

# Hungary's Authoritarian U-Turn – Background and Prospects

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# Hungary's changed position

- Earlier proud of Hungary' pioneering role in reforming the planned economy
- Pioneer of economic and political transition in the 1990s
- Since 2010 a pioneer of destroying democracy and market economy

# Hungary's U-turn by János Kornai

- The best and most comprehensive analysis:  
Kornai, János (2015) "Hungary's U-Turn," *Capitalism and Society*:  
Vol. 10: Iss. 1, Article 2.
- Main points in the political system:
  - shifting away from the rule of law, checks and balances eliminated,
  - one-party constitution,
  - formal parliament, rapid legislation,
  - prosecutors office subordinated, independence of courts weakened,
  - freedom of press endangered,
  - local authorities weakened.

# Hungary's U-turn by János Kornai ctd.

- Main points in the economic system:
  - private ownership weakened, uncertainty for private entrepreneurs, government takeovers, state sector expanding,
  - weakening competition,
  - centralization of decision-making,
  - restrictive price regulation.
- Half-turn: distorted symbiosis between state and market.  
Crony capitalism – dependence of business from central and local authorities.
- Income taxation partly replaced by special taxes on profits

# Hungary's U-turn by János Kornai: conclusions

- Analysis on the basis of formal rules misleading: independent institutions of the state subordinated to Viktor Orbán by means of appointment,
- Repeated two-third majority in the Parliament due to changed election system,
- The Hungarian political system is not a democracy any more, but still not a dictatorship, it belongs to the class of autocracies like Putin's Russia,
- Anti-Western nationalism is a central feature of the system.

# The Roots of the U-Turn

- How did the former pioneer of reforms and transition turn into a „traitor“?
- Hungary’s cultural heritage: „lack of democratic tradition” –  
World value map – Hungary is closer to Serbia and Macedonia than to Poland and Slovakia



# Explanation to the value map

- *Traditional values* emphasize the importance of religion, parent-child ties, deference to authority and traditional family values. People who embrace these values also reject divorce, abortion, euthanasia and suicide. These societies have high levels of national pride and a nationalistic outlook.
- *Secular-rational values* have the opposite preferences to the traditional values. These societies place less emphasis on religion, traditional family values and authority. Divorce, abortion, euthanasia and suicide are seen as relatively acceptable.
- *Survival values* place emphasis on economic and physical security. It is linked with a relatively ethnocentric outlook and low levels of trust and tolerance.
- *Self-expression values* give high priority to environmental protection, growing tolerance of foreigners, gays and lesbians and gender equality, and rising demands for participation in decision-making in economic and political life

# The Roots of the U-Turn

- How did the former pioneer of reforms and transition turn into a traitor?
- Hungary's cultural heritage: „lack of democratic tradition” –  
World value map – Hungary closer to Serbia and Macedonia than to Poland and Slovakia
- The frustrating experience of transition: Pew Research reports

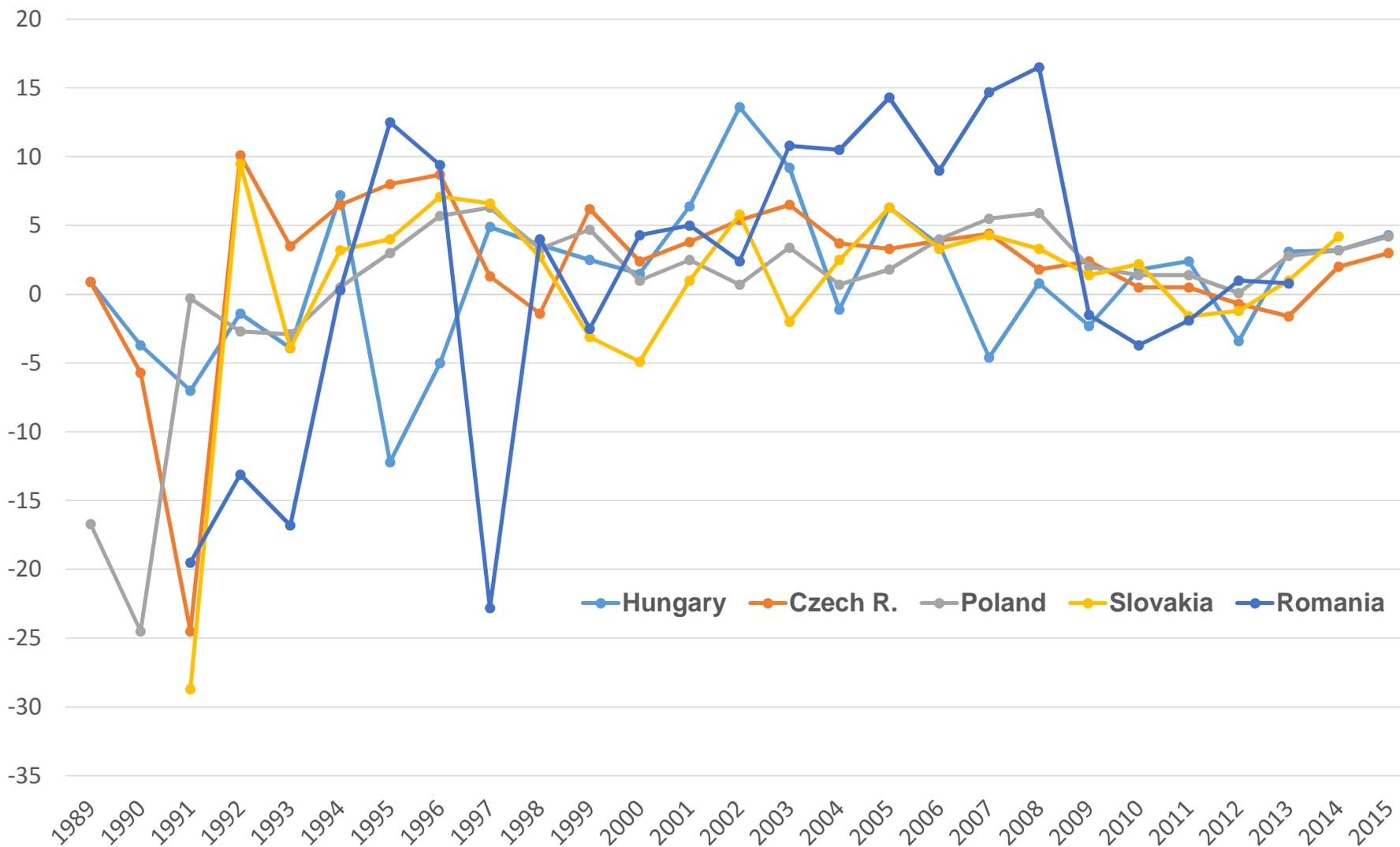
Approval of Change to Democracy	1991 %	2009 %	Change
East Germany	91	85	-6
Czech Republic	80	80	0
Slovakia	70	71	+1
Poland	66	70	+4
Hungary	74	56	-18
Lithuania	75	55	-20
Bulgaria	76	52	-24
Russia	61	53	-8
Ukraine	72	30	-42

# Causes of Disappointment

- Corruption: widespread, repeated, not sanctioned –
  - corruption scandals in the political élite, without appropriate consequences
- Deterioration of the welfare situation
  - unemployment, inflation, austerity programs repeatedly

Approval of Change to Market Economy	1991 %	2009 %	Change
East Germany	86	82	-4
Czech Republic	87	79	-8
Slovakia	69	66	-3
Poland	80	71	-9
Hungary	80	46	-34
Lithuania	76	50	-26
Bulgaria	73	53	-20
Russia	54	50	-4
Ukraine	52	36	-16

# Real wages annual growth rates



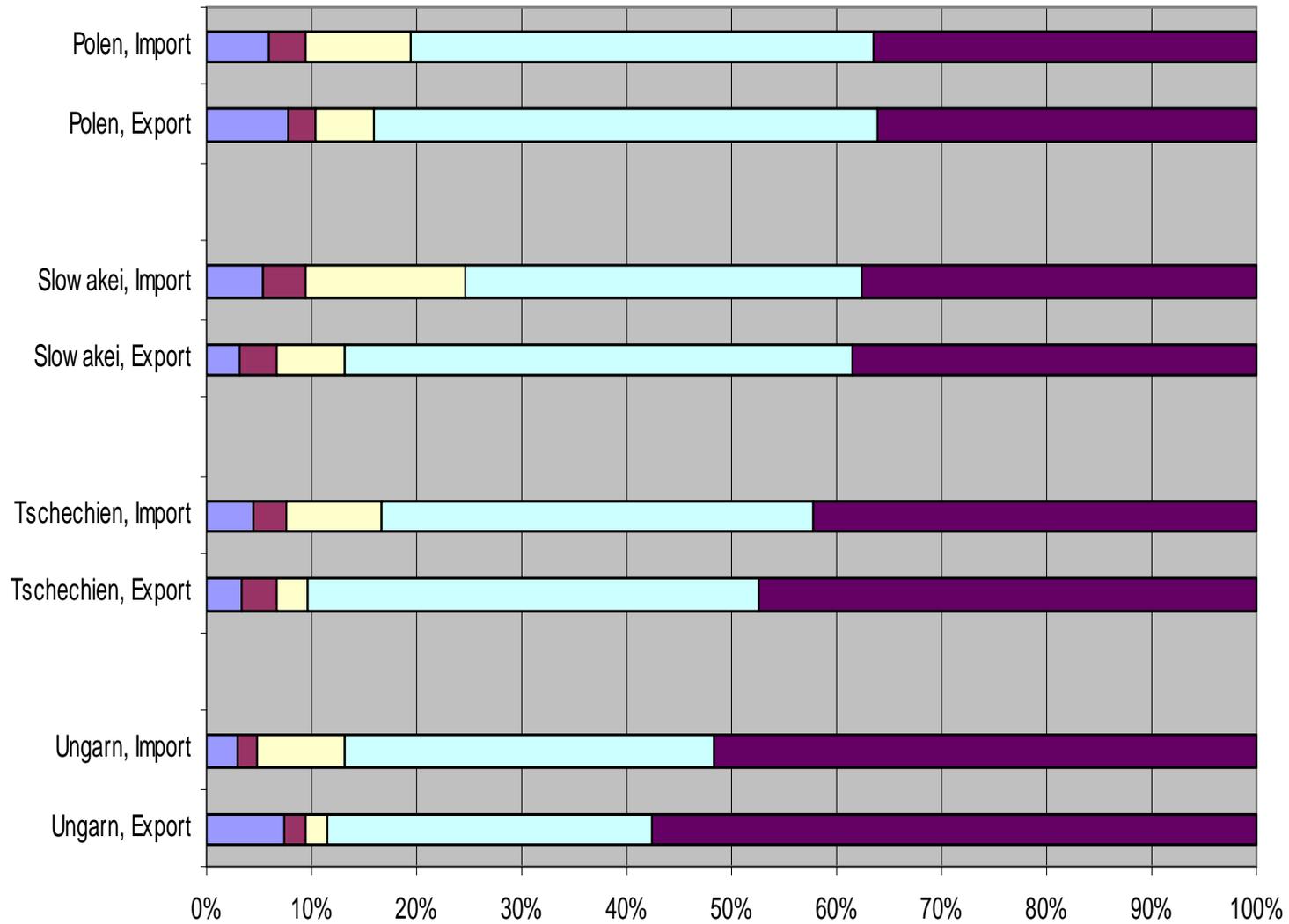
# Hungarian economic policy compared

- Three components of post-1989 economic policies: market reforms, European integration and macroeconomic stabilization.
- Strength of Hungarian governments: market reforms and integration.
- Weakness of Hungarian governments: macroeconomic adventurism.
- Different starting position: umbrella governments vs. divided non-communist elite.
- Results: close integration to Europe, advance to market economy, repeated macroeconomic disturbances which cause frustration.

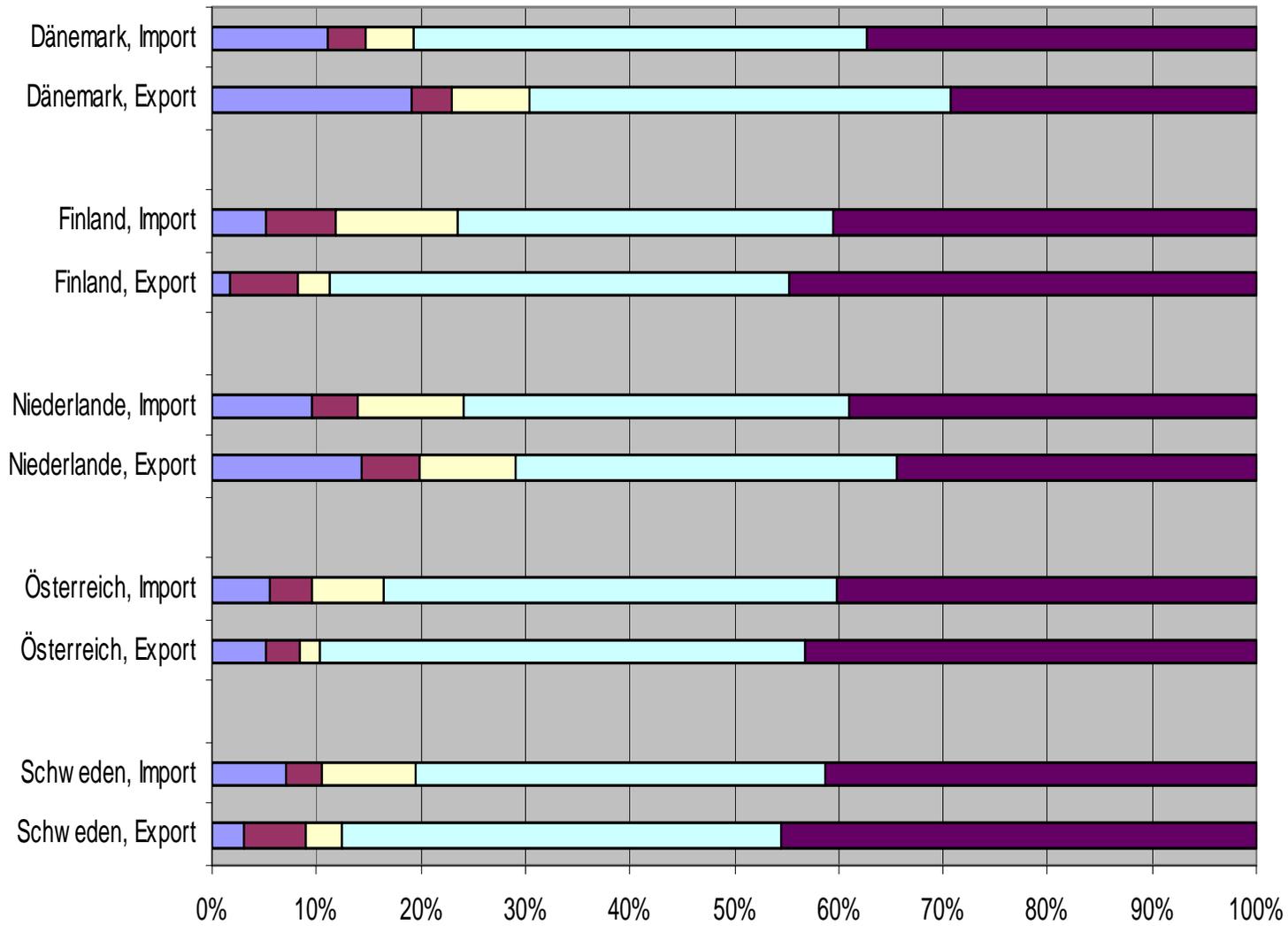
## EBRD Assessment of the Progress of Transition by 1999

Country	Private sector %	Large privatization	Small privatization	Enterprise restructuring	Price reform	Trade reform	Banking reform
Bulgaria	60	3	3+	2+	3	4+	3-
Croatia	60	3	4"	3-	3	4	3
Czech R.	80	4	4+	3	3	4+	3+
Estonia	75	4	4+	3	3	4	4-
Hungary	80	4	4+	3+	3+	4+	4
Latvia	65	3	4	3-	3	4+	3
Lithuania	70	3	4+	3-	3	4	3
Poland	65	3+	4+	3	3	4+	3+
Romania	60	3-	4-	2	3	4	3-
Russia	70	3+	4	2-	3-	2+	2-
Slovakia	75	4	4+	3	3	4+	3-
Slovenia	55	3+	4+	3-	3	4+	3+

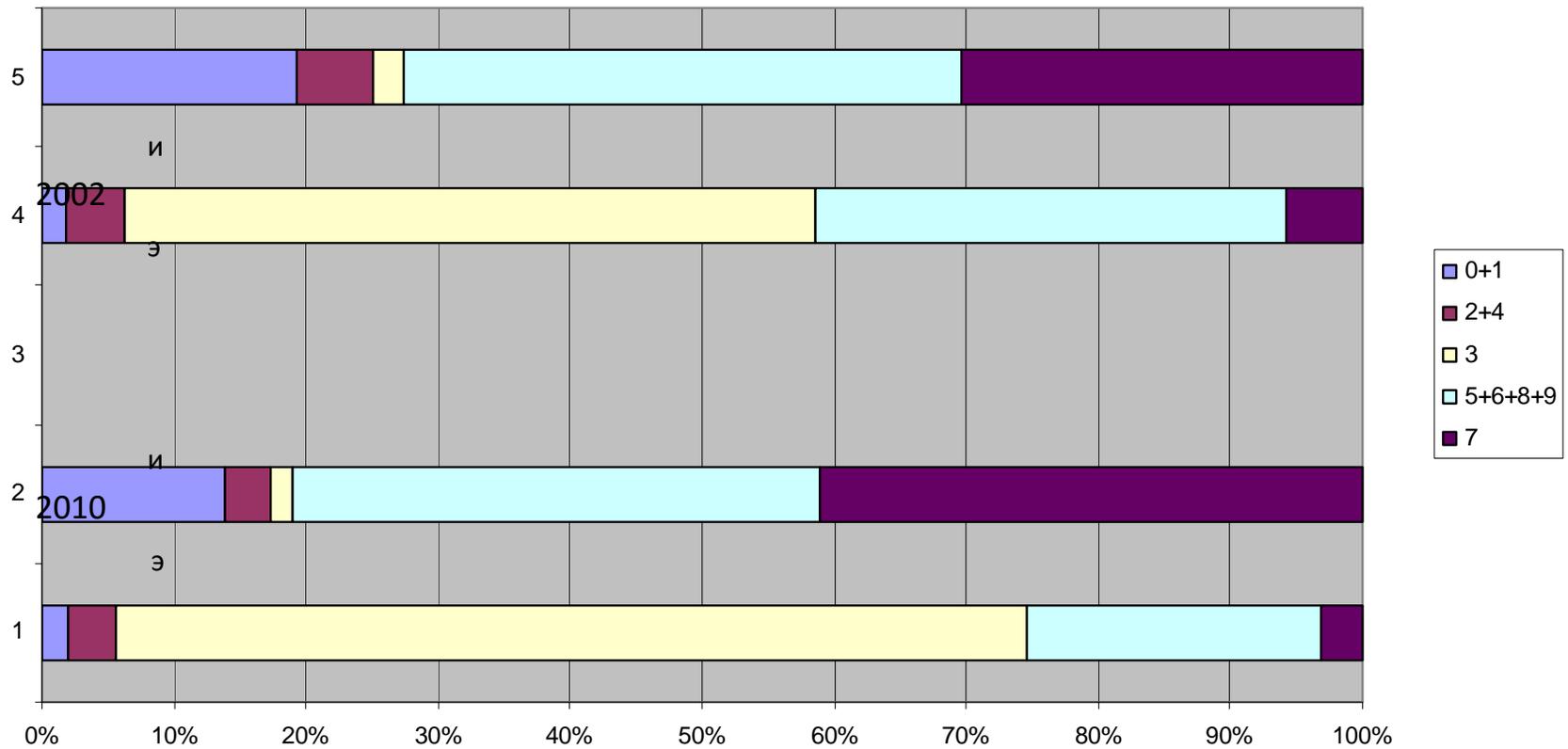
### Außenhandel ostmitteleuropäischen Staaten nach SITC 2001



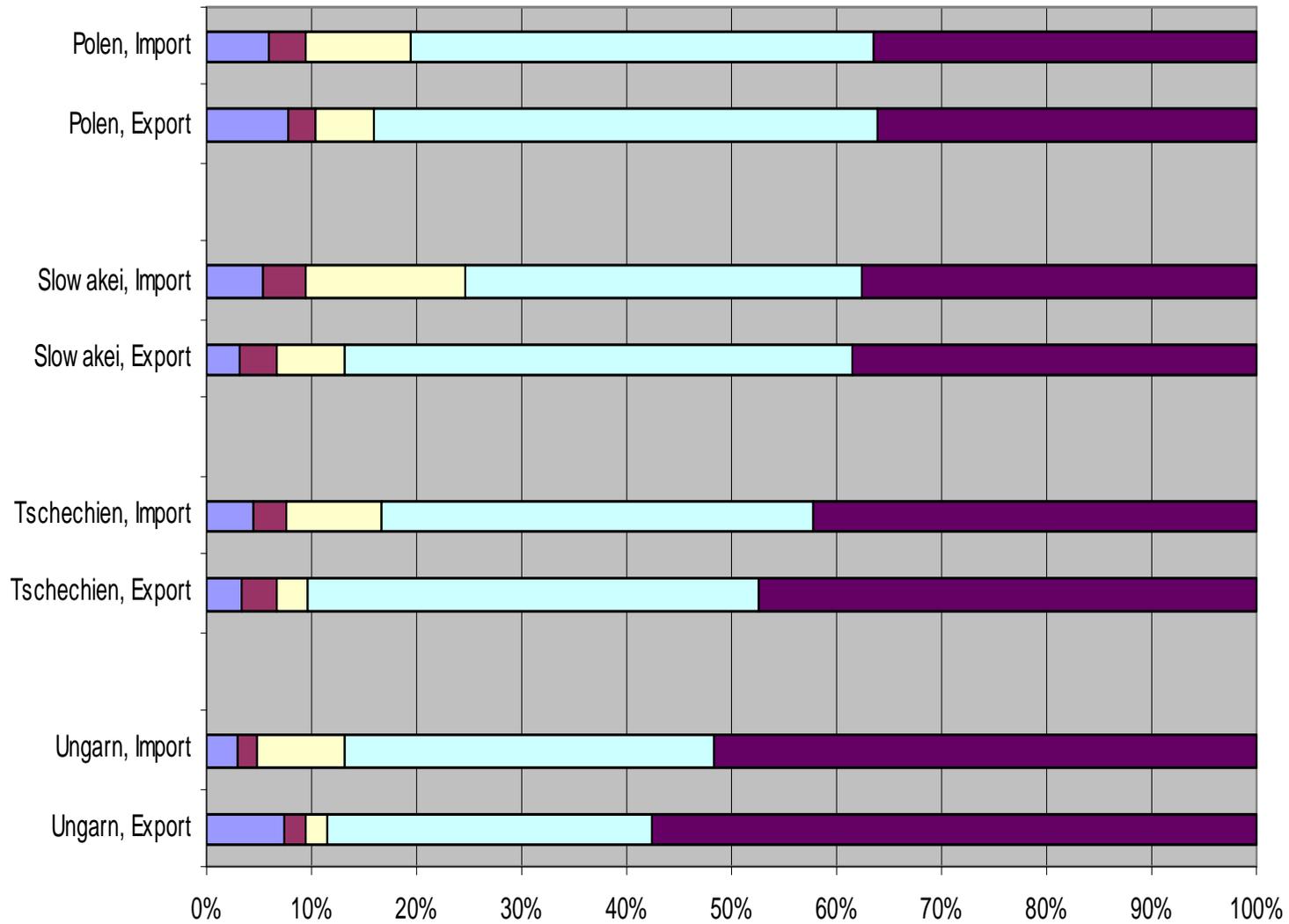
### Außenhandel kleiner Staaten nach SITC, 2001



# Commodity Structure of Russian Imports and Exports



### Außenhandel ostmitteleuropäischen Staaten nach SITC 2001



## Accumulated FDI 1989-2001

Country	Total Mn. USD	Per Capita USD	EU share %
Czech Rep.	21673	2102	84,5
Estonia	2008	1400	50,8
Hungary	19725	1964	64,0
Latvia	2498	1056	50,8
Lithuania	2387	646	71,9
Poland	29052	751	63,8
Slovakia	4169	772	69,9
Slovenia	1510	756	81,2

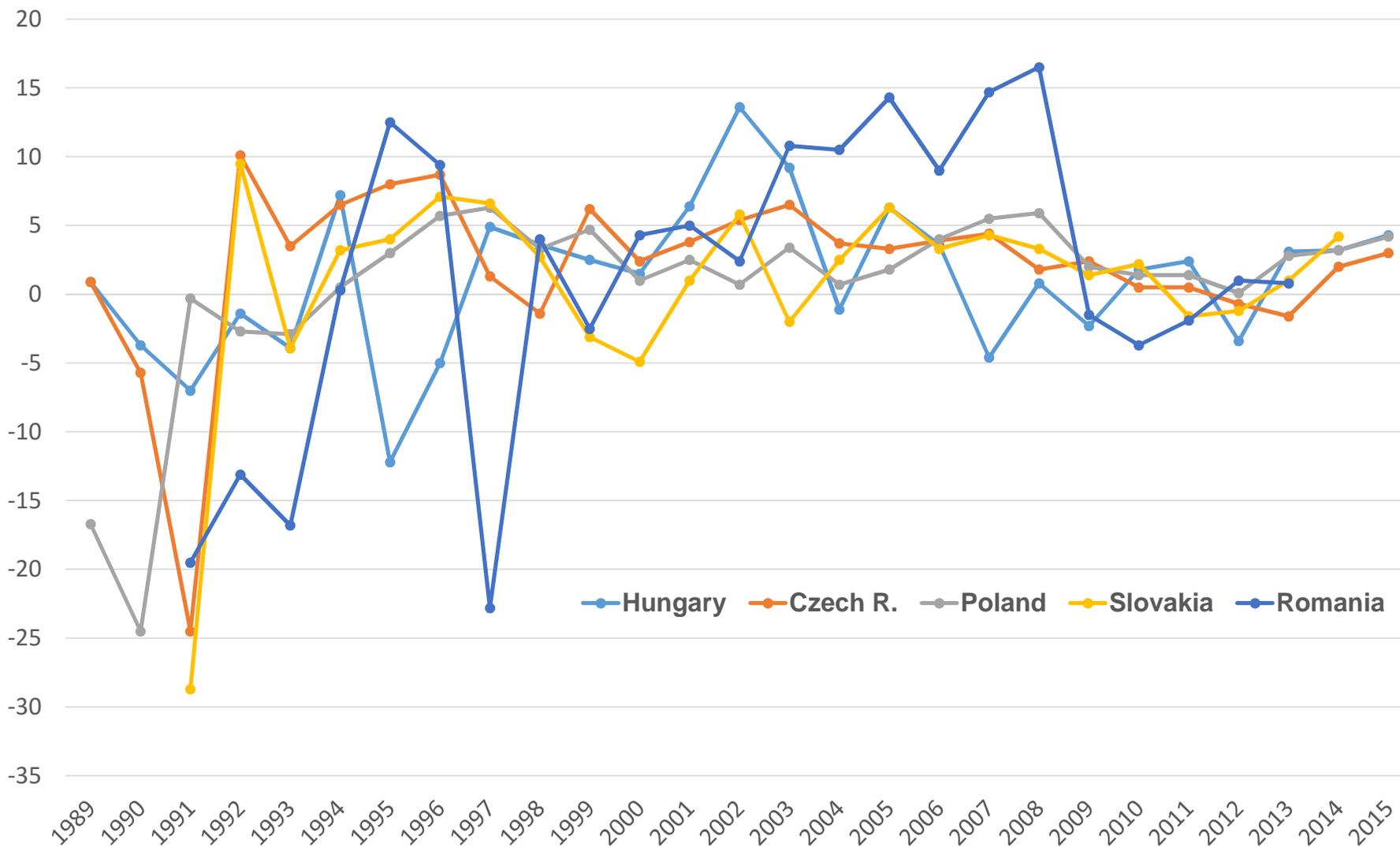
## Foreign Capital in Selected Sectors in Hungary, 1999

Sector	Total capital, Md. HUF	Foreign capital Md. HUF	Share of foreign capital
Food and Tobacco	378,3	229,1	60,5
Textile and Leather	82,5	42,7	51,7
Wood, Paper, Typography	119,3	51,7	43,4
Chemicals	327,6	189,6	57,9
Minerals	96,2	66,5	69,1
Steel	135,1	76,0	56,3
Engineering	417,7	296,7	71,0
Electricity, Water, Gas	1038,3	289,3	27,9
Wholesale	443,5	207,7	46,8
Retail	250,8	101,0	40,3
Post, Telecom	273,6	195,9	71,6
Finances	503,4	274,8	54,6
Total	6606,8	2557,6	38,7

## The Share of Foreign Owners in the Banking Sector of CEE countries

Country	1998	2004
Bulgaria	32,3	77,0
Czech Republic	25,0	94,8
Hungary	63,1	68,5
Poland	16,6	71,3
Romania	20,0	58,5
Slovakia	37,3	96,7

# Real wages annual growth rates



# Reversal of Hungarian Economic Policy

- Strict control over household
  - serious cuts in welfare systems
- Partial reversal of market reforms as described by Kornai and others
- Partial reversal of trade opening and capital liberalization

## Re-Nationalization acts under the Orbán Government

- Liquidation of the private pension funds.
- Local government takeover of water, energy and gas distribution (partly forced).
- Government takeover of the minority shares of MOL oil company.
- Government takeover of power stations.
- Government takeover of big commercial banks.
- Government takeover of local savings cooperatives.

## The Strength of the Orbán Régime

- The core of the Fidesz electorate mobilized by historical anticommunism and ethnic nationalism, explained by serious national and social grievances in the past,
- The wider support to the government gained by economic protectionism directed against Brussels and against multinationals,
- and also by pro-rich and exclusive income, health and school policies.
- Orbán's anti-migration policy is a concentrated expression of these features of Fidesz policy and this is why it has been so successful in restoring Fidesz dominance.
- The opposition is weak because it does not dare to question the aforementioned key features of Orbán's policy.

# Protectionist regulations

- Extra taxation in sectors, dominated by multinationals (telecommunication, retail trade, commercial banks).
- Enforced reduction of prices of private energy consumption, water, waste collection.
- Restriction on building new retail shops.
- Exclusion of foreign firms from the market of catering vouchers.
- Protectionist practices in public procurement.

# Long-term Consequences for Hungary 1

- Long-term extension of the role of the state sector in the economy and weakness of private entrepreneurship.
- Consolidation of crony capitalism with weak competition and weak innovation.
- Growing social differences, widespread poverty, weak middle class and a narrow stratum of oligarchs.
- Deterioration of the quality of labor force due to low quality of education and emigration of talented people.
- Accelerated altering of the population and growing difficulties in financing the welfare systems (pensions, health).

# Exits of foreign investors

- Numerous manufacturing companies.
- Several small banks.
- Numerous retail companies.
- Several media companies.

## Long-term consequences 2

- Hungary's gradual disintegration from the European Union:
  - restrictions on foreign competitors present on the Hungarian market,
  - restrictions on the presence of foreign ownership in the service sector.