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Hungary’s Illiberal Democracy

ABBY INNES

“The greater the power, the more dangerous the abuse,” as Edmund Burke warned us, and sure enough the recentralization of political and economic power in Hungary under the post-2010 governments of Prime Minister Viktor Orbán has reversed many of the gains of the 1989 revolution. The Polish anticommunist dissident Adam Michnik, a great hero to the younger, more liberal Orbán, once argued that nationalism was the last stage of communism: Both could deploy demagogic language denouncing “the enemies of the people,” but the prioritization of national pride was a far more malleable proposition than the achievement of communism. What needs to be explained, therefore, is how, over 20 years after becoming the first country to cut a hole in the Iron Curtain (by allowing East Germans to cross the border into Austria), Hungary has been returned to authoritarianism.

Hungary was a front-runner in the pro-democracy revolutions of 1989, a leader in the region’s liberal transition, and a first-wave member of the European Union among the former Communist states; but to judge by measures that go beyond periodic elections, Hungary can no longer be ranked a democratic country. Since the coalition of Orbán’s Fidesz party and the Christian Democratic People’s Party won a supermajority in the 2010 election, the government has played a game of legislative cat-and-mouse with the EU over its packing of the judiciary, the deepening political control of the media, the selective upending of property rights, and the self-dealing revision of the constitution to legalize Orbán’s stated preference for an illiberal state. In a July 2014 speech, Orbán encouraged his audience to understand “systems that are not Western, not liberal, not liberal democracies, maybe not even democracies, and yet making nations successful.” And he declared that “we are searching for (and we are doing our best to find ways of parting with Western dogmas, making ourselves independent from them) the form of organizing a community that is capable of making us competitive in this great world race.” These institutional reversals have been accompanied by a vocal and initially popular turn away from the neoliberal economic orthodoxies that dominated the region’s transition from communism.

Fidesz’s rhetorical shift to economic patriotism started back in the early 2000s, and its economic policy since 2010 has steered away from the hyper-open, liberal market-building stance of the 1990s, as multiple changes show. To name but a few, the Orbán government has nationalized Hungary’s largely foreign-controlled private pension funds; levied windfall taxes on banking, telecommunications, energy, and retail companies (sectors with a high proportion of foreign companies); made mandatory cuts in utility prices and bought out the companies exiting in response; restricted international corporate takeovers; nationalized and in short order reprivatized Hungary’s largest banking cooperative; and passed a law that enabled a significant redistribution of lucrative—and EU-subsidized—agricultural land, notably into the hands of Fidesz-aligned interests: an act judged illegal by the EU.

These moves to return the advantage to domestic businesses—at least to those that are politically supportive of the government—within the margins of the European single market’s competition rules have been paralleled by a foreign policy strategy of an “Eastern opening” toward Russia and China, among others. But while this opening has done little to unlock Russian and Chinese

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markets to higher rates of Hungarian trade, Orbán has recently made far more direct statements to the effect that Russia, China, Turkey, and Singapore are the most attractive models for development in both political and economic terms. The main result so far seems to have been a rejection of an international tender process in favor of a deal that calls for Russia to build two new nuclear reactors in Paks and to lend Hungary 10 billion euros for the project, on undisclosed terms.

Fidesz's 2010 landslide victory in coalition with the Christian Democratic People's Party was fueled by the potent combination of an imploding Social Democrat opposition and an electoral system designed to produce exaggerated parliamentary majorities—a system originally credited with enhancing institutional stability in a region prone to high electoral turnover and fragmentation. In the 2014 elections, despite polling 8 percentage points less than in 2010, Fidesz still managed to convert a 44.5-percent vote share into a 66.8-percent seat share, thus retaining its supermajority for changing the constitution. The Organization for Security and Cooperation in Europe has criticized this election on many fronts, including restrictive campaign regulations, biased state media coverage, campaign activities that blurred the separation between party and state, the cumulative removal of checks and balances from the electoral process, inconsistent registration requirements for resident and nonresident voters, and a redistricting process that lacked transparency and inclusiveness. (An important aspect of this gerrymandering is that it can only be reversed by the same parliamentary supermajority it helped create.)

Fidesz has gained a supermajority that enables it to capture the state.

But it was Hungary's extreme-right party, Jobbik (Movement for a Better Hungary), whose popularity increased in 2014. Having run a more conventionally conservative electoral campaign than in 2010, Jobbik took a fifth of the vote. The ongoing crisis of political legitimacy surrounding economic austerity in Europe as a whole, and the deepening appeal of the populist-nationalist and far right across the board, lies behind the EU's limited and legalistic response to the Hungarian situation, a strategy conducted with all the moral authority of a defrocked clergyman. And the persistence of Hungary's EU membership despite its ever more blatant violations of the bloc's founding principles is clearly an existential problem for the EU.

Monologue of power

Orbán's tactics have been notable for their inventiveness and eclecticism. As the social policy researcher Dorottya Szikra has pointed out, his government implemented some 700 legislative acts over the first three years after taking office in 2010, of which many escaped public consultation and discussion through the deployment of private bills in parliament. But the centralization of authority is a constant factor in the growing body of hard and soft measures, whether it is through the skillful employment of regulatory and constitutional measures that individually exist in many democratic systems, but which prove monopolistic when combined, or through the return to a public discourse of angels and maggots—a phrase Michnik used back in 1979 to warn anticommunist writers not to replace one supposed monopoly of righteousness with another. Add to this the kind of crony capitalism that can be achieved in a capitalist command economy and the result is an intensifying monologue of power.

Since 2010, Orbán has repudiated and undermined pluralism across the board—in the party system, in civil society, in the media and cultural spheres, and in the economy. Diversity of opinion is rejected as a source of instability and indecision that must necessarily harm the resurgent nation. These measures are all the more shocking given that Fidesz has embraced so many of the narrative and institutional modes of the former Communist regime, right down to the dichotomization of enemies and friends, Orwellian injunctions to mobilize within a "System of National Cooperation," and the resurrection of thought crimes. Publicly insulting or demeaning national symbols is now punishable by up to a year's imprisonment.

Fidesz's national conservatism has emphasized family, church, and nation, but despite Hungary's comparatively high degree of intellectual dissent by the 1970s, these political exhortations to value tradition have still required the significant reinvention of those traditions, and with that the concerted rewriting of history. Unsurprisingly, the party's efforts to harness historical symbolism from the pre-Communist period to serve its own

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purposes have proved contentious, implicated as Hungary's past is with the rise of European fascism, alliance with the Axis powers, and the Holocaust. The recent controversy over Budapest's new monument to the victims of the 1944 German occupation in Liberty Square is typical. It has been decried by critics at home and abroad as a whitewash of Hungary's own culpability in the implementation of fascism. The characteristic government response, as reliably articulated by György Schöpflin, a member of the European Parliament, is that Hungary has more than one history, that "[t]he national version is the one favored by the government, and it is entirely at odds with the ones put forward by the liberals and the socialists. . . . To these may be added a Jewish and a Roma version, as well as a women's history." While the tone is postmodern and reasoned, the message is that history is written by the victors, standards of proof be damned.

Although observers have been reduced to the Kremlinology of interpreting Orbán's latest tactics, the overarching strategies—the regime's mania for monopolization, unpredictability, and emotive social mobilization—are indicative of deep weakness. The institution- and asset-grabbing reveal a lack of viable and popular long-term plans for national development. Concerted social mobilization is a tiger that is hard to control and increasingly difficult to ride, as was exposed by the government's rapid retreat in October 2014 when its attempts to tax Internet data traffic prompted mass protests against the suppression of free speech. Most worrying of all for the government, the demonstrations of recent months have made explicit comparisons between this regime and the Communist past that Fidesz is supposed to be expunging from Hungarian public life.

So why did Fidesz—a derivation of "Alliance of Young Democrats" in Hungarian—give up the libertarianism and Liberal International membership of its early years in favor of a highly nationalist conservatism? Why did Orbán move his party so far to the authoritarian right, not just to a deepening skepticism about the sociocultural impact of the region's new capitalism but to a growing rejection of the basic liberal democratic principles of pluralism? And why was the electoral field suddenly so open to such a party? Hungary, along with Poland, has the highest proportion of voters self-identifying as leftist in Central Europe, equal to the rate in Sweden. Nevertheless, a growing constituency, including former leftist voters, became susceptible to the idea that "the nation cannot be in opposition," and to narratives that u-turned from championing Hungary's place within the new Europe to equating the EU with the country's former Soviet oppressors.

CANARY IN THE COALMINE

The last question raised by the domestic political-economic crisis that brought Orbán to power and the regime's ongoing weaknesses, however, is whether Hungary serves as the canary in the coalmine of European politics. Hungarian political and economic stresses over the past 25 years have been in many ways a magnified version of those afflicting Western Europe. Long before the current financial crisis, those Central European countries that had attempted some semblance of a social welfare contract to help legitimize the otherwise radical processes of economic liberalization had run into deepening financial difficulties.

Even in the region's two leading reform states, Hungary and Poland, high growth rates have not proved high enough to maintain credible welfare bargaining in the context of increasingly liberalized, that is to say, low corporate and personal income taxation regimes. Both countries struggled to maintain their initial, supposedly transitional social contracts, wherein those most vulnerable to market reforms—pensioners and the unemployed—would be protected through inflation-indexed income transfers. Growing liabilities for these transfers crowded out other developmentally vital spending. Both countries subsequently have faced intense pressure as competing emerging markets to cut taxation and public spending and generally reduce the role of the state, on the one hand, but continuous upward pressures on public spending on the other, as deindustrialization, economic restructuring, subsidies for foreign investments, social inequality, and in more recent years, aging have taken their toll.

As if undergoing a hyper-concentrated version of the Western European experience of deindustrialization since the 1970s, both the Hungarian and the Polish political systems have wrestled with the politically thankless task of maintaining popular legitimacy for ongoing reform in the face of socially divisive forms of economic growth and rising pressure for ever deeper public spending cuts. In both cases the social democratic left—the former young Communist technocrats who

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became the most Blairite, pro-market center-left parties in the region—has seen the shattering of its electoral support as the parties sooner or later (sooner in Poland, later in Hungary) appeared, programmatically, to vacate the leftist socioeconomic space entirely. Both have been replaced in the polls by authoritarian conservative nationalist parties—Law and Justice in Poland, Fidesz in Hungary—but so far only Fidesz has gained a supermajority that enables it to capture the state.

The Hungarian Socialist Party (HSP) positioned itself after 1989 to cover the social liberal, economic liberal, and social justice ground in national politics. Combined with its internationalist and pro-European stance, this expansive centrism effectively narrowed the remaining competitive space for other parties, most notably Fidesz, to the nationalist and conservative right. Fidesz duly began to reframe its message toward greater Euroskepticism after its weak electoral showing in 1994, and the party demonstrated an increasingly assertive nationalist populism throughout its first stint in government between 1998 and 2002.

But where the HSP had tried to combine radical liberalization with sustained state spending on education, training, and public employment, Fidesz's first administration in turn offered unsustainable mortgage subsidies and failed to reduce pension liabilities. Unfortunately, given Hungary's participation in the region-wide race to the bottom on corporate and income taxes, the result was the shifting of a high tax burden onto labor and employment (as also occurred in Poland) and rising public debt, to cumulatively catastrophic economic effect. Hungary increasingly combined the lowest employment rate in Europe with one of the highest tax burdens on labor and the highest public spending overall of the Central European states, which stayed more or less constant from 1997 to 2008 at 49 percent of GDP. At its height, in 2006, this meant Swedish or French levels of public spending at Polish levels of per capita income. When this was coupled with a post-2007 crisis in privately held foreign debt, the Hungarian left had nowhere to go but to unprecedented levels of austerity, which it was no longer trusted to manage by 2010.

The scandal that sowed the seeds of the HSP's electoral defeat and subsequent collapse had come shortly after its reelection in 2006, when it emerged that Prime Minister Ferenc Gyurcsány and his cabinet had lied repeatedly about the condition of Hungary's public finances. In a leaked party speech, Gyurcsány had insisted that the economy could no longer sustain the party's promises. Aside from the copious cursing, this speech was remarkable for its suicidal honesty regarding the country's financial realities. Several weeks of mass demonstrations, calls for his resignation, and violent clashes with the police followed the revelations, yet Gyurcsány survived a parliamentary confidence vote and did not step down until 2009, when the financial situation became unsustainable. Since then, Hungary has faced pressures to cut public spending by a large margin or risk a sovereign debt default.

CRONY CAPITALISM

When this public spending crisis is kept in the frame it becomes clearer why Orbán ran a notably blank electoral campaign and then opted for an authoritarian solution to the country's ever more vexed question of effective political steerage. By 2010, it was quite hard to see how else not just Fidesz but any non-neoliberal party was meant to thrive among a growing constituency of socioeconomically harassed, non-neoliberal voters with the promise of deep, long-range spending cuts and ever-increasing foreign ownership of land, assets, and capital. Having promised an end to austerity in its campaign, one of Fidesz's first measures in government was to expropriate private pension funds, shifting them back into the public budget to create a one-off surplus: an act as damaging to Hungary's international financial credibility as the Socialists' earlier lies. Hungarian bonds have since been relegated to junk status by the main international credit-rating agencies. The governing coalition then launched a strategy of severe austerity.

But what of the shift to economic nationalism after that? Has Fidesz moved beyond misleading the electorate about austerity, and expropriating private pension funds as a fiscal stopgap, toward a more coherent national strategy? Has it managed to break the cycle of precarious liberal economic development and disappointed welfare expectations with a new emphasis on domestic business development and more social investment? Even in a highly globalized and financialized world, there are still more or less effective ways of favoring domestic businesses, improving skills, and fostering distinct forms of competitive institutional advantage. And since the 2008 financial crisis, it is evident that Central European governments have taken a hard look at their reform trajectories. The crisis exposed the vulnerabilities

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brought about by their dependence on foreign investment and the exceptionally high internationalization of their banking sectors (the latter resulted from EU pressure, despite the old member states' carefully avoiding such internationalization themselves). Foreign banks in Central Europe boosted private debt and housing market bubbles while offering meager credit availability to domestic businesses.

In this regionwide policy shift, the contrasts between the strategic responses of the Polish liberal centrist governments under Donald Tusk and those of Fidesz have proved instructive. Both the Polish and Hungarian governments have declared their intention to support homegrown companies and to upgrade their economies so they are more than dependent links in international manufacturing production chains whose headquarter countries retain the leading-edge engineering competences, research and development, and innovation capacities. But the Poles have been diplomatic and transparent in their reform efforts, with none of the full-frontal attacks on foreign investors or central bank independence seen in Hungary. When the Polish government in 2014 was forced to switch private pension portfolios back to the public sector, the transition costs of a pre-crisis pension reform having become untenable, it made a transparent reversion from a defined-benefit to a non-defined contribution scheme within the existing pension structures. Poland did not, as in Hungary, simply expropriate the money back into the general budget.

As Marek Naczyk of Sciences Po has shown, both the Polish and Hungarian governments are attempting to increase the market share of banks dominated by domestic capital, both have moved against hostile foreign takeovers of domestic companies, and both have started to introduce elements of state-coordinated industrial policy, the ostensible model being Germany—still the economic engine of Europe. But in Hungary, this strategy has repeatedly translated into a crony capitalism whereby those businesses that befriend the governing parties find themselves thriving through no superior innovative or competitive merit of their own. On the one hand, Orbán's government has encouraged reindustrialization further up the value chain through strengthening ties to the German automotive industry: A shift to the German model of vocational training followed consultation with German car companies, and direct subsidies from the national budget and EU funds were granted to Audi and Daimler along with up to 80-percent exemptions from corporate taxes over 10 years for new investments. But on the other hand, the government has simply favored corporate political insiders, so that improved competitiveness is rendered unnecessary by quid pro quo market manipulation through the regulatory and tax regimes.

The regime's mania for monopolization, unpredictability, and emotive social mobilization is indicative of deep weakness.

INSIDE GAME

In its most recent 2014 study on lobbying in Hungary, Transparency International demonstrates that the economic policy of the Orbán government is characterized by centralization and a series of tailor-made laws designed to entrench the advantages of political insiders while disadvantaging opponents. Foreign players are pushed out of desirable markets by means of windfall taxes and unfavorable reregulation, under the supposedly patriotic pretext of supporting Hungarian firms. But the upshot is insider state capitalism, in which political advantage is more important than economic performance, all in the service of the monologue of party power. The widespread corruption of previous governments has consequently not been eradicated so much as systematized. After a few years of this strategy, international companies found themselves so disadvantaged that the country risked major investment flight. But while the government has made efforts to rebuild bridges with selected multinational companies through "strategic agreements" since 2012, the politicization of domestic economic advantage has continued apace.

The story currently dominating the Hungarian Internet is the American allegation that the National Tax and Customs Administration (NAV) has been directly involved with corporate corruption, which prompted a US travel ban on the agency's head, Ildikó Vida, and five other officials. Orbán duly responded by encouraging Vida to sue the US chargé d'affaires, M. André Goodfriend, for defamation—which she did, raising the temperature of the diplomatic standoff. In the meantime there is no investigation into the NAV, which is

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in keeping with the breach-of-secrecy charges leveled in 2013 against whistle-blower András Horváth, who alleged that the agency was complicit in widespread tax fraud; authorities raided his house and seized his evidence.

The corruption of the national tax agency bodes peculiarly badly for a country whose shrinking margin for constructive public spending underpinned its crisis of governability in the first place. Such cases, along with the recent exposure of the high life led by key Fidesz ministers, are hollowing out the party's claims to be defending ordinary Hungarians against predatory capitalists. But these cases keep coming: another is the 2013 Land Law, an originally popular land reform that was predicated on benefiting small Hungarian farm-holders but was co-opted by allied corporate and political interests. Exceptionally, this case prompted the state secretary for sustainable farming, József Ángyán, a champion of small farmers, to resign in protest against the distortion of the reform, and he persists in calling on the government to live up to its original promises.

This division between insiders and outsiders extends to welfare, where social policy reforms have combined severe spending cuts, redistribution toward the wealthy, and a pronounced centralization of health, primary education, and public works programs. One of the most disturbing changes was the introduction of compulsory public works programs for the unemployed, who also faced sharply reduced benefit entitlements. As the economist Zsombor Cseres-Gergely and his colleagues have shown, this has pushed up the share of unemployed people lacking any social assistance or benefits to over 50 percent, in a country in which homelessness has been criminalized.

POLITICS OF RESENTMENT

Hungary's degree of state capture and return to the authoritarian rhetoric, if not the strategies, of the 1930s is unique in Europe. But just because Hungary inherits a tragic history—the loss of two-thirds of its territory in the 1920 Treaty of Trianon is the psychic wound that Orbán has reopened for the narrowest of purposes—does not mean it is the only European state vulnerable to the antidemocratic politics of resentment. The populist and far right is rising in Europe on a much trumpeted concern for the "ordinary man," although such parties are, like Fidesz, notably devoid of realistic medium-term, let alone long-term, economic strategies for their target constituency. But these antidemocratic parties are moving in from the margins because they are prioritizing the questions of basic material security that used to be the preserve of the postwar mainstream. And to the extent that mainstream conservative parties abandoned tradition and incremental reform, and the social democratic left rescinded its promise of a more equal future in favor of an increasingly precarious neoliberal present, they ceased to voice societal divisions and anxieties that in many respects have only deepened.

It is one of the less acknowledged aspects of neoliberalism that in contrast to every other mainstream European ideology of the postwar era it lacks anything resembling a civic republican dimension. Narrowly materialist and highly technocratic, the neoliberal orthodoxy of recent decades has depended on the legacies of previous ideological movements for the maintenance of democratic values and social order, but the failure to renew these broader values may now be coming home to roost. The popular credibility of further economic liberalization and deregulation collapsed following the 2008 financial crisis, and European citizens increasingly find themselves in a world of "emergency politics" as governing elites seek to retain power and legitimacy while avoiding more systemic reform. We risk moving from the depoliticization of economics to its securitization, since the prevailing order apparently requires a set of increasingly coercive narratives to sustain it.

The trouble with emergency politics and the language of crisis and imminent threat on which it depends is that they delegitimize the very debate that is essential in a period of collapsed economic consensus; they constitute a dangerous abuse of democratic politics and undermine democracy as a mechanism for the resolution of social and economic conflict. From the EU's micromanaged imposition of financial conditions on member states hit by the euro crisis, to Chancellor of the Exchequer George Osborne's invocation of economic doom if Britain's public spending is not cut back to pre–World War II levels, to Orbán's call to arms against an infinitude of external and internal threats, there is less of a leap than democrats should wish for. ■

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