

## **National Capitalism in Orbán's Hungary**

**Article by Gabor Scheiring**

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Behind the veneer of economic nationalism, Hungary is one of the breeding grounds of a new incarnation of neoliberalism. We spoke with sociologist Gábor Scheiring, a founder and former MP of the Hungarian Green Party LMP (Politics Can be Different) about his new book *The Retreat of Liberal Democracy: Authoritarian Capitalism and the Accumulative State in Hungary*.

After the end of communism, Hungary was for many years seen as a star pupil in the establishment of democratic institutions and a market economy. However, in the second decade of its economic and political transformation, it became obvious that the narrative of success concealed immense fragility. Industries collapsed and resentment started to grow among the losers in the transition process. The Socialist-Liberal coalition that governed the country since 2002 alienated large parts of the electorate, notably by imposing austerity in 2006 and a highly unpopular healthcare privatisation agenda in 2007.

To outside observers, the problems became visible in 2008 when the former “economic powerhouse” had to be saved from bankruptcy with a rescue package provided by the International Monetary Fund, the European Union and the World Bank – the condition for the help was another set of painful austerity measures. This is the context in which Viktor Orbán, the country’s “illiberal” prime minister, came to power in 2010. In the decade that followed, Hungary has been the focus of attention as Orbán has attacked democratic institutions, misused EU funds, and adopted increasingly far-right rhetoric.

***Green European Journal: Your book is quite critical of prominent explanations for the decline of democracy in Hungary and Poland. Why?***

**Gábor Scheiring:** The problem is mostly related to where they put the emphasis. It is not what they say, but what they do not say. Some argue that the main explanation for the decline of democracy is the violation of norms by political rogues. Writers such as Francis Fukuyama or Jan-Werner Müller have made this argument. Most studies on populism in Hungary emphasise the role of Viktor Orbán and his cronies in the decline of democracy. Several leading figures of the liberal opposition are also fixated on Orbán, neglecting the structural issues. Of course, Orbán played a crucial role in the democratic backsliding. However, this argument diverts attention from the fact that politicians do not come out of nowhere, they don't just operate in a social vacuum.

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The other problem is the culturalist literature, which is focussed on the role of culture and heritage – that is nationalism in Eastern Europe, intertwined with the weakness of the nation-state – in shaping politics. Looking at cultural attitudes is not necessarily a problem – as long as culture is examined in the context of economic and

political processes. But there are those who say the “persistence of feudal serf-mentality” determines everything that is happening in Hungary – and as such, the illiberal populism of Viktor Orbán is what best represents what the Hungarian people are longing for deep down. This argument is misleading, elitist, and derogatory.

**Whereas your work focuses more on the economics.**

Yes, I think there is a huge lack of economic explanations when it comes to examining the decline of democracy or the rise of populism in the region. But I am not an economic determinist. I do not think that a country’s position in the capitalist world system will determine all possible outcomes. Politics as well as a sociological, anthropological concept of culture also have a role to play in it. Not to mention geographic factors.

**Apparently, the Hungarian government is on good terms with the economic elite. You write that by the 2000s, Hungary’s “national capitalists” had largely distanced themselves from the left-wing and liberal political elite and sided with Fidesz (who were still in opposition at the time). What are the roots of these tensions?**

At the root of the structural tensions is the poorly managed dependent development of post-communist Hungary. Following the change of regime in 1989, Hungary reintegrated into global capitalism in a dependent position; it had to rely on transnational corporations to import innovation. To deal with this situation, the country adopted an avant-garde neoliberal public policy mix, complemented by certain social policy reconciliation programmes – such as an option for early retirement, in order to remove those who were unable to compete from the labour market.

1.5 million Hungarian jobs were lost during the first years of the regime change, out of which only 0.4 million have been recreated. The share of wages in total national income decreased from 57.2 per cent to 46.3 per cent during the first 20 years of the transition. The average real wage in 2009 was only around 10 percent higher than it was in the early 1980s. At the same time, inequalities grew rapidly, social housing was completely privatised, so we are talking about three lost decades of social development.

The fact that this process ended in extreme social and economic disintegration does not strictly follow from the fact that the Hungarian economy found itself in a position of “dependent integration” with the global economy. The process of reintegration puts tremendous pressure on a country and generates certain trends, but even so, local elites still have room for manoeuvre to direct and steer them. There are countries that have been more successful in this than Hungary, Poland followed a much more aggressive and successful industrial policy, the Czech Republic was much better in building up a functioning social investment welfare state. In Hungary, the fragile class compromise between workers, technocratic politicians and foreign investors that defined the years of liberal democracy collapsed because of this very clear political polarisation over the fact that dependent integration was managed in tandem by transnational capital and the technocratic political elite (mainly on the Left).

Of course, the world of Fidesz was not very different from this until the early 2000s – even if it was always a little more open to economic nationalism. Before returning to power in 2010, however, the party took an economic nationalist turn.

**Can we say that a liberal, left-wing intellectual in the 1990s and early 2000s saw the interests of international capital as their own?**

The zeitgeist could have been described as: “a good industrial policy is that there is no industrial policy.” It was a neoliberal dogma that was heard in other countries as well, but the Czech or Slovenian governments nevertheless pursued a much stronger industrial policy.

Weak industrial policy has proved to be a huge problem for Hungary and only the Right has highlighted this

problem. For the Left, with the exception of some progressive, new left-wing circles, it is not appropriate to criticise multinational companies. The structural problem with the Hungarian economy is that there is a competitive export sector, but the value that is produced there remains exclusively within global value chains – in practice, much of the revenue flows back to Germany or to other Western states to the parent companies. We would need an industrial policy that puts an end to this: foreign capital is important for a country like Hungary to be able to develop, but only if there is an industrial policy that makes sure that this foreign capital is not a “cathedral in the desert”.

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National capitalists lobbied both sides of the political spectrum to pursue a less extreme-neoliberal industrial policy but only on the Right did they find open ears. That is why, by the mid-2000s, most of the economic elite was allied with Fidesz.

**From 2010 onwards, economic policymaking completely changed in Hungary. Many on the Right like to see today’s Hungary as a developmental state – which, similarly to East Asia’s miracle economies in the 20<sup>th</sup> century, sets the ground for sustainable economic growth through state-led economic policy planning.**

A very imperfect developmental state, maybe. But it is so imperfect that I would not even call it a developmental state.

We see that in recent decades there has been a very serious social disintegration in Hungary: in the deindustrialised areas, the left has lost its rural base, the local working class, and this disillusionment has been exploited by Viktor Orbán in his bid for power. As prime minister, one of his main economic policy goals was to emancipate national capital. He crowded out transnational capital from sectors of the economy where it was possible (notably by nationalising banks, utility companies), and thus we have seen a clear rearrangement in non-export sectors (such as energy, banking or retail), which are dominated by national capitalists.

But regardless of this transformation, the dominance of transnational capital in the Fidesz system remained in the rest of the sectors. The government forged a new alliance with transnational capital, and in a sense, the state became even more vulnerable to multinational companies operating in technology export sectors – as the current government spends even more money on their support than its predecessors. The new flat corporate tax of 9 per cent is the lowest in Europe. Due to tax relief, the biggest companies pay even less tax. The actual corporate tax paid by the 30 largest companies in Hungary on their income before taxes was 3.6 per cent in 2017.

### **Where does the developmental state parallel come from?**

It would make sense to have the kind of developmental state in Hungary that is able to reduce the country’s economic divisions and lead Hungary out of the middle-income trap in which it has been stuck in the new millennium.

Orbán also sensed something of this need – but the state organisation his government created is completely unsuitable to function as a developmental state. A developmental state maintains some professional, technocratic bodies where professional planning takes place, and it also maintains a bureaucracy that is somewhat independent of power relations. In addition, the developmental state is able to confront the economic elite and formulate long-term development goals against their short-term interests. Many of the systems necessary to achieve long-term goals have been completely dismantled by the government such as research and development, higher education,

human capital policy or healthcare.

### **How does the Hungarian leadership legitimise its system?**

Orbán has a vision and uses it to establish an identity in the minds of his allies. This identity is about making the country economically independent and reducing its dependence on multinationals (as seen in the non-export sectors). In this endeavour, corruption is seen as an affordable price, a teething problem, as the newly rising entrepreneurs will form the Hungarian economic elite in the long run.

*Policies aiming at upward redistribution are just popular enough for the system to work, when supplemented with authoritarian and populist fixes*

Orbán's system is so much about serving the economic elite that his party received fewer votes when it was re-elected in 2014 than it did in the national election of 2006, when it lost. Therefore, it is not true that he is enjoying overwhelming popular support. Policies aiming at upward redistribution are just popular enough for the system to work, when supplemented with authoritarian and populist fixes. These fixes (such as creating enemies and depriving the opposition of a level playing field), however, are needed for this well-organised minority to remain in power.

### **To what extent is it possible within the new, national economic elite for someone to form an opinion critical of the government? Or does this question not even arise because their economic interests are in line with what the government is doing?**

The latter is true for 90 per cent of the members of this elite. Even if they do not like everything that happens in politics, overall they still feel that they are in their current beneficial position thanks to the government's concessions.

There is an absolute minority that still does not clash with the government, even if it opposes it on an absolute ideological basis. And there are some actors who are more vocal, because they have a profile that relies on a skilled, cooperative, healthy workforce. This would require investment in education and research. This, however, is not compatible with the needs of the majority of the Hungarian economic elite, because the production modes of this elite are based on an easily exploitable, cheap, relatively unskilled labour force – as most of the big capitalists are active in areas such as the real estate business, the food industry, agriculture, or the raw materials industry.

### **Can this economic policy increase Hungary's international competitiveness?**

Not in the long run. In the short term, however, there were visible successes: when Orbán came to power in 2010, the Eastern European periphery was benefiting a lot from the global economic trends of the time. Western European companies have increased their competitiveness by moving even more production to Hungary, Romania, Poland or Slovakia. That is why these countries have experienced a rather spectacular growth cycle. Besides that, another important factor of economic growth in Hungary is EU financial support.

As the inflow of foreign capital slowed down spectacularly in Hungary, the lack of this capital was made up for by EU funds, which the Orbán government used very effectively – as they knew that this way, they could build a new oligarchy and spur economic growth.

### **For your book, you interviewed a number of workers who have experienced the regime change as adults. Do**

**those conversations show that the promises made by politicians in the 1990s about a quick catch-up to the West were excessive?**

There were probably unrealistic expectations as well. But overall, I think survival, a decent living, and a secure financial background are not excessive expectations. Most people were lacking these – many things that were still available during communism became unavailable.

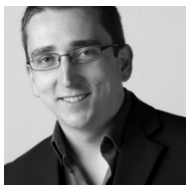
In the meantime, of course, there was also a false political illusion that we would catch up to the West in a very short time, and to do that it would be enough to just cater to the needs of multinational companies. Not only the interviews but also the questionnaire research revealed that the younger generations were even more disappointed than the older ones.

**What is the main lesson for the progressive opposition in Hungary to take away from your analysis?**

The classic cosmopolitan-liberal strategy of naming and shaming populists will not suffice to prevent the rise of Orbán-type neo-illiberals and to beat them electorally once they gain power. Currently, Orbán poses as the sole political voice of domestic businesses. I think the Left needs to talk more openly about the problem of economic dualism and abandon its one-sided preference for foreign investors. To get Hungary out of the current middle-income trap, economic policy has to reduce the productivity gap between transnationals and domestic businesses. Instead of embracing the failed model of neoliberalism, the progressive Left needs to embrace the state as an economic agent that promotes domestic value chains. A progressive, democratic developmental state can help domestic companies switch to a higher value-added mode of production, one that does not rely on the exploitation of workers and the environment.

*The answer to nationalist populism is not more neoliberalism. The answer is reinventing the Left*

But most importantly, progressives need to earn back the trust of disgruntled workers and must embrace the state as the champion of social cohesion. The answer to nationalist populism is not more neoliberalism. The answer is reinventing the Left – a progressive populism if you like. A change in identity and narrative is only the first step. The current opposition is very weakly embedded in small- and medium-sized towns, the deindustrialised regions that used to be the regional strongholds of the Left. It would be a strategic mistake for the Left to accept its role being confined to the major cities. Progressives have to invest more into organising to forge a social coalition needed for a stable majority. Only the organised power of the masses can curtail the power of the elites.



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