 2011 that removed the reference to social rights and included various conservative references among others to citizens' moral responsibility to work. Later, the government systematically restructured the media landscape by tightening control over public media and by facilitating the expansion of right-wing media oligarchs. In a crucial move, the illiberal state also curtailed the rights of the constitutional court as well as attempted to shrink the independence of the judiciary. Governmental attacks on civil society, with a special focus on NGOs financed by international donors served to delegitimise the extra-parliamentary opposition. The ruling political elite also systematically took over independent institutions such as the State Audit Office or the National Bank, with every supposedly independent organ of the state controlled by party loyalists. As a reaction to democratic backsliding, the European Parliament passed a report[3] condemning anti-liberal measures of the government. Freedom House ceased to classify Hungary as a consolidated democracy in 2015.[4]

How can we explain this puzzling U-turn in democratisation? Liberal institutionalism has been a dominant approach in political science and political sociology for the last decades, influencing the ways in which public intellectuals, journalists, politicians and activists think about democracy. This liberal institutionalist frame of thinking has been infused by an evolutionary theory of change as propagated by Francis Fukuyama among others, where a combination of liberal capitalism and liberal democracy are considered the endpoint of development. Followers of this train of thought have singled out Hungary as one of the most successful cases of democratic consolidation and European integration.[5] Uncritical of the structural tensions induced by European integration and global economic internationalisation, liberal institutionalists were blind to the coming authoritarian breakthrough in Eastern Europe right until the election of Orbán. They maintained that Hungary was very unlikely to undergo a democratic backsliding given the highly developed liberal institutions erected during the years of the post-socialist transition and the effect of EU membership.[6]

Institutions are central to a functioning democracy, yet, the failure of the liberal institutionalist paradigm to foresee or even to retrospectively explain democratic backsliding in Hungary signals the need to go beyond it. Some analysts have turned to look at the behaviour of politicians and the extent to which they diverge from liberal norms. They point to Orbán's political manoeuvring as the primary cause of democratic backsliding in Hungary. Commenting on Hungary, Fukuyama for example concludes that institutions are not enough to protect liberal democracy: 'Bad actors can undo even the best-designed institutions', which – according to Fukuyama – highlights the need for 'good politicians' who respect the principles of liberalism and do not destroy liberal institutions, even if they have the power to do so.[7] Some propose the theory of the 'post-communist mafia state' portraying Orbán as a Godfather using his political authority to further his own economic interests.[8] Leading international media outlets have reported on high-profile corruption in Hungary, shedding light on the enrichment of Orbán's closest relatives and friends by misusing EU funds. Corruption is definitely rampant, yet, the ties of the governmental elite go beyond friends and relatives: Orbán's socio-economic strategy enjoys the support of the majority of the economic elite, both foreign and domestic.

Too much fascination with the most visible actors on the scene distracts our attention from the structure of the play itself. These actors are not dismantling democratic institutions because they are "bad". Instead, they are building a new regime of accumulation, because they want to stay in power and increase their wealth. In other words, we should shift our narrative from corruption and the collapse of liberal norms and institutions, and start talking about the rise of authoritarian capitalism. Understanding this requires analysing why some crucial segments of the society, such as the majority of the working class and the economic elite no longer defend the liberal transition regime in Hungary.

The End of the Politics of Patience

Even though for a long time Hungary was a champion in attracting transnational companies, the employment rate has been far lower than in the rest of Europe, with a meagre 55 per cent employed in 2009, right before the 2010 Orbán break-through.[9] A defining characteristic of the Hungarian economy was the chronically low level of employment as a result of the substantial deindustrialisation during the early years of the transition. A large segment of the society, the early victims of the transition – the elderly, the young with little education and those living outside the biggest towns of the country – could not take part in the new growth centres of the economy dominated by technology intensive multinational companies. Those outside the local hubs of the global economy felt increasingly left behind. Hungary's development path was also characterised by chronically low wage levels. The share of wages in total national income decreased from 57.2 percent to 46.3 percent during the period of the transition.[10] Hungarian wages were lagging behind average wages in the Central and Eastern European region throughout the 2000s and have long been among the lowest throughout the OECD.[11]

Despite the dismal social performance of the early transition years, the acceptance of the new regime remained relatively high until the second half of the 2000s. Scholars described this puzzling high legitimacy of the liberal transition regime as the 'politics of patience'.[12] On the one hand, citizens were willing to defer consumption for a few more years hoping for a better future. On the other hand, post-socialist governments also attempted to pacify the victims of the transition by allowing them to retire early and providing generous pension, unemployment and other social benefits.

Early retirement was particularly important in providing democratic legitimation in the 1990s. The share of early retirees among pensioners grew significantly from the 1980s to the 1990s from 33 per cent to 52.7 per cent among women and from 44 per cent to 75.2 per cent among men.[13] As a result, government debts grew strongly during the early nineties (from 66.3 per cent in 1990 to 86.0 per cent in 1994) and then again during the 2000s (from 55 per cent in 2002 to 80.6 per cent in 2010).[14] Incomes through privatisation could offset high state expenditure during the mid-nineties, but as assets owned by the state decreased, this channel of financial revenue dried up. Fiscal deficits and the growth of public debt were also caused by low taxation of capital as the state fiercely competed for foreign investment with other states of the region.[15]

The tax base of the Hungarian welfare state was severely skewed toward taxing labour and maintaining generous tax holidays for multinational companies. Taxes on capital in Hungary represented the smallest share in total tax income among Eastern European countries contributing significantly to the weakening of the fiscal capacity of the state and an increasing squeeze on the budget.[16] Gaping budget deficits and growing government debt brought the necessity of economic adjustment in 2006-2007.

As public debts grew, private debts also spiralled due to the credit bubble fuelled dependent growth model. To compensate for low wages, the Socialist government between 2002 and 2010 encouraged financialised consumption through credits: buying cars and homes financed through foreign currency loans. This 'privatised Keynesianism', as formulated by Colin Crouch, was used in several developed countries to reconcile the tensions between capitalism's tendency to increase social polarisation and democracy's universal premises.[17] After the social democratic compromise between labour and capital that sustained the welfare state ended during the 1970s and 1980s, the new policy regime of privatised Keynesianism helped to maintain the legitimacy of liberal institutions. However, it led to an unsustainable rise in private debts in the core countries as well as in Hungary. Between 1999 and 2006, household debt rose more than ten times in nominal terms, so that in January 2007 the average outstanding loan amounted to 94 per cent of the annual household income in Hungary.[18] As a result, by 2009, a year before Orbán's electoral breakthrough, 75 per cent of Hungarians were unable to face unexpected expenses, the highest level throughout the EU.[19]

During the early years of the transition, the social and pension system could counterbalance the negative political effect of large scale deindustrialisation, economic liberalisation and the uncertainties induced by globalisation, and cushion the downward mobility of the victims of economic reform. During the 2000s, as a new generation reached prime working age, boosting consumption through private debts emerged as another crucial channel of legitimacy. However, both mechanisms of legitimation were exhausted by the end of the 2000s. As a result of brewing social tensions, the approval of capitalism in Hungary dropped dramatically from 1991 to 2009.[20] Empirical research has also demonstrated that indebtedness was strongly and significantly associated with the political support for Fidesz during the definitive 2010 election.[21] The rightward shift of the working middle class was strongly facilitated by the breakdown of the private debt regime. Voters identifying themselves as members of the working class strongly and significantly favoured Fidesz over the Socialists by 2010.[22] The era of the politics of patience ended, and the growing social and economic turmoil has led to disenchantment among Hungarian citizens.

The Revolt of the Native Capitalist Class

Voters' disillusionment itself does not necessarily result in authoritarian capitalism. Citizens certainly did not vote for the dismantling of social rights and liberal institutions, as Fidesz withheld its plans of institutional engineering before the elections in 2010. Bringing down democracy not only requires dissatisfied voters, it also needs an active elite that thinks its interest might be best furthered by weakening the system of liberal democracy and liberal capitalism. Without the consent and sometimes even the active involvement of crucial segments of the economic elite, authoritarian capitalism could not have emerged in Hungary.

Throughout the 1990s, post-socialist governments put heavy emphasis on importing large amounts of foreign investment. The total stock of FDI reached 76.2 per cent by 2009, only surpassed by the 80.4 per cent of Estonia among Eastern European countries.[23] The low level of capital taxation led to a financial environment favouring capital intensive multinational companies as opposed to labour intensive small and medium sized enterprises (SMEs). Respective post-socialist governments favoured multinational companies with a low corporate tax and generous tax allowances to international investors. The high concentration of FDI in the growth sectors of the economy also resulted in a geographically highly uneven development during the last 25 years.

As a result, the Hungarian economy became divided into two parts: an effective and capital-intensive multinational sector that plays only a minor role in job creation, and a stagnant domestic sector, with little connection between the two. Development sociologists and structuralist economists described this process as structural disarticulation several decades ago.[24] The key bearers of power in the economy became foreign investors, with close ties to every post-socialist government, but especially to the coalition of Socialists and Liberals. Those national entrepreneurs who did not manage to become junior partners of international capitalists either as service providers or as local suppliers were increasingly pitted against this dominant power bloc.[25] The highly dualistic nature of the Hungarian economy created a polarisation within the economic elite leading to divergent political interests and preferences.

The polarisation of the economic elite became also evident in the divergent political embeddedness of the domestic and the international segments of the capitalist class. I analysed the class composition of economic policy elites based on a dataset I created through quantitative coding using publicly available data on policy elite members' biographies.[26] The analysis revealed that there developed a large difference between the class composition of left and right-wing policy elites from 1990 to 2014. 36 per cent of the left-of-centre governance elite have a background in the multinational sector compared to the 15 per cent of the right-wing governance elite. Similarly, centre-left governments were also more strongly connected to the banking sector, with 38 per cent of their personnel having ties to banks compared to the 18 per cent of the right-wing economic policy elite. These differences are even stronger if we only examine ministers and prime ministers – here the 42 per cent of left-wing ministers compares to the 14 per cent of right-wing ministers having a tie to the banking sector. Crucially, domestic capitalists were increasingly alienated by the coalition of Socialists and Liberals and had a strong interest in helping a new government to power that would better facilitate the capital accumulation of native capitalists through addressing the severe dualism of the economy and ensuring the supply of cheap and flexible labour.

The Case of the Tobacco Sector

The case of the tobacco sector illustrates how the structural polarisation of the economic elite facilitated the anti-liberal intervention into the economy. Two years after taking power, Viktor Orbán's government initiated a complete restructuring of the tobacco industry, resulting in the CXXIV (2012) law which radically changed the regulation of the market for tobacco products.[27] Before the transition, the tobacco industry was dominated by four companies, operating in four towns. These companies were all privatised during the 1990s and the biggest companies were bought by international investors. A smaller, Hungarian owned company, Continental managed to establish a foothold in the tobacco industry when an international investor sold its plant in one of the towns.

The law to "curtail smoking among young and regulate tobacco retail trade" was introduced to the Parliament in December 2011. The lead architect of the law was János Lázár, the second strongest man in the government, a close ally to Orbán. The regulations granted the state the monopoly on granting tobacco trade concessions. A year later oppositional MPs noticed by checking the file properties that the Word document sent out to Brussels to the European Commission for consultation was not authored by government officials but by János Sánta – the chairman of the Hungarian Tobacco Alliance (the central lobby body of the industry) who also happens to be manager and owner of Continental Tobacco, the only Hungarian owned company in the tobacco sector. When asked by journalists about the incident, János Lázár replied that he had known János Sánta for ten years and that he sent out the draft for commenting to every major tobacco company, however the foreign owned companies had not supported the bill.

János Sánta and his company were not only active in drafting the bill, but also were the big winners in the right to trade. The owners, employees and even their family members are among the biggest winners of the bid for concessions, with more than 1000 new retail outlets run by someone closely connected to Continental. János Sánta was publicly encouraging members of the company to take part in the tender and stated that it is a "similar historical opportunity as land redistribution in 1945". CBA, the biggest Hungarian owned retail chain in the country, were also significant winners – not surprisingly owned by enthusiastic public supporters of the Hungarian Right. Finally a third important group of winners were families and entrepreneurs connected to influential politicians in alliance with Orbán.

Native capitalists, excluded from the most lucrative segments of the tobacco industry dominated by multinationals, were behind the restructuring of the tobacco industry. A similar process can be seen in the restructuring of the banking and the energy sectors, as well as the restructuring of the labour code – all of which have helped to facilitate the capital accumulation of national capitalists. The connectedness of the domestic capitalist class to right-wing government has been increasing throughout the transition years. Although right-wing governments were always more detached from the dominant segments of the capitalist class, the post-2010 illiberal regime has been particularly insulated from the multinational and the banking sector and has gained much of its political support from national capitalists' alienation from the liberal transition regime.

A capitalism that needs authoritarian solutions

Being involved in labour intensive production the accelerated capital accumulation of the native capitalist class rests on cheap and flexible labour, and on access to markets dominated by multinationals. To achieve their accelerated capital accumulation, the government systematically interfered in the existing structure of property and social rights, dismantled trade unions and all major institutional forms that represent the socially vulnerable. Although Orbán won in 2010 with the support of the working middle class, his neoconservative authoritarian policies favour the upper middle class and the economic elite and have alienated a large segment of his former working class supporters. Between 2014 and 2018, real incomes and the employment rate have risen somewhat which helped Fidesz to stabilise its support among the working class, but the bottom forty per cent has remained on the losing side of Orbán's economic policies. The redirection of class cleavages and distributional conflicts along cultural lines targeting the 'undeserving poor', various minorities as well as migrants serves to pre-empt a potential working class backlash. Targeting the figure of George Soros in the most recent parliamentary election was a strategic move to connect the enemy images of the reckless global investor and the fearful migrant, portraying both as threats to the vulnerable working class.

The measures favouring the nationalist economic elite also put Orbán's regime in opposition to some multinational companies that were among the biggest beneficiaries of the liberal transition regime, and also to smaller domestic entrepreneurs who blocked the ambitions of the national capitalists. Although Orbán facilitates the growth of the domestic capitalist elite, he knows that he cannot fundamentally challenge major international investors. Thus, he attempts to pacify transnational companies through strategic partnerships and record-low 9 per cent corporate tax. The new power bloc behind the state is composed of the political class around Orbán, key segments of the domestic business elite and transnational corporations. To protect against a possible political backlash emanating from the losers of accelerated capital accumulation, the institutions of liberal democracy had to be curtailed in parallel to the dismantling of the institutions of liberal capitalism and social rights. In other words, Orbán's authoritarianism cannot be separated from the model of capitalism he builds.

Lessons for Progressive Theory and Practice

It would be difficult to find a country that adhered to neoliberal blueprints of good governance more closely than Hungary. Yet, this did not facilitate democratic stabilisation, but the opposite. Authoritarian capitalism in Hungary was born on the ruins of liberal institutions and policies. The twenty years of transition followed by the break-through of authoritarian capitalism offer critical lessons for social theory and political practice beyond Hungary. First, Hungary's experience points to the inherent tendency of capitalism to polarise society which can alienate significant segments of voters. The growing commodification of social relations and the resulting insecurity and anxiety provide a fertile ground for anti-liberal political movements not only in Hungary, but in the US, in the UK or on the old continent alike.[28] The demobilisation and rightward shift of the Hungarian working class shows that democracy has to perform socially to be sustainable. The increase of private debts, the chronically low level of employment and wages, as well as the low fiscal capacity of the state to maintain its social policies signify the limits of the liberal economic model. Designing social and economic policies that are able to guarantee more social security, more inclusion and more opportunities for everyone are indispensable for a socially sustainable democracy.

Second, liberal political theory maintains that the capitalist class has a natural tendency to support liberal democracy. Several experts, followers of shock therapy economics, proposed during the early transition years to proceed with economic reforms rapidly before political reforms in order to produce a strong bourgeoisie that would support further democratisation.[29] The case of Hungary shows that the dynamics of global economic integration might lead to completely opposite outcomes. As long as they are willing to play by the rules of the regime, national capitalists receive wide ranging support from the authoritarian state, hurting existing ownership or other enshrined rights of multinationals, workers and small and medium sized enterprises. The class of national capitalists and the political class dominated by Viktor Orbán's Fidesz are mutually constitutive. There is nothing inherently liberal in the propertied class that emerged during the transition from socialism to capitalism. Sustainable democratisation has to be also built on an inclusive economic structure that does not marginalise domestic producers and does not result in a dualistic economy. There are some industrial policies that are compatible with the global economy,[30] but the regime of global economic governance also needs to be reformed to allow for more state autonomy and economic development.

The case of Hungary is not an isolated example. Historically, the collapse of democracy in Germany during the first half of the twentieth century offers a comparable lesson. As Karl Polányi and others pointed out, in the Weimar Republic the Left failed to present a compelling alternative to the unchecked globalisation of the gold standard that was directly responsible for financial instability, high levels of unemployment and a downward pressure on wages.[31] This facilitated the rightward shift of the working class. The economic elite found a way to live with the new authoritarian regime, several investors even enjoyed new opportunities for growth. The cultural and political context differs, so the extreme form of Nazism is less of a threat today as a hundred years ago, but the political economy of authoritarian capitalism reveals striking similarities. The rightward shift of the working middle class is a widespread phenomenon today where centrist social democrats failed to maintain their attachment to the institutions and values of the labour movement. On the other hand, China, Russia or Turkey offer further examples of how capitalists can indeed make compromise with authoritarian regimes as long as they see an opportunity for accumulation.

Defying liberal expectations, authoritarian capitalism is not just possible, but an increasingly common phenomenon today. Hungary is not an outlier, but again a frontrunner of a global tendency that Mark Blyth describes as "global Trumpism", with authoritarian capitalism as the endpoint. Technocratic rule as in the case of Greece (or Chile under Pinochet) imposes economic discipline from above in the name of neoliberalism, whereas Hungarian authoritarian capitalism, or in a more moderate form American Trumpism, is a counter-reaction to neoliberalism propelled by the discontent of workers and the economic elite. However, all of these political economic models signify that political disciplining can be the precondition of economic disciplining of citizens to facilitate accelerated capital accumulation in the era of contemporary global capital flows.

The tensions between capitalism and democracy are much stronger than most social scientists and political theorists predicted. These authoritarian tendencies show that there is nothing inherently democratic in capitalist arrangements. Although democracy historically developed in societies with market institutions, capitalism is not a guarantee for democratic institutions. In fact, societies with the longest history of successful democratisation managed to institutionalise a compromise between social groups struggling to curtail the logic of capital on the one hand and capitalist groups on the other. Putting these political tensions into ideological brackets, as liberal institutionalists did, does not serve the purpose of democracy. Instead of negating it, *progressives have to master the paradox of democratic capitalism*. The future of successful democratisation depends on how the structural tensions of simultaneous democratisation and marketisation are resolved. International institutions, donors and democracy promoters have to focus on the broad context of democratic institutions and facilitate a civil society that offers credible solutions to social and economic problems as well. Global initiatives to promote democracy cannot work if they are overshadowed by global economic procedures that increase financial and social vulnerability. Unchecked financial and economic liberalisation is not compatible with democratisation. The institutional structure of the European Union as well as global multilateral institutions need to be reformed to reflect this lesson.

These reforms will not happen without a constant push from civil society, trade unions and progressive parties. Domestic political actors have to reject the false marriage of economic and political liberalism, and combine the promotion of democratic institutions with the promotion of economic and social inclusion. Progressives cannot pit identity politics, the protection of minorities, against the politics of redistribution. Progressives have to offer a politics of social security to the vulnerable working middle class clutching onto the security of national identity. This requires thorough institutional reforms, brave initiatives such as universal basic income[32], new forms of social movements and new party structures that facilitate the mobilisation and participation of masses in the democratic struggle. Popular participation in politics is a necessary requirement of democratic stabilisation.

The global financial crisis was apparently not enough to challenge the dominant free market vision of society which contributed to the rise in right-wing authoritarianism. To reverse this trend we need to restore a critical class analysis of the tensions inherent to democratic capitalism, and create the cross-class alliances that could propel contemporary social democratic politics back to power. Progressive politics has to reinvent the basic values of social democracy and simultaneously adapt social citizenship to the twenty-first century. A democratic developmental state with an open economy industrial policy and a restructuring of global economic governance is necessary to facilitate economic development for all.

As opposed to the optimist prediction of Fukuyama, today's future seems to be much bleaker and occupied by authoritarian tendencies. Reinventing progressive analysis and politics is the pre-condition to stop the spread of authoritarian capitalism throughout the world.

About the author

Gabor Scheiring is a long standing progressive activist and a multidisciplinary political economist. He has edited four volumes and published several articles in leading academic journals on the political economy of health, democratization, marketization, and on how social movements influence the policy process. Gabor is currently working as a research fellow at the University of Cambridge where he has also recently completed his PhD that investigates the impact of economic restructuring in post-socialist Hungary on health and the collusion of class and identity in the everyday experience of the transition. In parallel he is also analyzing the political economy of illiberalism in Central and Eastern Europe. Gabor was also a nationally and internationally active and passionate member of social movements during 2000s campaigning for sustainability and social rights, organizing summer academies, festivals and conferences. As co-founder of a local progressive green party he was elected to the Hungarian Parliament in 2010 and served as the shadow minister of finance for his party. From September 2014 he has been the Chairman of the Progressive Hungary Foundation, a think and do tank dedicated to progressive policy research, advocacy and democratic citizenship education.

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Hungary was once praised as an example of successful democratisation and EU integration, but now has joined the ranks of 'liberal' nations backsliding into authoritarianism. Many commentators blame Orbán and his anti-migrant, anti-EU populist rhetoric, but ignore the underlying causes in particular the failings of market reforms in the country, high unemployment, low wages, spiralling household debts, and a nationalist capitalist class resentful of the advantages given to their transnational capitalist competitors.

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