The Accumulative State

The previous chapters highlighted two crucial social dynamics behind the retreat of liberal democracy: the countermovement of the working class and the national bourgeoisie. Fidesz used this opportunity to rearrange the dominant power bloc by incorporating national capitalists. This chapter empirically analyses how the post-2010 accumulative state props up capital accumulation and how these new instruments affect various factions of the business class. The accumulative state fell short of a developmental state and so far failed to enact long-term industrial upgrading and reverse economic disintegration. The new accumulation strategy boosted precarious employment and reduced financial vulnerability at the price of increased inequality and weakened social, education and health policies. The chapter concludes that the two-pronged authoritarian strategy of the new regime combining institutional authoritarianism and authoritarian populism is in part a response to the social conflicts generated by the new accumulation strategy.

This chapter is a substantially revised, longer version of an article published in Geoforum (Scheiring 2019a).
The Instruments of the Accumulative State

The countermovement of the national capitalist class was an essential structural condition that allowed Viktor Orbán back to power. This chapter demonstrates that the active role of the national bourgeoisie and their new compromise with transnational capital is not only a significant causal factor behind Hungary’s authoritarian turn but also key to understanding the nature and stability of the emerging new regime.

Table 7.1 presents an overview of the impact of the accumulative state’s principal instruments on the factions of capital. The sign ‘+’ indicates that the particular instrument is favourable to the group, ‘−’ indicates the opposite, whereas ‘0’ suggests that the measure is neutral to the group. As we can see, except for the new public procurement system, none of the

|   | National capital | Transnational capital |
|---|----------------|-----------------------|
|   | Political capitalists | Emerging & co-opted capitalists | Passives | Non-tech sectors | Tech sectors |
| 1. | Public procurement | + | 0 | 0 | 0 | 0 |
| 2. | Property rights actions | + | + | − | − | 0 |
| 3. | Surtaxes/crisis taxes | 0 | 0 | 0 | − | 0 |
| 4. | Revolving doors and partnerships | + | + | 0 | + | + |
| 5. | Financial subsidies | 0 | + | 0 | 0 | + |
| 6. | Expansionary monetary policy | + | + | + | + | + |
| 7. | Low taxes | + | + | + | + | + |
| 8. | Tax reliefs | + | + | 0 | + | + |
| 9. | Austerity | + | + | + | + | + |
| 10. | Low-skilled labour supply | + | + | + | + | +/− |
| 11. | Flexible labour supply | + | + | + | + | + |
instruments is solely dedicated to the enrichment of political capitalists but targets a much broader segment of the economic elite.

The instrument best fitting neo-utilitarian theory is (1) public procurement. Corruption related to public procurement has significantly increased after 2010 (Fazekas and Tóth 2016). Journalists and corruption researchers extensively documented the scandals involving close political allies and Orbán’s family members. However, public procurement not only benefits political capitalists but also serves as a tool to prop up dwindling private investment and offset the dramatic reduction in foreign investment inflow. In parallel to the declining share of FDI, the role of EU transfers has increased. Transfers from the EU account for around 50% of public investments, with a significant increase in the effective use of EU cohesion and structural funds following 2010 (Fazekas and King 2018).

The state’s expenditures on economic functions jumped from 11.6% to 18.9% of the total central government budget between 2009 and 2015, declining only to 16.4% by 2018 (Eurostat 2020d). Between 2011 and 2015, the economy grew by 6.8%, out of which public investments explain 3.9 percentage points, with public investment accounting for more than 30% of total investment (portfolio.hu 2016). Therefore, capitalists outside the inner circle of political capitalists are not just victims of public procurement—they benefit from the economic growth and demand created through the increased investment activity of the state.

(2) Property rights actions are ‘state activities that define and enforce property rights’ (Campbell and Lindberg 1990, p. 635). These activities include administrative tools that influence property structure, such as competition laws; punitive regulation intended to change the property structure of a sector; and nationalisation and privatisation, which could involve management rights, concessions or sometimes the assets themselves. As a result of these property rights actions, the value of state assets grew 2.5 times between 2010 and 2015 (Voszka 2018, p. 1282). Property rights actions include some of the most dramatic economic interventions by the accumulative state; thus, it is worth looking at them in more detail.

Through nationalising and privatising banks, as well as facilitating the growth of domestic banks through restructuring, the government significantly increased the share of national capitalists in the banking sector.
The value added by foreign-owned institutions in the financial sector declined from 68% of the sector’s gross value added (GVA) in 2008 to 45% in 2016, with domestic financial institutions taking their place (HCSO 2019).

The forced integration of regional savings cooperatives\(^1\) into a national bank (Takarékbanc) provides insight into how the state aggressively facilitates the growth of domestic banks, also relying on anti-liberal policies (Király 2016). A key national capitalist, Zoltán Spéder, the majority stakeholder in Takarékbanc, initiated and managed the process until he fell out of favour. The government threatened local savings cooperatives that were not willing to hand over management and marketing rights to a forced integrated body supervised by Takarékbanc with the suspension of their licence. The Parliament passed the bill itself within three days after its introduction to minimise the potential for resistance. This way, the state crafted a large bank for private investors, which has become the second most influential financial service provider in Hungary, controlling almost 10% of the market (Király 2016).

This case is also revelatory because it shows the fierce competition within the power bloc. Around 2015, Spéder started to fall out with the wealthiest national capitalists, Sándor Demján and Sándor Csányi—two billionaires who topped the top 100 list in Hungary for a long time. Demján was active in the savings cooperatives sector and was infuriated by the speed at which Spéder was creating a new bank for himself building on the infrastructure of the savings cooperatives. Demján started to lobby against Spéder using his connection to Orbán. At the same time, Csányi, a former colleague of Spéder and Chairman of OTP, Hungary’s largest bank, saw a threat in Spéder and his new bank that could endanger his dominant position in the banking sector. Finally, top Fidesz politicians also started to feel threatened by Spéder’s rising power as he not only owned a rapidly growing bank but significant media outlets also. In short, Spéder went too far too quickly and eventually lost the support of the most important players. His story ended when the government launched a legal and public media campaign against him, leading to Spéder’s withdrawal from the financial and media sector (Budapest Beacon 2016).
Property rights actions in the tobacco sector also illustrate how the dominance of transnational capital induced anti-liberal economic interventions (Laki 2014; Scheiring 2018). Two years after taking power, Viktor Orbán’s government initiated a complete restructuring of the tobacco industry in Hungary, which radically changed the regulation of the market for tobacco products. Before the transition, four companies dominated the tobacco industry, and international investors bought the biggest companies during the privatisation in the 1990s. A smaller, Hungarian-owned company, Continental also managed to establish a foothold.

The formal architect of the sector’s restructuring was János Lázár, at that time the second strongest man in the government, a former close ally to Orbán. The state monopolised the tobacco trade and gave out concessions later. A year later opposition 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. When asked by journalists about the incident, János Lázár replied that he has known János Sánta for ten years and that he sent out the draft for commenting to every tobacco company; however, the foreign-owned companies opposed the bill as it was violating their interests.

János Sánta and his company won the highest number of 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’. Parallel to Continental another significant group of winners emerged connected to CBA, the biggest Hungarian-owned retail chain, the owners of which are enthusiastic public supporters of the Hungarian Right, as discussed in Chap. 6. Both winning circles are national capitalists excluded from the most lucrative segments of the tobacco and retail trade sectors dominated by transnational capital. Mobilising the political influence of these local entrepreneurial groups was a significant catalyst of the process of
restructuring, with the involvement of native capitalists in the enactment process from its very beginning.

Similarly aggressive restricting took place in other sectors with the involvement of a broad segment of national capitalists, such as the agricultural sector (Ángyán 2014; Gonda 2019), the energy and the water utility sector (Mihályi 2016). The government also nationalised several manufacturing companies in the food, aluminium and bus sectors. The victims of these property rights actions are either non-technological transnational investors (in the case of media, energy or advertising) or small-scale Hungarian investors (as in the case of savings and loans).

The government also introduced (3) various surtaxes on financial institutions, advertising activity, telecommunication services and energy companies. These surtaxes mostly—though not exclusively—hit transnational investors in the non-technological sectors. For example, the surcharge on financial institutions was 0.53% levied on the assets (not on profits or income), reduced to 0.24% after 2016 for banks with assets exceeding $185 million. Smaller—mostly Hungarian owned—financial institutions had to pay a significantly lower percentage (0.15%). The secondary, unofficial aim of these taxes is to aid the property rights actions of the government. Punitive taxes on advertising or the announcement of a media tax in 2014 contributed to the withdrawal of international investors, making space for national capitalists. In the case of media and advertising, these are close political allies; in the case of the financial sector, co-opted national capitalists play an essential role, while passive capitalists and non-tech TNCs are the apparent victims.

(4) Revolving doors and partnerships are further significant tools for serving capital accumulation. Oligarchs closely allied with Fidesz land their personnel in ministries responsible for the distribution of EU funds. However, the government also invites less politicised capitalists to occupy government posts, as discussed in Chap. 6. One of Hungary’s wealthiest entrepreneurs, György Wáberer, founder of Hungary’s most prominent road transportation company, Waberer’s International, took up the position of the special governmental commissioner for logistical issues and road haulage. István Krankovics, the owner of a major bus manufacturing company, is working as a special advisor to the Minister of Finance, who also launched a programme to regenerate bus manufacturing in Hungary (Fidesz.hu 2016). The government has also signed Strategic Partnership
Agreements with the largest transnational corporations in the country (Bartha 2015), altogether 79 until the end of 2018. These agreements helped to pacify tech-intensive transnational manufacturing corporations. According to the editor of Budapester Zeitung, a leading German-language newspaper in Hungary, 90% of German investors in Hungary would vote for Orbán (WirtschaftsWoche 2018).

The accumulative state also (5) distributes direct financial subsidies both to national and international capitalists based on Special Government Decisions (also known as SGD subsidies). These vastly exceed the pre-2010 level and are more targeted towards national capitalists than before. Since the launch of the scheme after Hungary’s accession to the EU, there were 238 subsidised investment projects until the end of 2018 (Hungarian Government 2018). Between 2004 and 2010, national capitalists carried out only 7% of the subsidised projects; between 2011 and 2018, this has grown to 21%.

The increase of the share of national capitalists was even larger measured by the value of the subsidies, as Fig. 7.1 shows (Hungarian

![Fig. 7.1](image)

**Fig. 7.1** The value of government subsidies for companies by ownership category (2002–2018). (Source: Hungarian Government 2018)
Between 2004 and 2010, the total value of SGD subsidies was $626 million; this doubled to $1.28 billion in the 2011–2018 period. The total value of the SGD subsidies allocated to transnational corporations in 2004–2010 was $612.2 million, that is 98% of the subsidies, in contrast to the $13 million allocated to domestic enterprises, which amounts to the 2% of SGD subsidies in the 2004–2010 period. In 2011–2018, the total value of the SGD subsidies allocated to transnational corporations doubled in value to $1.3 billion (76% of the total value of the subsidies), while the value of the SGD subsidies allocated to domestic companies grew 22 times to $309 million, that is 24% of the subsidies of the period.

In sum, the Orbán regime significantly increased the value of Special Government Decision subsidies to large corporations, both national and transnational, but increased the share of national capitalists dramatically. The clear winners of this increase are emerging and co-opted capitalists, as well as TNCs in the tech sector. Interestingly, these subsidies do not directly fund political capitalists, who specialise in public procurement.

An essential new instrument that was incompatible with the liberal competition state is the expansionary monetary policy relying on low interest rates, increased availability of cheap loans and weak forint to boost exports. György Matolcsy, the heterodox governor of the Hungarian central bank, is shy to admit that he uses the exchange rate as a tool for competition policy and usually denies that the central bank has an exchange rate goal. Nevertheless, in his op-ed in the Financial Times, he wrote that ‘EU states, both in and outside the eurozone, should admit that the euro has been a strategic error’ (Matolcsy 2019). As governor, he allowed the forint to devalue against the euro significantly, a 180-degree turn compared to the pre-2009 era of real overvaluation (Istrate 2020). As a consequence, the inflation rate climbed to around 4% by the end of 2019.

As soon as elected, Matolcsy also began to aggressively reduce the central bank interest rate. Furthermore, the central bank launched a new ‘lending for growth’ programme in 2013, renewed for another round in 2019. The programme allows banks to borrow from the central bank at a 0% interest rate if they lent the money forward to Hungarian-owned enterprises with a maximum of 2.5% interest rate. According to the
central bank, the lending for growth programme injected $6.2 billion into the Hungarian economy and boosted growth by 2–2.5 percentage points between 2013 and 2017 (MNB 2017b).

Another tool supporting the creation of private wealth and the accumulation of capital is (7) reducing taxes. The government eliminated the second tier of the corporate tax (previously 19%) and introduced a flat 9% tax in 2016. This reduction is particularly beneficial to the largest transnational corporations. One of the government’s most important measures to boost the embourgeoisement of the upper middle class was the introduction of a flat 16% personal income tax in 2011, further reduced to 15% in 2015. The new flat tax is estimated to cost ca. 500 billion forints ($1.75 billion) annually compared to the previous tax regime, which is equivalent to a 40% decline in personal income tax revenue (Bartha 2014). In parallel to reducing the top tax rate, the government increased the taxation at the bottom of the income scale by eliminating the tax exemption for low-income workers. The winners of the new personal income tax system are the top 20% of income earners, whereas the majority of the bottom 80% is worse off (Tóth and Virovácz 2013).

The flat tax was the government’s most unpopular measure; Fidesz lost a massive number of working-class voters as a consequence. This indirectly increased the payoff of authoritarian solutions to prevent dissent. However, the introduction of the flat tax also contributed to the erosion of liberal democracy directly. The new tax regime generated a significant loss of budget revenue. As the EU did not allow the government to increase the deficit, the government decided to nationalise private pension funds. This was an aggressive act of nationalisation, which was more anti-liberal than similar steps elsewhere, such as the pension insurance nationalisation in Poland. Those who chose to stay in the private pension funds would have lost their right to state pensions, which was discriminatory and extortive.

People affected by the nationalisation measure flooded the Constitutional Court with legal complaints, which could have jeopardised the entire nationalisation process. In response, the government cut the authority of the Constitutional Court and also cancelled all previous complaints submitted to the court. To make sure, the government
also delegated new judges to the Court to tip the balance. This move effectively pre-empted any constitutional oversight. Thus, the attack on one of the pillars of the pre-2010 liberal democratic regime—the Constitutional Court—was a direct consequence of the flat tax, one of the central instruments that the accumulative state uses to facilitate the embourgeoisement of the upper middle class.

The government has a further tool to enable the largest corporations to pay much less tax (8) in the form of various tax reliefs. The government calculated with an effective corporate tax rate of 5% for the 2019 tax year (Menedzsment Fórum 2018). The largest companies can reduce even this level further with intra-company transfer pricing and other mechanisms. The actual corporate tax paid by the 30 largest companies in Hungary on their income before taxes is only 3.6% (G7.hu 2018a). National capitalists are also able to reduce their corporate tax base through financially supporting sports clubs, mostly headed by Fidesz-politicians. Corporate money has been pouring into professional sport clubs over the last years, which represents an essential informal mechanism linking private capitalists to the state. This type of instrument benefits every capitalist faction.

(9) Austerity is a further crucial tool to redistribute wealth towards the business class. To begin with, the new constitution passed in 2011, abolished the constitutional protection of social rights (Szikra 2014). It also includes a mandatory debt brake at 50% of the GDP, which implies that public debt has to decrease each year until it is below the ceiling. Public services and social benefits are the most crucial targets of austerity, summarised in Fig. 7.2 (Eurostat 2020d). Public healthcare spending declined from 5.2% of GDP in 2009, a level already low in international comparison, to 4.7% in 2018, the lowest in East-Central Europe. Spending on social protection was slashed from 18.1% of the GDP in 2009 to 13.3% in 2018 (Eurostat 2020d). Education spending was reduced from 5.4% in 2009 to 5.1% in 2018.

Cuts in social protection expenditures are particularly dramatic.13 The government shifted from needs-based benefits to workfare-based benefits, which was a part of a broader paradigmatic shift from the welfare state to the workfare state. The government reduced the duration of the unemployment benefit to three months, which is the lowest in Europe. Three months are far from enough to find a new job after becoming
unemployed. The government also reduced the value of social assistance and made the eligibility criteria significantly stricter, thus reducing the number of claimants. The value of the assistance is calculated based on the value of the minimum pension, which was itself frozen at the 2008 nominal value. Thus, the value of social assistance loses real value with inflation each year. Before 2010, the value of the social assistance was equal to the value of the minimum pension; Fidesz decreased it to 80%. As a consequence, the value of the social assistance per person has been a whopping $8414 per month, nowhere near enough to survive. However, 44% of those in need do not receive even this little benefit.

Freezing the value of the minimum pension also means that the real value of the family allowance and the maternity benefit also declined significantly, as these also depend on the value of the minimum pension. The government cut several forms of benefits, reduced the public works salary below the minimum wage (which is why the government also reduced the value of social assistance), dramatically cut the number of invalidity pensioners by 100,000, slashed the value of sick pay by half, which
significantly reduced the number of days employees spend on sick leave, and finally abandoned all forms of early retirement.

The government not only slashed social spending, but it also did so in a highly unequal way, redistributing resources to high-income earners. Between 2009 and 2017, the social component of individual incomes—for example, benefits, pensions, allowances—declined dramatically for the bottom income deciles, and increased considerably for the top income deciles. As Fig. 7.3 shows, the real value of social income support for the bottom 30% declined by 21% on average from 2010 to 2017, while it increased by 18.4% on average for the top 30%; the social income support of the top 10% grew by 30.7% and declined by 15.6% for the bottom 10% in real value (HCSO 2020b). This amounts to a perverse redistribution of income from the bottom to the top.

While the value of universal family benefits (family allowance, maternity benefit) declined, newly introduced subsidies target high-income families, such as tax breaks, baby loans and loan forgiveness. The first step was to restructure the income tax with aggressive tax breaks for families with two or more children. Recent measures introduced in 2019 include

![Fig. 7.3 Social income support for the rich (2010–2017). (Source: HCSO 2020b)](image-url)
the following (BBC 2019): the government exempted women with four children or more for life from paying income tax; young couples receive interest-free loans of $37,000\(^{15}\) cancelled once they have three children; families able to invest on their own and commit to having two children can get $37,000\(^{16}\) housing subsidy. These new measures aggressively seek to increase the fertility rate of high-income families, while disincentivising low-income groups.

The cuts in social protection, education and healthcare funded the massive redistribution to the top in the form of tax cuts, subsidised loans and increased public investment. This socialism for the rich and capitalism for the poor allowed the government to keep the budget deficit below 3% after 2012. Viktor Orbán commented on his social policy strategy at a meeting of the National Association of Entrepreneurs and Employers (VOSZ) in the following way: ‘I want to take this as far as possible, I want to tell every Hungarian citizen that they will not get any social assistance if they are capable of working’ (Orbán 2012). These austerity measures and the macroeconomic conservatism are again beneficial to every capitalist faction.

New punitive measures accompany the retrenchment of welfare, such as criminalising homelessness, deepening segregation in schools, establishing patron-client relations through the public works programme, excluding the unemployed from various forms of housing support and dramatically increasing public spending on safety and public order. In sum, the government drastically restructured social protection, dismantling the already vestigial welfare state and replacing it with a pro-nativist workfare state. As Stubbs and Lendvai-Bainton (2019, pp. 1–2) summarised, this form of ‘authoritarian neoliberalism’ combines the ‘expansion of social policy for so-called “deserving” citizens or “loyal” interest groups, on the one hand, with a radical retrenchment, often combined with a punitive disciplinarity, of social rights for others judged as “undeserving”, on the other hand’.

A further essential instrument of the accumulative state is (10) increasing the supply of low-skilled labour. Altogether, the government slashed education spending from 5.4% of GDP to 5.1% between 2009 and 2018 (Eurostat 2020d). The government reduced the compulsory school-leaving age from 18 to 16, curtailed state-funded higher education, which led
to a 15% decline in tertiary school enrolment from 2010 to 2016 (World Bank 2020). The school enrolment rate was growing since the Second World War until the second half of the 2000s—Viktor Orbán’s policies go against a historical achievement, international trends and the strategy of human development based on a capability enhancing developmental state.

These reforms openly serve the interests of the business class, especially national capitalists. While some TNCs with a large share of low-skilled workers also benefit, others are complaining about the lack of skilled labour. Hungarian national capital is overwhelmingly located in low-skill, non-tech sectors of the economy and needs low-paid workers with low levels of education. László Parragh, Chair of the Organisation of the Hungarian Chamber of Commerce and Industry (MKIK), one of the business advocacy organisations of Hungarian national capitalists, was a key figure behind the government’s education reforms. At the same time, he suggested that for the sake of ‘economic rationality’ the school-leaving age should have been reduced to 15 (168ora.hu 2017).

Finally, the government (11) significantly increased the flexibility of the labour force and decreased its protection (Szabó 2013; Tóth 2012). Parallel to introducing a new Labour Code in 2012, the government disbanded the standing tripartite body and changed the strike law, rendering strikes for public service workers almost impossible. Business advocacy groups connected to national capitalist class hailed the new labour code. Ferenc Dávid, the secretary-general of the National Association of Entrepreneurs and Employers (MGYOSZ), approved of the new regulation by pointing out that the previous law ‘tied the hands of employers and employees too much’ (MGYOSZ 2010).

Labour-intensive domestic companies producing for the local market or providing intermediary goods for multinationals are the biggest winners of labour flexibilisation. National capitalists started to lobby for a new labour code already during the time of the MSZP-SZDSZ government, before 2010. The same group was behind the proposals put forward back then. However, the MSZP-SZDSZ government, while generally open to neoliberal reforms, refused to accept the proposal because of its potential social costs. So national capitalists had to wait for the new right-wing government to implement their wishes. After 2010
the outrage of trade unions was not enough to stop the new government from implementing the proposals of the national bourgeoisie.

Massive emigration from the country and the concomitant labour shortage prompted the government to amend the Labour Code again in December 2018 upon the request of corporations, as a member of the government admitted in an interview (Világgazdaság 2018). This time they increased the maximum amount of overtime per person per year from 250 hours to 400 hours, that is, 20% of the basic labour time. At the same time, companies are allowed to postpone payment for overtime to three years, an increase from one year in the previous Labour Code. This amendment, labelled as ‘slave law’ by trade unions, led to fierce protests both within and outside the parliament (Gagyi and Gerőcs 2019; Scheiring and Szombati 2019). In the wake of the corona virus crisis, the government restructured labour relations again. This time, they did not modify the labour code, but simply suspended it to force workers and employers into ‘flexible’ solutions, completely eroding the legal protection of workers (Bruszt 2020).

**Conflicts Within the Power Bloc**

Recognising the embeddedness of the illiberal state into a broad section of the business class allows us to understand the words of András Lánczi, one of Orbán’s key ideologues:

> Was it corruption when the communists undertook nationalisation after 1948 or the privatisation that took place in the wake of the regime change after 1989? What others call corruption is practically the principal policy of Fidesz. By this, I mean that the government’s goals include, for instance, the establishment of a domestic entrepreneurial class and the construction of the pillars of a strong Hungary in the countryside and industry. (Magyar Idők 2015)

The embeddedness of the regime in the national bourgeoisie and in the global and European production networks of transnational capital is crucial for the stability of the regime. However, the accumulative state is not
merely an instrument in the hands of the capitalists. The power bloc institutionalising authoritarian state capitalism is imbued with conflicts. The state’s monopoly over violence provides ample opportunities for the political class to curb the power of capital. Putin’s fight against Russian oligarchs, involving the secret service, which in extreme cases may lead to the victim’s death, provides examples. For the time being, the Hungarian government refrains from using law enforcement against capital. The Hungarian state’s punitive instruments are economic. The government can impose punitive taxes, rewrite legislation relevant for any sector, launch a propaganda campaign in the right-wing media, exclude entities from public procurement and state subsidies and channel away advertising spending by state-owned companies. The political class also pays attention not to allow the emergence of an all-powerful oligarch by infusing competition among the various factions and members of the power bloc.

Hirschman’s threefold model of exit-voice-loyalty provides a useful framework to capture the strategic possibilities of capital in the accumulative state (Hirschman 1970). For transnational capital, exit is an easily accessible tool. When the government interfered in the profitability of media businesses by introducing punitive taxation, several foreign investors exited the Hungarian market. That is how right-wing political capitalists came to dominate key segments of the media market, first and foremost in the market of regional newspapers. For national capitalists, exit is not an easily accessible strategy. The challenge of accessing foreign markets and the weight of location-specific investments make it difficult for them to relocate abroad but there are some examples of it, nevertheless.

In theory, voice could be an option, but in Hungary’s hybrid authoritarian regime, protesting against the state’s decisions is a very costly endeavour. The political class is aware that it can substantially influence the costs of voice. Economic punitive tools force political loyalty. If a significant number of national capitalists were to choose to voice criticism, the government would likely be powerless; that is precisely why it needs to drive up the costs of dissent demonstratively. The best example of this is the case of Lajos Simicska, who paid a heavy price for his aspirations for political autonomy.
The most apparent strategic opportunity for capitalists is loyalty. Active and passive loyalty is the dominant behaviour of national capitalists and transnational capitalists in the technological sectors. The manifestation of loyalty is particularly interesting among emerging and co-opted capitalists because they are less closely allied with the political class than political capitalists. For them, loyalty pays off not only because it helps to evade punitive tools but also because the political class is ready to share power with capitalists and institutionalises a wide range of instruments to prop up capital accumulation. Alliance with the authoritarian state offers massive accumulation potential for loyal capitalists.

Social Disintegration

The accumulative state replaced the competition state, devoting significantly more resources to strengthening the national bourgeoisie by providing material and institutional support for accumulation while maintaining the dominance of transnational capital in the technology sectors. This section analyses how the accumulative state tackled domestic social and economic disintegration inherited from the market transition era. Who are the winners and losers of the measures identified above, and how do they relate to the stability of the system?

The most dramatic change with far-reaching implications concerns the labour market. As Fig. 7.4 shows, the 2009–2017 period witnessed a 10 percentage point increase in the labour force participation rate (employed and unemployed job seekers) according to World Bank/ILO data (World Bank 2020). The EU Labour Force Survey (LFS) shows an even more significant increase, from 60% in 2009 to 75% in 2019 (Eurostat 2020c), moving Hungary from the bottom of the range to the middle in the region. According to the Labour Force Survey of the Hungarian Central Statistical Office (HCSO), the total number of employees increased by 720,000 from 3.72 million in the fourth quarter of 2009 to 4.44 million in the fourth quarter of 2019, while the population in the 15–64 age group declined by 440,000 from 6.75 million to 6.31 million in the same period (HCSO 2020c).
The public works programme (‘közmunka’) played a significant role in this expansion in the first few years. In 2010, the number of people employed in the public works scheme was 70,000, which increased above 200,000 by 2016. The public works programme had the most significant impact on the employment rate of people with the lowest education level. The employment rate of people who have completed primary education increased from 36% to 54% between 2010 and 2017, but this increase of 18 percentage points would have been nearly four percentage points lower without the public employment programme (Fazekas and Szabó-Morvai 2019). The public works programme has been shrinking since 2017; the government expects the number of public works employees to drop below 100,000 in 2020 (Népszava 2020).

The long-term effectiveness of the public works programme is questionable. Only 13% of the people participating in the public works scheme entered the primary labour market six months after their public employment ended, a rate that has been gradually decreasing since 2011 (Cseres-Gergely and Molnár 2015). The more frequently one enters the
public works programme, the lesser the chance to find employment in the primary labour market. However, the direction of this causality is unclear; it could be the other way round: the lesser the chance someone has to find employment in the primary labour market, the more frequently one enters the public works programme. In some areas, public works are the only opportunity to work. Despite the reduced wages, people left behind in deindustrialised areas and villages find the public works a significant step ahead compared to the pre-2010 neoliberal era (Hann 2018).

Aggressive reforms to the system of social protection also contributed to the growth in employment, in line with the ideology of the workfare state, which penalises ‘idleness’ to an unprecedented degree. The retirement age gradually increased while the government eliminated early retirement and significantly cut back on invalidity pension. The number of young people aged 15–24 studying full time also declined significantly, as the government reduced the school-leaving age and reduced tertiary school enrolment also. The government also cut the duration of unemployment to three months, reduced the value of social benefits, cut sick pay by half and decreased the public works salary.

These reforms of the supply side of the labour market are not only unjust, but they also increase precarious employment and might depress productivity growth in the long run. The inadequacy of social protection forces job-seekers to accept jobs that do not match their qualifications, which, in turn, may contribute to the increase of employee fluctuation and worsen labour market skill mismatch. Nevertheless, jobs became more accessible, and unemployment in disadvantaged areas and small settlements decreased substantially, which represents a significant step forward compared to the pre-2010 conditions, even if these jobs are poorly paid and are part of the relatively poorly targeted public works scheme, or imply other forms of precarious employment (such as part-time or temporary agency work) (Meszmann 2016).

The world economy has also been on a growth trajectory in the second half of the 2010s, and Europe’s Eastern semi-periphery has benefited from this upswing. Hungary’s economy grew by 2.5% annually on average between 2010 and 2018, which is not as high as Poland’s (3.6%) or Slovakia’s growth rate (3.1%) but higher than that of most Western
countries, as well as the Czech Republic and Slovenia (World Bank 2020). The increased export performance of manufacturing TNCs generated a significant demand for labour. The sudden collapse of global demand as a consequence of the 2008 crisis forced transnational corporations to accelerate investments into their existing assembly platforms in East-Central Europe in order to bring down prices and their Western wage bill. East-Central Europe has been growing rapidly since 2014 as a result, not just Hungary. These are not national but world processes channelled by the local representatives of global value chains. Working classes everywhere in the region finally began to profit from the post-1989 integration into global capitalism as a consequence—Orbán has little to do with this, except for cementing Hungary’s role as local assembly platform in technological value chains.

As the previous section showed, the value of EU structural and cohesion fund subsidies also increased significantly, together with the economic expenditures of the central government budget. Finally, the improved financial situation and capitalisation of Hungarian-owned companies, as a consequence of the measures discussed in the previous section, also contributed to economic growth and labour demand. The economy grew by 4.3% in 2017, 5.1% in 2018 and 4.9% in 2019, while investment volume increased by 16.7% in 2017, the second-fastest annual growth rate since 2000 (Fazekas and Szabó-Morvai 2018, p. 21).

The 2010s also saw very significant outmigration, especially young people left the country in significantly higher numbers than ever before. The estimated number of people working abroad was 600,000 in 2017, at least half of whom are likely to have left Hungary after 2010 (portfolio.hu 2017). As a result of these factors, the unemployment rate declined considerably. The decline of youth unemployment was particularly significant, dropping from 26.5% in 2009 to 10.5% in 2017. Hungary started to experience a growing labour market shortage. In 2017, enterprises reported 70,000 unfilled jobs, 23% higher than in the year before (Fazekas and Szabó-Morvai 2019).

Increasing labour shortage improved workers’ bargaining position, which led to a significant wage growth after 2016. This development is undoubtedly positive; however, looking at it in a broader context, we cannot talk about as spectacular an improvement as in the case of
employment. Between 2010 and 2016, the gross real wage declined or stagnated; it only started to grow after 2016, so the real wage in 2018 was 13.1%, higher than in 2010 (OECD 2020a). This increase is significant—and will likely continue in 2019—but it is not outstanding compared to other countries in the region. The gross real wage increased by 23.07% in Poland, by 17.51% in the Czech Republic and by 13.4% in Slovakia between 2010–2018; that is, all other Visegrád countries experienced a higher gross real wage growth.

The average net income (wages and benefits after taxes) in Hungary measured in purchasing power is still meagre in international comparison. Although the Hungarian net average income overtook the Slovakian income level in 2018, the income gap between Austria and Hungary continued to increase, as Fig. 7.5 shows (OECD 2020c). While in 2010, the difference between the average net annual income in Hungary and Austria was $16,963 in purchasing power parity, this difference grew to $21,017 in 2018. In 2010, the average Hungarian net income was 48% of the net income in Austria, compared to 47% in 2018. Thus, the

![Fig. 7.5 Income convergence (2010–2018). (Source: OECD 2020c)](image-url)
distance between the Austrian and Hungarian average income increased, both in absolute and relative terms.\textsuperscript{17}

Remarkably, international data based on the national accounts show a much slower real-wage growth than the labour force survey of the Hungarian Central Statistical Office (HCSO). However, the latter tends to dominate the news because it is updated every month. In contrast to the 13\% measured by the OECD, HCSO reported a whopping 55\% real wage increase between 2010 and 2018 (HCSO \textit{2020a}). HCSO labour force statistics represent organisations employing more than five people, leaving out 1.7 million people from the sample, as the HCSO admitted upon the enquiry of an MP (Büttl \textit{2020}). The small- and micro-enterprises left out of the sample typically pay lower salaries than larger ones. The average wage, in reality, could be around 14\% lower than HCSO estimates (Policy Agenda \textit{2019}). In contrast, OECD data are based on GDP data as a ratio of the total wage bill to the number of employees portraying a more comprehensive picture.\textsuperscript{18} The difference between the two measurements is enormous, allowing the government to paint a much rosier picture than the reality.

The wage increase was not just smaller than the government suggests, but it was unequal also. Altogether, 70\% of Hungarians earn way below the average wage, with the median wage being 33\% below the average wage among full-time employees in 2018 (Policy Agenda \textit{2019}). In the bottom 10\% income category, per capita gross real income (wages and benefits) grew by 2.4\% from 2010 to 2017, and by 28.6\% in the top 10\% of income category. In other words, the lowest-earning one million Hungarians almost did not see any real income increase until 2017 (HCSO \textit{2020b}).

An analysis based on European income data also underpins the uneven convergence of incomes (G7.hu \textit{2019}). In 2017 the bottom 60\% of Hungarian society was situated within the European income scale exactly where it was in 2010: at a deficient level. The average income of the 50th Hungarian income percentile (the median income) was at the 17th percentile of the European income distribution in purchasing power parity in 2017. Only the top 30\% of income earners experienced any convergence with European wages. The income of the top 5\% converged by 10\%, while the income of the lowest percentiles declined by 2\% in the
European income ranking. The top 10%, that is the wealthiest one million Hungarians, have surpassed 75 million Europeans in terms of income in seven years, while the 100,000 richest Hungarians have made it into the European elite.

It is thus not surprising that income inequality skyrocketed in Hungary after 2010. Hungary was the only country in the region to experience an increase in inequality. The inequality of income distribution measured by the S80/S20 income quintile share ratio grew from 3.58 in 2010 to 4.59 in 2018 (Eurostat 2020g). The Gini coefficient of income inequality demonstrates a similar dramatic upward trend as Fig. 7.6 shows, with Hungary jumping from 24.1 in 2010 to 28.7 in 2018, while every other Visegrád country saw a decline (Eurostat 2020e). As a consequence, Hungary is now the most unequal country by this measure in the Visegrád region. The number of people in severe poverty earning less than 40% of the median wage also grew dramatically, from 197,000 persons (2% of the population) in 2010 to 478,000 persons (5%), which is one of the highest increases in the whole EU (Eurostat 2020b).19

![Graph showing income inequality (2009–2018)](image)

**Fig. 7.6** Income inequality (2009–2018). (Source: Eurostat 2020e)
The growing differences in market wages are one reason behind the growth of income inequality. Wages themselves mostly follow market processes—that is they do not closely reflect policy strategies. In a dependent economy, such as Hungary’s, external processes such as growing international demand and increased activity of global value chains play the most crucial role in wage growth. Nevertheless, the government can also influence wage growth, and after six years of repressing wages, the government started to increase the minimum wage and push market wages upwards—a significant positive development. Pushing market wages upwards is less costly for the state as it does not increase budget expenditures; it might even increase revenues.

The government’s approach to social benefits—the second principal component of individuals’ income in addition to wages—reflects its policy strategy and distributive preferences in more detail. The aggressive redistribution to the upper classes in the sphere of social protection, housing, family policy and public services, discussed in the previous section, is the consequence of the government’s shift from welfare to workfare, as well the pro-nativist policies targeting upper-class families. Instead of mitigating inequality originating in unequal market exchange relations, the restructuring of social benefits significantly contributed to the increase of income inequality.

Although inequality grew, the government was able to mitigate the financial vulnerability of households, again mostly concentrating on high-income groups. Hungarian households with average or above the average income were financially more vulnerable than their European counterparts before 2010, as Chap. 4 showed. More than 70% of Hungarian households were unable to cover an unexpected expense in 2010. The share of such households fell from 74% in 2010 to 33% by 2018 (Eurostat 2020f), which is still significant but does not differ significantly from the regional level, except Austria (21%). Between 2010 and 2018, household debt declined from 81.4% to 41.6% of net disposable income, as shown in Fig. 7.7 (OECD 2020b). The government effectively wiped out foreign currency debts and helped high-income citizens to repay their outstanding debts, with costs borne by—mostly foreign-owned—banks. The reduction of indebtedness also reduced the
external financial vulnerability of the Hungarian economy, even if the financial vulnerability of lower segments of society remained unchanged.

Like the government’s other measures, debt forgiveness and restructuring focused on the upper classes. Families with lower income and without adequate reserves were unable to make use of the government’s interventions. This approach also fits in with the government’s housing policy, which seeks to facilitate access to housing for the upper classes, while earmarking less and less funding to help those living in housing poverty (Pósfai and Jelinek 2019). Despite the substantial reduction, the proportion of families with overdue credits or loans among the poor (below 60% of the median income) was 31% in 2018, only Greece and Bulgaria faced a worse situation (Eurostat 2020a). In 2009, 1.13 million people had arrears on utility bills, which rose to 1.43 million by June 2017 (Népszava 2017), although the government claims that the total outstanding debt halved between 2012 and 2019 (Hungarian Government 2019). Due to the changes in the methodology, it is impossible to get an accurate picture of long-term change.

Fig. 7.7 The indebtedness of households (2009–2018). (Source: OECD 2020b)
Changes in the education system are of utmost importance for life chances and long-term economic development. From 2010, the performance indicators of Hungarian education, which had been poor already, began to nosedive. OECD’s 2015 Programme for International Student Assessment (PISA) reveals that Hungarian students’ reading and science performance declined significantly compared to 2012, which the European Commission’s, 2018 report on Hungary also highlighted. Hungary showed the highest increase in the proportion of low achievers in science in all of the EU. One in four students failed to meet the basic requirement in reading or math (European Commission 2018). The proportion of Hungarian students who performed poorly in reading comprehension in the PISA test in 2009 was still well above the OECD average; by 2015, however, the proportion of underperformers increased so much that Hungary fell below the OECD average, to the bottom of the list (Hajdu et al. 2018). Hungary’s education system yields functional illiterates in increasing numbers.

The proportion of early school leavers decreased between 2006 and 2010; in 2010, it corresponded to the EU target of 9.5% among women. The same year, 11.5% of men left dropped out of school; looking at both genders the average rate was 10.5%. From 2011 onwards this rate began to increase and grew steadily until 2016, showing small fluctuations only. In 2016, the rate of early school leavers was 11.8% among women, and 13% among men, the average proportion of the two genders altogether was 11.5% (Hajdu et al. 2018). This rate increased against decreasing drop-out rates across the EU. The impact of students’ socio-economic background on educational attainment is the greatest across the whole of the European Union (European Commission 2018).

As a consequence of the government’s conscious efforts, the number of applicants and enrolments in tertiary education has been declining since 2010. While the number of 18-year-olds dropped by 17% between 2010 and 2015, the number of applicants fell by 24% over the same period. In 2010, there were more than 72,000 state-subsidised places in higher education; in 2018, the respective figure was below 60,000. Due to the decline in state-subsidised places, the chances of young people from disadvantaged micro-regions to enter higher education deteriorated between 2010 and 2017 (Polónyi 2018). The number of people applying to and
enrolling in higher education programmes has been declining since 2010: in 2011, 141,000 new people enrolled in higher education institutions, by 2018 this number fell to 108,000 (European Commission 2018).

Consequently, the enrolment rate in higher education fell from 65% in 2009 to 48.5% in 2017, as Fig. 7.8 demonstrates (World Bank 2020). This dramatic decline relegated Hungary to the bottom of the list in the region in this respect. In an age when it is virtually a cliché to state that knowledge capital and innovation are the foundations of competitiveness and development, this downturn is a sure way to conserve an economic structure specialised in low value added and to squander the country’s future.

**Economic Disintegration**

As a consequence of the new accumulation strategy, Hungary’s growth model is less and less connected to the inflow of transnational capital, which has slowed down significantly since 2010. The extensive phase of
dependent development exhausted all around East-Central Europe, leading to a decline of new foreign investment but Hungary went way beyond the other countries. The value of the accumulated foreign capital stock has shown a clear downward trend since 2009, as Fig. 7.9 shows (UNCTAD 2019b).20 In 2009, FDI accounted for 76% of the GDP; by 2018 it dropped to 57%. FDI has been stagnating throughout the region, but Hungary shows a marked decline.

FDI inflow as a percentage of GDP dropped from 16.4% on average in the 2000–2009 period to 0.81% in the 2010–2018 period in Hungary, the lowest among the seven countries compared in this book (World Bank 2020). Greenfield investments show a similar decline, dropping from an average number of 198 between 2003 and 2009 to 111 between 2010 and 2018, a 44% decline exceeding the level of decline in the Czech Republic (18%), while Poland was able to increase the annual number of greenfield investment projects over the same period by 10% (UNCTAD 2019a).

Public investment and domestic private investment took over much of the role of foreign investment. Between 2011 and 2015, economic

Fig. 7.9 Foreign investment penetration (2009–2018). (Source: UNCTAD 2019b)
growth was 6.8%, with public investment contributing 3.9 percentage points, while over 30% of total investment came from the state (portfolio.hu 2016). At the same time, the dependence of the Hungarian economy did not decrease. EU funds make up 50% of public investments. The foreign capital stock remains outstanding in international comparison.

The value added of foreign enterprises in the entire business economy remained unchanged since 2009, was at 50% in 2017 (Eurostat 2020h). The export performance of the Hungarian economy remains dependent on transnational corporations. The Hungarian government stopped reporting export data by ownership, so the latest information for Hungary is from 2013. In that year, Hungarian subsidiaries of transnational companies accounted for 81% of total exports, an increase compared to previous years (OECD 2019b).

The ability of Hungarian-owned companies to take advantage of global value chains remains exceptionally low. Following up on the trends reported in Fig. 4.5, the ratio of domestic value added in foreign exports (forward participation in GVCs) to the foreign value added share of gross Hungarian exports (backward participation in GVCs) increased by 4% between 2009 and 2015, showing that somewhat more Hungarian companies can function as suppliers abroad. However, a similar improvement took place all over the Visegrád region, so Hungary remains the worst-performing country in this respect (OECD 2020d). Transnational companies, in large part, assemble and export imported materials, which did not change substantially even after 2010: the import content of exports was 43% in 2015, the fourth-highest value in the OECD countries, with only Slovakia exceeding Hungary in the region (OECD 2019a). The domestic value added in Hungary’s export also remained unchanged, staying at 56% in 2016, the same as in 2009, the third-lowest in the OECD (OECD 2020e).

Moreover, the export structure of transnational corporations has changed adversely. By the end of the 2000s, the export of knowledge-intensive products became dominant. Even though the technological level of Hungarian-owned companies did not develop rapidly, the export structure of transnational companies improved. This process reversed after 2010. Hungary’s Economic Complexity Index, which measures the relative weight of knowledge-intensive economic sectors, declined steadily
from its peak at 1.53 points in 2011 to 1.38 points in 2017, after a
decade of improvement in the 2000s, as Fig. 7.10 shows (OEC 2020).

The declining innovation potential of the economy led to a decline in
the share of high-tech products in exports after 2010. The share of the
most technology-intensive products within exports fell from 34% in
2010 to 17% in 2016 (G7.hu 2018c). Hungary has been exporting fewer
TVs or high-end pharmaceuticals, but more and more cars and automo-
tive parts, that is products that do not require the highest level of techno-
logical knowledge. Hungary seems to get locked into automotive GVCs
when technological and climate change put increasing pressures on
this branch.

The technological intensity of transnational corporations shows a
decreasing trend together with the inflow of foreign investment, while
the dominance of TNCs in exports remains unquestionable. These trans-
national companies pay wages and taxes, which is by no means a negli-
gible factor, but as Chap. 4 has shown, their contribution to the local
economy is minimal. This situation did not change after 2010.
In order for Hungarian-owned companies to increase their productivity and export capacity, they would need to exploit the potential inherent in higher value added segments of the value chains. This would require technological improvement, product and process innovation and more successful marketing and outstanding services. Such technological development is knowledge- and resource-intensive and requires long-term planning and commitment to upgrading. Although the government has improved access to capital since 2010, aspects of the knowledge component and long-term planning have been pushed into the background much more than before 2010. The declining quality of education, falling tertiary education financing and enrolment, aggressive intervention into the operation of research institutes and universities and the move from welfare to workfare have undermined the possibility of constructing a capability-enhancing developmental state to build a knowledge-intensive economy.

The majority of Hungarian-owned companies are small- and medium-sized enterprises (SME); thus, SME’s innovation activities represent well the innovation activities of Hungarian companies. The proportion of SMEs carrying out in-house innovation decreased from 13.2% in 2009 to 10.6% in 2014 (DICE Database 2016). The number of innovative enterprises in the economy as a whole (without enterprise size limit) declined from 16.5% in 2012 to 12.9% in 2016, the third-lowest in the EU (European Commission 2020). Hungary ranked 49th in a survey covering 50 countries, 200,000 respondents and 250 indicators assessing countries concerning the environment they provide for startups and small enterprises with regard to innovation, science and technology (G7.hu 2018b).

The best indicator of the disintegration of the Hungarian economy, that is the difference between the productivity of foreign- and domestic-owned companies, has also increased slightly since 2010. My calculations based on the EU FATS database suggest the 2.96-fold productivity gap in 2010 increased to 3.14 by 2015, which means that foreign-owned companies generate 3.14 times more value added than Hungarian-owned ones, as Fig. 7.11 shows (Eurostat 2018). The supply of low-skilled labour increased, which may have contributed to the increase of production and accumulation within the framework of the current product structure of
the domestic enterprises; it has, however, hindered progress in terms of long-term upgrading. Supporting the labour-intensive low-tech production of the largest national capitalists can generate new wealth in the short term in agriculture, construction or banking; however, in the long run, it diminishes the possibility of advancing upwards in the international division of labour.

Summing up the above, Fig. 7.12 outlines the two fundamental processes of the accumulative state: the processes of wealth creation and increasing inequalities. The dashed line illustrates the evolution of households’ financial assets, while the continuous line represents the income of the bottom 20% as a percentage of the income of the top 20%. The income of the bottom 20% relative to the top 20% fell from 29% in 2010 to 23% in 2017, showing a steep increase in income inequality in accordance with other measures of income distribution (Eurostat 2020g). At the same time, the net financial wealth of households increased.

**Fig. 7.11** The productivity gap between foreign and domestic companies (2010–2015). (Source: Eurostat 2018)
dramatically from 67% of GDP in 2009 to 103% in 2017 (MNB 2017a). Between 2002 and 2010, the net financial wealth of Hungarian families was hovering around 65% of the GDP.

However, it would be misleading to think that wealth is distributed evenly in society. The tools of the accumulative state benefit only the upper classes. The vast majority of Hungarians hold only cash and bank deposits; the top income decile owns 88% of securities such as stocks, bonds and derivatives (MNB 2017a, p. 68). While the value of cash and bank deposits—the only assets that the lower 90% of the population owns—increased by 14% between 2010 and 2015, the value of securities increased by 68% (MNB 2017a, p. 95). Thus, as the government institutionalised socialism for the rich and capitalism for the poor, the top 10% increased their wealth to an unprecedented extent, while the lower classes have been gradually falling behind.
Institutional Authoritarianism and Authoritarian Populism

The primary purpose of the new accumulative state is to ensure the prosperity of all three factions of the new power bloc: (1) the political class, including political capitalists; (2) the national bourgeoisie in a broad sense, including emerging, co-opted and passive capitalists; (3) finally, transnational capital, including the most important players, German car companies, except transnational capital in non-tradable and non-technological sectors (retail, banking, energy), where the state can positively discriminate national capitalists at the expense of transnational capital. Serving the interests of this power block, the accumulative state systematically interferes with the institutional system of liberal capitalism to spur capital accumulation.

The accumulative state finances capital accumulation by straining the working class and especially the ethnicised subproletariat. The price of the new capital accumulation strategy is the radical retrenchment of welfare, the rise of workfare with a set of benefits targeting ‘deserving’ upper-middle-class citizens, leading to rapid growth in inequality. Withdrawing resources from healthcare and education freezes social mobility in the long run and decreases the chance of building a capacity-enhancing developmental state.

In sum, the instruments employed by the political class to prop up capital accumulation hurt the majority of society, from members of the working class through small- and medium-sized entrepreneurs to urban liberal middle classes. Viktor Orbán came to power in 2010 in the wake of the countermovement of the working class, yet the measures of the accumulative state alienated much of the working class and poorer segments of society while benefiting the economic elite and big business. In 2014, Fidesz received fewer votes than in 2006, when it lost the election. Orbán is popular in large part of Hungarian society; however, the stability of the regime also depends on the mix of authoritarian solutions used. The tasks of partially addressing the exhaustion of the extensive phase of dependent development and emancipating the national capitalists, while at the same time satisfying the needs of transnational capital, imply new
conflicts. In order to manage these conflicts and consolidate the hegemony of the new power bloc, the political class relies on a two-pronged authoritarian strategy that combines institutional authoritarianism and authoritarian populism.

Institutional authoritarianism serves to limit the rise of a competitive civic and political opposition by recourse to a kind of institutional bricolage, which preserves the façade of democratic institutions but tilts the political playing field to the advantage of the ruling party. To protect itself against a possible political backlash from the losers of capital accumulation, Fidesz occupied all democratic institutions, undermined the system of checks and balances and obstructed the channels of direct democracy (Sargentini 2018). Orbán centralised power in the hands of the executive or, more precisely, a small group of people surrounding him.

A coordinated effort to re-feudalise the public sphere accompanied this near-total takeover of the polity. This re-feudalisation allows for control of the airwaves and to prevent critical voices from reaching rural citizens who now constitute the ruling party’s core electorate. The government converted public broadcasting into a centralised propaganda machine. Key representatives of the national bourgeoisie have contributed to this effort by acquisitioning private media and subsequently handing them over to a centralised holding company (Wilkin 2016). While this vast media empire allows Fidesz to control the political agenda, national communication campaigns—endowed with a budget outweighing the total budget of the opposition by a factor of ten (Atlatszo.hu 2018)—allow the ruling party to communicate its messages to the public (Bocskor 2018).

Finally, the ruling party has also sought to restrict the political opposition’s room of manoeuvre and tilt the political playing field in its favour to engineer electoral victories. These victories not only legitimise Fidesz’s rule but also contribute to the regime’s stability by demoralising opponents. The key initiative was the drafting of a new electoral law which favours Fidesz. However, recent research has also shown that the ruling party relies on local mayors to coerce poor citizens into supporting Fidesz at elections (Mares and Young 2019). Fidesz’s arsenal also includes initiatives that are more ad hoc. The State Audit Office has imposed arbitrary fines on opposition parties (Freedom House 2018). The ruling party has, on one occasion, even mobilised football hooligans to physically prevent
opposition MPs from initiating a referendum (Freedom House 2018, pp. 226–227). The Varieties of Democracy Report classified Hungary as an electoral autocracy at the beginning of 2020 (V-Dem Institute 2020), a few weeks before the government switched to rule by decree without time limitation (The Guardian 2020).

Taken together, the country’s rulers have thus managed to impose significant obstacles to the emergence, signification and mobilisation of discontents. This means that the system uses institutional authoritarianism (reform of the electoral system, depletion of parliamentarianism, dominating the media, the ‘colonisation’ of the prosecution system and the courts etc.) to address social tensions that arise among the working class and people at the margins as a result of propping up capital accumulation. To protect themselves against a possible political backlash emanating from the losers of capital accumulation, Fidesz curtailed the institutions of liberal democracy. In other words, Orbán’s authoritarianism is, in part, a corollary to the acceleration of capital accumulation in reaction to the exhaustion of the extensive phase of dependent development.

Pre-emptive repression through these forms of institutional authoritarianism is, however, only one of the strategies deployed by the regime. The ruling party also seeks to manufacture consent through authoritarian populism, a strategy that aims to neutralise opposing forces and disaggregate the opposition by addressing real contradictions in a way as to represent them within a logic of discourse which pulls them systematically in line with policies and class strategies of the new illiberal hegemony (Hall 1979). The government is aware that direct oppression in the twenty-first century is too costly and not efficient enough. Therefore, it also seeks to legitimise itself through elections, albeit to a limited extent.

Employment increased, unemployment declined even in some severely disadvantaged regions, and wages started to increase after 2016 as a result of the favourable international economic environment and the high volume of EU subsidies. The migration crisis that unfolded after 2015 provided a new opportunity for the regime to launch an anti-immigrant campaign and bolster its faltering popularity among the losers of the new accumulation strategy. The redirection of class cleavages and distributitional conflicts along cultural lines targeting the ‘undeserving poor’ and
minorities, as well as migrants, helps to construct consent. The public works programme not only provides jobs and ways to manage unruly members of the subproletariat but also redefines the national solidarity community along neo-nationalist, ethnonationalist lines, juxtaposing ‘worthy’ and ‘unworthy’ Hungarians. The retrenchment of welfare and the introduction of workfare and pro-nativist policies serve similar discursive strategies and the establishment of new moral hierarchies that cross-cut traditional class-based solidarity. This strategy is popular because it builds on the countermovement of the working class against the lived experience of class dislocation during the liberal transition era.

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, and allowing Orbán to pose in the role of the protector. Framing the nation as a community of solidarity is a strategic step that implies an essential source of the state’s legitimacy (Fabry 2019; Szombati 2018). While effectively conducting a divisive politics of class warfare from above, Fidesz portrays itself as the guarantor of unity and security amid the looming threats of international migration and terrorism. These elements of authoritarian populism help to legitimise the illiberal hegemony in the face of rising social polarisation.

By 2018, the institutional infrastructure of the illiberal regime was ready. At the 2018 national elections, Fidesz achieved the highest electoral support throughout its history, successfully transforming its social base and mobilising new, small-town voters, gaining its third constitutional majority in parliament (Tóka 2019), even though the number of anti-government votes exceeded the pro-government ones. The 2019 local government elections brought a turn; the divided opposition found a way to form a broad alliance—incorporating the formerly radical-right, now nationalist-conservative Jobbik—which led to decisive victories in Budapest and several significant towns throughout the country.

However, outside the more populous towns, Fidesz gained even more seats at the 2019 local government elections than five years ago. Small towns and rural Hungary seem to be even more solidly Fidesz territory than ever before. In the long run, the left-liberal opposition’s reliance on Jobbik also poses challenges, entrenching the dominance of the right in
deindustrialised, medium and small towns, the former regional strongholds of the left, now under the firm control of Jobbik (Scheiring 2019b). Although Fidesz is as strong as ever in small towns and rural areas, in cities, the opposition got stronger. Similarly, in Turkey, the opposition was able to beat Erdogan in the local election in Istanbul, which shows that competitive authoritarian regimes have their weak spots as long as they rely on elections to legitimate their rule.

Notes

1. ‘Savings and Credit Cooperatives’ by their full name, elsewhere also called credit unions, savings and loan associations, building societies or mutual savings banks. Until the early 2010s, 260 Savings and Credit Cooperatives existed and worked in Hungary, the number of its members was about two million (Moizs and Szabó 2016).

2. Fifty billion forints, converted to dollars using the World Bank’s official exchange rate (LCU per US$, period average) for 2018.

3. From July 2017, the advertisement tax was raised from 5.3% to 7.5% for taxpayers with sales revenues from advertising exceeding $364,000 (100 million forints, converted to dollars using the World Bank’s official exchange rate [LCU per US$, period average] for 2018).

4. There are other forms of subsidies, such as tax exemptions; these figures cover only the subsidies that are part of the Special Government Decisions (‘Egyedi Kormányzati Döntések’, EKD).

5. The dollar values reported in the Geoforum article (Scheiring 2019a) were calculated using the exchange rate on 5 December 2018 (1US$ = 285 forints), while the dollar values reported here are calculated using the annual average exchange rate at the end of the two periods (2010 and 2018 subsequently).

6. An amount of 130.2 billion forints, converted to dollars using the World Bank’s official exchange rate (LCU per US$, period average) for 2010.

7. An amount of 346.8 billion forints, converted to dollars using the World Bank’s official exchange rate (LCU per US$, period average) for 2018.

8. An amount of 127.3 billion forints, converted to dollars using the World Bank’s official exchange rate (LCU per US$, period average) for 2010.

9. An amount of 2.9 billion forints, converted to dollars using the World Bank’s official exchange rate (LCU per US$, period average) for 2010.
10. An amount of 263.2 forints, converted to dollars using the World Bank’s official exchange rate (LCU per US$, period average) for 2018.
11. An amount of 83.6 billion forints, converted to dollars using the World Bank’s official exchange rate (LCU per US$, period average) for 2018.
12. An amount of 1700 billion forints, converted to dollars using the World Bank’s official exchange rate (LCU per US$, period average) for 2017.
13. For further details see the excellent analyses by Szikra (2014, 2018), Scharle (2017), and Stubbs and Lendvai-Bainton (2019).
14. An amount of 22,800 forints, converted to dollars using the World Bank’s official exchange rate (LCU per US$, period average) for 2018.
15. Ten million forints, converted to dollars using the World Bank’s official exchange rate (LCU per US$, period average) for 2018.
16. Ten million forints, converted to dollars using the World Bank’s official exchange rate (LCU per US$, period average) for 2018.
17. The amount refers to individuals with average income without children, perceived by the OECD as a reference category.
18. However, the two should at least be approximately equal. There was a strong correlation between the two before 2010, but after 2010 they began to diverge (portfolio.hu 2018).
19. The number of people below 40% of the median income has grown even more rapidly in Luxembourg.
20. The jump in 2012 in every country is a result of the eurozone crisis, when Hungary’s economy shrank by 1.6%.

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