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How Orbán Manipulates Markets to Suppress Hungary's Opposition

An interview with Daniel Hegedűs, Kim Lane Scheppele, Krisztian Simon
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The Hungarian regime has a wide range of tools to repress its people and it deploys them cleverly to avoid drawing too much criticism at home and abroad. We spoke with Professor Kim Lane Scheppele of Princeton University and political scientist Daniel Hegedűs about Hungary's autocratic turn and the sustainability of crony capitalism.

Krisztian Simon: Professor Scheppele, in your upcoming paper "Your Rights were Not Violated," you show how the Hungarian government uses job insecurity and other forms of dependency to suppress dissent and strengthen its power. Can you tell us more about this "cruel market" tactic?

Kim Lane Scheppele: Autocratic governments don't openly violate well-established rights as their primary form of repression any more. But autocratic governments do find other ways to pressure their citizens so that they understand that their actions are monitored, and yet have no recourse to courts or international institutions to complain. In Hungary, the government fired all those who were in opposition to Fidesz, the governing party, from the public sector. The government then circulated blacklists of those who had been fired among the private sector. Hungarian business managers were told that if they hired any of these people, their companies would be disqualified from government contracts. The government then cut unemployment insurance and social benefits so that those now out of work had no income to fall back on once they had been blackballed. Hungary made all of these cuts under the guise of following an austerity programme imposed by the International Monetary Fund (IMF) and approved by the EU. In fact Hungary was congratulated by the IMF and EU for meeting its budget targets.

Krisztian Simon: Why don't the wider audience in the country and international observers realise what is going on?

Kim Lane Scheppele: All of those who were in the opposition realised what was going on. This is why emigration accelerated from Hungary after 2010. A recent report found that about 1 million Hungarians out of a population of 10 million have left the country since 2006.[1] Not all of that is due to Viktor Orbán, who came to power in 2010, but the numbers accelerated after this austerity-for-the-opposition programme began. The huge number of Hungarians fleeing the country would have been considered a refugee crisis if it weren't for the fact that those opposed to Orbán are overwhelmingly more educated and cosmopolitan than his supporters and the EU eagerly welcomed such highly skilled labour.

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Daniel Hegedűs: I mostly agree with that diagnosis. It is true that few authoritarian regimes rely nowadays on straightforward physical repression and the unambiguous violation of human rights. If we take a look at Russia, China, Azerbaijan, or Turkey, it is obvious that physical repression exists, but it is only one among several tools through which they control their society.

This is of course not a completely new phenomenon: political interventions into public employment

and procurements have been day-to-day practices in every autocracy since well before the dawn of modern politics. Occupation bans were commonplace for persons critical toward the ruling parties in Central and Eastern European Communist regimes and office grabbing is business as usual not only in authoritarian systems, but in democracies as well. The real innovation of Orbán's crony capitalism is that these mechanisms provide a sufficient level of existential pressure, so that no physical form of repression is required, at least not yet.

However, Orbán's competitive authoritarianism is also not a one-dimensional system. Crony capitalism, strategic corruption, and welfare policies are only a few items from the autocratic toolkit that allows him to control Hungarian society.

Krisztian Simon: What other items are there in this toolkit?

Daniel Hegedűs: The list is not really surprising: the domination of the media landscape, the existence of a centralised propaganda machinery, the lack of effective legal remedy (or at least uncertain access to it due to the weakened rule of law), the lack of political control over the executive due to the dismantling of checks and balances, the deployment of intelligence measures, as well as selective social policies, are in various forms all present in every autocratic regime.

Krisztian Simon: How come international law and organisations such as the European Union and Council of Europe didn't adapt to this new situation?

Kim Lane Scheppele: Everyone could see that Orbán was using the strictures of the EU budget constraints to target his opponents. However, the EU was not going to stand up for the opposition to return their jobs or pay social benefits. Orbán was, after all, complying with EU rules on budget overspent. Those who were affected also could do little. Who could sue in such a case? Who has a right to a public sector job? Who could prove in court that they had been blacklisted in the whispering campaign that was launched against opposition figures in the Hungarian business community? And what recourse would be available? The European Court of Human Rights doesn't recognise being unable to get a job as a violation of a human rights.

Now you may ask why those affected didn't rise up against Orbán when he cut all social benefits. Hungary substituted general welfare payments with a public works programme. But getting a public works job is at the discretion of local (ruling party Fidesz) mayors who then demand the votes of those who get these benefits in the next election. By now, there is a lot of evidence that Fidesz's election victories are based in part on this strategy. Opposition figures never get these jobs. The apolitical masses of disadvantaged people find their vote a small price to pay for economic security.

Daniel Hegedűs: From the perspective of both domestic and international observers, in the first years after 2010 the main question has been where the red lines lie. Since 1990, democratic handovers of political power were always followed by political purges and office grabbing in the public administration. The Hungarian public, even the public employees, were largely accustomed to it.

How deep does a purge of the public administration have to be to be perceived as an autocratic turn? Recep Tayyip Erdogan's Turkey provided an extreme example following the 2016 coup d'état. However, in most cases the balance of such purges can only be drawn after the fact. It is not a coincidence that in 2013-2014 analysts of the Hungarian autocratisation process focused on the disassembly of constitutional checks and balances and the hollowing-out of the rule of law, as these processes can be easily followed. Therefore, the main question is not why observers in Hungary and abroad have not realised the nature of these developments in time, but why they have not addressed them properly afterwards. It is obvious that no citizen has a right to public employment. But the government also does not have the constitutional right to remove independent judges, not even under the umbrella

of early retirement, because it constitutes a clear violation of judicial independence and rule of law.

There is not too much difference between the Hungarian and Polish cases of early retirement of judges. However, the first case was addressed by the European Commission as an issue of age discrimination, and the second one as a threat to the judicial independence and rule of law. EU institutions learned a lot from their failures with Hungary, but unfortunately there are no signs that those errors will ever be corrected.

Unfortunately, the main motivation of the European Commission has mostly been to solve the particular legal disputes with the Hungarian government as smoothly as possible, and not to systemically constrain Hungary's autocratic drift. In our article authored together with Professor András Bozóki of the Central European University in Budapest, we claim that the EU's constraining effect only worked regarding fundamental freedoms, where a solid legal tradition of the protection of fundamental rights co-existed with the EU's political and material leverage.[2]

This might be why an uneven political playing field coexists with a relatively high level of fundamental freedoms in Hungary. In this regard, our findings match those of Professor Kim-Lane Scheppele, as we all emphasise how Hungary's increasingly autocratic political regime is unique in (still) lacking physical repression.

Krisztian Simon: How successful are such regimes in the long-run?

Kim Lane Scheppele: Crony capitalism can persist for a very long time. But there are things that the EU can do to shorten its lifespan. Fidesz uses EU money to accomplish its aims. As the EU has finally seen, corruption is rampant in awarding state contracts, particularly the big contracts for EU cohesion projects. Orbán distributes contracts to his friends and relatives, and they allow that money to trickle down to buy support from the general public either with public employment on these contracted projects or with the public works employment that has replaced the welfare system. If the EU were to cut funds to Hungary, the money that keeps this system going would dry up and the system would start to crack. Of course, I don't like advising the EU to inflict pain on those who can least afford it and Orbán would not be the first to suffer. Perhaps the EU could support the people who will be directly harmed by distributing funds directly to the NGO sector bypassing the government. But until the EU realises its role in keeping this crony capitalist system going, the system will not change.

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So far, resistance inside Hungary has been squashed or bought off. The government has created a huge machinery of surveillance – everyone who participates in demonstrations or protest meetings knows that their actions are recorded. On top of that, the government threatens people with 'kompromat' – compromising information about someone that the government threatens to release unless the person in question ends their involvement in protest. There is good evidence that the government has infiltrated or bought off opposition political parties so that they deliberately do not win elections but that they still allow them to look enough like real opposition parties for elections to be branded "free", even if not "fair."

But now the tactics are getting more violent. Some suspicious fires have gutted the offices of opposition groups.[3] Journalists – even foreign journalists – who cover Hungary are threatened, and their editors are pestered with complaints about every single negative story. The same applies to external critics: I've gotten death threats myself and lost several computers to malware. The last time I visited Hungary, I was met off the plane by five uniformed police who followed me through the airport. This government isn't kidding and one has to be really dedicated to continue to oppose them once you start to protest. Most people give up and either move out of the

country if they can – or remain silent at home.

Daniel Hegedűs: The logic of the Hungarian economy not only follows the rules of crony capitalism, but resembles rent-seeking capitalism too. However, in Hungary's case it is not natural treasures but EU subsidies that constitute the income for redistribution among loyal networks. Of course, such economic systems are less efficient and competitive, and most of the crony-owned companies that reaped huge benefits from politically distributed public tenders would be unable to operate under normal market conditions. In the current, sophisticated form of rent redistribution, the regime can only be shaken by deep economic crises or the cut of external funding.

Viktor Orbán has already established his links to Moscow and Beijing in the search for alternative external funding of his regime. But neither Russia nor China will be willing and able to provide a level of support comparable to the EU cohesion funds. Therefore, the EU funds should be coupled with political conditionality that not only constrains further autocratic turns but that can reverse Hungary's democratic backsliding. The current rule of law conditionality proposal of the European Commission embedded in the new seven-year EU budget is an important step in the right direction, but is far from a game changer.[4]

A well-designed and implemented 'carrot and stick' approach is needed. The current proposal is only the first building block.

Krisztian Simon: What role do the ideological components of the regime play? Is the fight against "gender ideology", Western educational institutions, and people of different ethnicities (as well as the reliance on anti-Semitic tropes) an important part of this fight to keep power?

Kim Lane Scheppele: This government isn't really in it for the ideology. Orbán, like Donald Trump, is totally unprincipled and transactional. He is always asking what's in it for him. The ideological components are there for public consumption not because Orbán believes these messages himself. Orbán is opposed to migration, gender ideology, and pluralism because he knows that rural, uneducated people – his "base" – share those prejudices. He plays to the crowd, so to speak.

Opposition to gender ideology is a recent addition to his ideological bag of tricks. His cabinets contained almost no women since 2010. So he can blame external pressures to put more women into his government on the "liberalism" that his government opposes. And pressuring the Central European University – that is revenge because he knows that the philanthropist George Soros values this university above all of his accomplishments and Soros supports Orbán's opponents. It's all transactional. Orbán has no discernible ideology that motivates him except putting money into the pockets of his friends and family – and no doubt also himself.

Social conservativism, ethnonationalism, anti-intellectualism, xenophobia, and a politics of grievance exploiting traumas of the Hungarian history are core concepts of this ideological puzzle

Daniel Hegedűs: I think Orbán's pragmatism, former ideological U-turns, and his flexible discourse should not deceive us about the fact that his politics and propaganda have distinct ideological foundations. It is not an accident that he is widely celebrated as an apostle of the national-conservative revolution. It might be that Orbán merely exploits ideology as a tool of political persuasion, but he plays this game

impressively well. Social conservativism, ethnonationalism, anti-intellectualism, xenophobia, and a politics of grievance exploiting traumas of the Hungarian history are core concepts of this ideological puzzle, as are the "workfare society" and strong repression of social mobility.

Both the ideological superstructure and the power political basis of the regime have become more radical in the past few years. Knowing this, it is hard to say for how long the previously discussed "cruel markets" and the regime's crony capitalism will remain the only sources of existential pressure, and what other tools we might see appearing.

Krisztian Simon: Do you see any signs that there could be some challenge to Orbán from the grassroots?

Daniel Hegedűs: The Romanian protests in September 2018 demonstrated the remarkable political resources that are obviously embodied by the young, cosmopolitan, Western diaspora that has left the Central and Eastern European countries since their EU accession – or for Hungary mostly since 2010. The Romanian case provides important lessons also for Hungarian civil society organisations and opposition parties on how the young Hungarian diaspora in the Western Europe could be mobilised to actively help shape domestic political protests. However, the Hungarian opposition as well as the local civil society are in a desolate situation: they lost an overwhelming part of their financial and power resources, while the country's legislative environment disadvantages them in every possible way. The existence of an "uneven political playing field", the key characteristic of competitive authoritarian regimes, is undeniable in Hungary. The "undue advantage of the governing party" Fidesz and the "pervasive overlap between state and ruling party resources" were heavily complained of by the OSCE (Organization for Security and Co-operation in Europe) election observation missions with regard to the Hungarian parliamentary elections in 2014 and 2018. The main challenge for both domestic and international players remains how the Hungarian opposition and critical civil society could be re-empowered in these circumstances.

The Romanian case provides important lessons also for Hungarian civil society organisations and opposition parties on how the young Hungarian diaspora in the Western Europe could be mobilised to actively help shape domestic political protests

One thing is certain: instead of nice pet projects, international donors and political foundations have to start investing heavily in the capacity building of the Hungarian political and civil opposition, and in safeguarding the remnants of media pluralism.

Kim Lane Scheppele: I agree that those on the outside who want to help fix the situation should invest in capacity building to strengthen the political and civic opposition. But the EU itself could be much more helpful than it has been. There is a proposal before the European Parliament now for the EU to directly fund the NGO sector of EU Member States without first going through the government as the Norway Funds currently do.[5] The new proposed Rights and Values programme would enable the EU to support people and organisations that defend EU values and the rights of EU citizens without going through a government filter.[6] Those who care about the future of democracy in illiberal member states should support this proposal.

We also need to think about how to give those without legal remedies in systems of captured courts a way to vindicate their rights. I have proposed an emergency rule-of-law appeals process through which court decisions

that violate EU law in captured judiciaries could be appealed to European courts for correction. Right now, every EU citizen is trapped inside whatever national legal systems have jurisdiction over their cases without recourse directly to the EU judiciary except in rare cases where the EU itself is being sued.

Hungary has gone a long way toward creating a police state, as its capacity to surveil its entire population has grown immensely and the law provides no privacy protections from state surveillance. Here too, the EU could do something important. The Commission should bring forward a infringement action on the grounds that Hungary systematically violates EU data protection rights by collecting masses of information on its own citizens. Dismantling Hungary's surveillance state would help the opposition to organise without being watched or infiltrated.

There are things that can be done now to help ensure that the Hungarian government's autocratic style of rule does not become further entrenched. Time is of the essence. We need to start thinking creatively about how we undo these autocratic regimes. It's a challenge similar to restoring an aquarium after someone has already blended the contents into fish soup.

[1] A summary of the report can be found in the article "Leaving in Hordes: Emigration from Hungary"

[2] See Bozóki, András & Hegedűs, Dániel, "An Externally Constrained Hybrid Regime: Hungary in the European Union",Democratization 25:7, 1173-1189. https://doi.org/10.1080/13510347.2018.1455664

[3] In November 2018,the headquarters of formerPM Ferenc Gyurcsány's political party Democratic Coalition (DK) were burned ina fire that only affected their one flat in a larger building. See report. Andthen, a few days later, the office of the Roma Education Fund – which haslawsuits pending against the government on Roma segregation – also burned.

[4] In May 2018, the Commission proposed "a new mechanism to protect the EU budget from financial risks linked to generalised deficiencies regarding the rule of law in the Member States. The new proposed tools would allow the Union to suspend, reduce or restrict access to EU funding in a manner proportionate to the nature, gravity and scope of the rule of law deficiencies. Such a decision would be proposed by the Commission and adopted by the Council through reverse qualified majority voting, which means that the Commission's proposal is deemed to be adopted by the Council, unless it decides by qualified majority to reject the Commission's proposal. This procedure circumvents the 4/5 and unanimity requirements of Article 7(1) and (2) respectively." For more about the procedure see Gábor Halmai (2018): "The Possibility and Desirability of Rule of Law Conditionality." In: Hague Journal on the Rule of Law. https://doi.org/10.1007/s40803-018-0077-2

[5] The Norway Funds to build civil society are paralysed in both Hungary and in Poland because the governments there insist on appointing the NGOs that administer the funds.

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Krisztian Simon is a doctoral candidate at the Freie Universität in Berlin. In 2015 he was deputy editor-in-chief of the Green European Journal. He has experience working in the field of international development in Lao PDR and Kyrgyzstan, and since 2005 he writes articles on international and European affairs for a wide range of English, German, and Hungarian language publications.

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