ECONOMY

ORBANOMICS

A polarising answer to the crisis of liberal dependent capitalism

Gabor Scheiring
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Orban's regime has a socio-economic logic that can only be understood in the context of economic globalisation.

Orbanomics is an answer to the crisis of the post-1990 liberal dependent economic model. It aims to boost the creation of wealth and capital accumulation targeting the upper middle class, national capital and transnational corporations in the export sectors.

However, Orbanomics failed to improve the productivity of domestic businesses and undermined long-term development potentials. It is a polarising socio-economic strategy, requiring authoritarian fixes to stabilise power.

FRIEDRICH EBERT STIFTUNG

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INTRODUCTION

Hungary, a country long heralded as a champion of political and economic liberalisation, is today an avant-garde case of illiberal, authoritarian populism in Europe. Authoritative international institutions, such as the Varieties of Democracy Institute or Freedom House, as well as political scientists no longer consider Hungary a democracy but a competitive authoritarian hybrid regime.[1]

Some analysts explain the illiberal turn as a reflection of a nationalist political culture or the whims of a corrupt populist. They argue that Orban, the gifted and reckless populist, stokes up fears, exploits new cultural divisions between cosmopolitans and conservative nationalists to gain power.[2] His personalistic, centralised leadership questions liberal good governance and serves to enrich his family and friends while using the state and loyal media to hack democracy.[3] Although this account has merits and captures important aspects of reality, it misreads the social and economic fundamentals of the regime and puts too much emphasis on the dysfunctional character of populism.

This paper argues that Orban's illiberalism has a socio-economic logic: there is a method to the madness.[4] This logic can only be understood in the context of the preceding 20 years. Orbanomics is an answer to the crisis of the post-1990 liberal dependent economic model. Its economic policies aim to boost the creation of wealth and capital accumulation targeting the upper middle class, national capital and transnational corporations. However, Orbanomics is a profoundly polarising socio-economic strategy, requiring authoritarian fixes to stabilise power.[5]

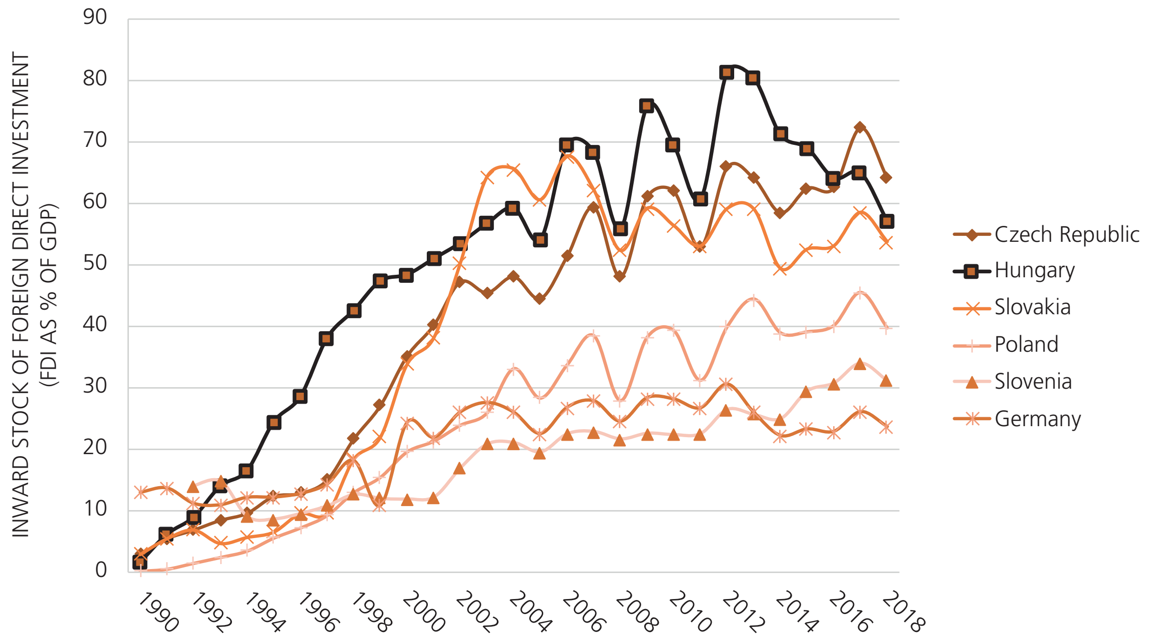
THE RISE AND FALL OF LIBERAL DEPENDENT CAPITALISM

To understand the rise of illiberalism, we have to go back in time to the collapse of socialism. Hungary's transition from socialism to capitalism was successful in certain respects: the foundations of export-led growth were laid down, the looming debt crisis was averted, the democratic institutional system was established. Transnational companies played a critical role in this success. However, the problems of Hungary's liberal dependent capitalism proved to be graver than many expected.[6]

In the 1990–2010 period, Hungary spearheaded the competition for foreign capital in the Visegrad region. The share of foreign companies in the total turnover in the computer industry, electronics and automotive sector grew to over 80% by the end of the 2000s. The arrival of foreign investors did not offset the mass collapse of integrated socialist companies and the concomitant technological downgrading in the 1990s. During the 2000s, this trend changed, as transnational corporations started to relocate technologically more intensive production to the country.[7]

However, these technological advances remained confined mainly to the transnational sector of the economy without a significant spillover effect on the domestic economy. For instance, at the end of the 2000s, the share of Hungarian suppliers in the added value of companies such as IBM, Sony or Opel was below 5%. At the same time, the share of Hungarian-owned companies in export remained below 15%. Hungarian companies are unable to specialise in production that would allow them to break into international markets with the potential of significant added value. Hungary's liberal dependent capitalist system means the country imports innovation through transnational corporations and is not able to generate innovation domestically.

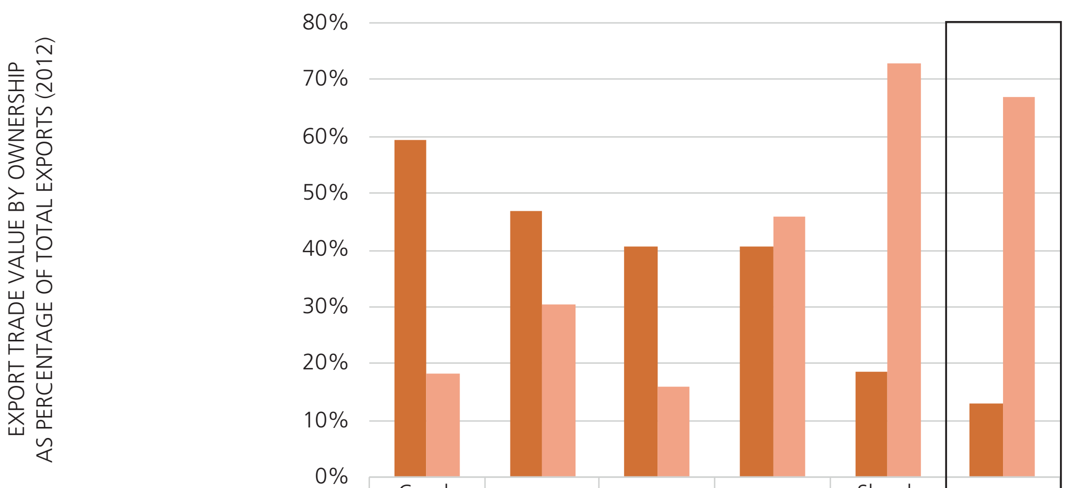
Figure 1
Foreign investment penetration, 1990–2018



Source: UNCTAD

Dependency itself does not cause economic problems – but the misgovernance of dependent development does. Hungarian policymakers abandoned industrial policy altogether, without any attempt to learn from success stories of East Asian developmental states. The first government introduced an extremely stringent bankruptcy law in 1992, while international competition skyrocketed with the rapid external opening of the economy. This effectively wiped out tens of thousands of Hungarian companies, eliminating producers that could have become the backbone of the domestic economy. Consecutive governments followed suit, favouring transnational companies in privatisation and tax policy. Domestic companies also faced shortness of capital, as the most prominent foreign-owned banks preferred lending to big transnational corporations or consumers.

Figure 2
The share of domestic- and foreign-owned companies in exports, 2012



	Czech Republic	Slovenia	Germany	Poland	Slovak Republic	Hungary
Companies in domestic ownership	59.0%	46.6%	40.4%	40.4%	18.3%	12.7%
Companies in foreign ownership	18.1%	30.0%	15.7%	45.7%	72.6%	66.6%

Source: OECD TiVA database

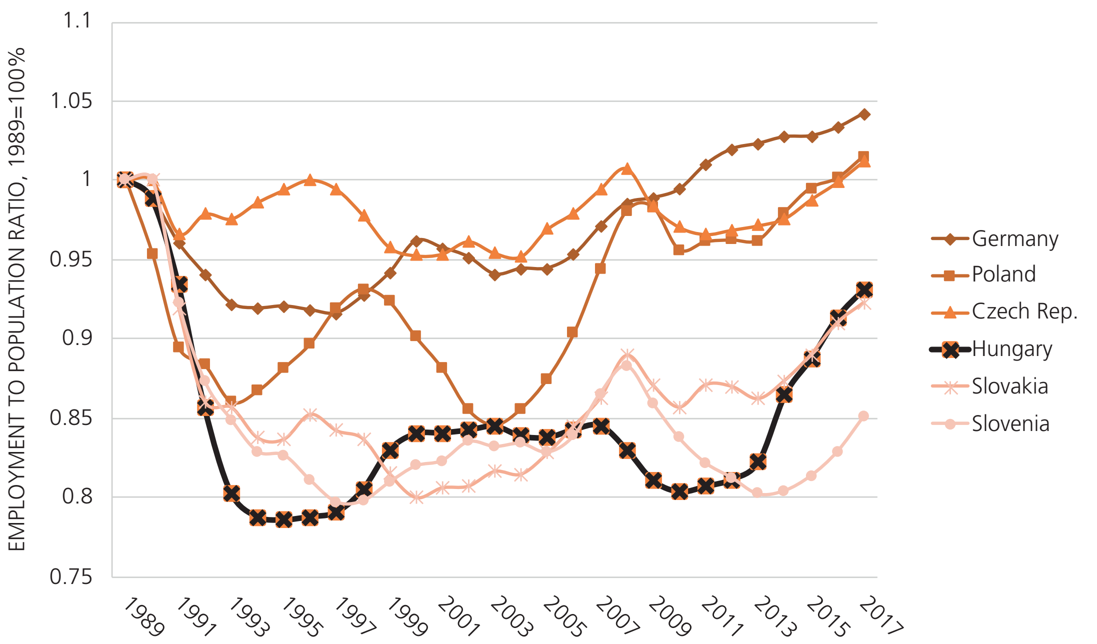
The misgovernance of dependent development resulted in a severe economic dualism: productive technology-intensive transnational corporations generate the bulk of export revenue, while labour-intensive domestic companies lack access to high-value-added markets. This dualism is one of the most critical bottlenecks of the Hungarian economy, undermining long-term development potentials. It also led to a rising illiberal nationalism among Hungarian national capitalists.[8]

WORKERS LEFT BEHIND AND DRIFTING RIGHT

Hungary's liberal dependent economic model was also unsuccessful in creating jobs. The country had one of the lowest employment rates in Europe until recently, with only 55% of the population employed in 2009, one year before Orban took power. Deindustrialisation and the massive collapse of employment during the 1990s eroded working-class culture and decreased the bargaining power of labour, which in turn retarded wage growth. The average Hungarian net income was the lowest in the Visegrad region until 2018, and it is among the lowest in the OECD.[9] In parallel to deindustrialisation and the subsequent fifteen years of jobless growth, inequalities also increased. The 1990s saw a jump in income inequality that was twice as fast as the increase in inequality in the United States or in the United Kingdom in the 1980s. The chances of mitigating inequalities in the long term – i.e. social mobility – also decreased considerably.

As a result of the liberal bank policy of the 2000s, an increasing number of households turned to debt-driven consumption to buy real estate and cars. In 2010, 24% of the total population was in arrears with debt payments. In the Visegrad region, Hungary had the highest level of household indebtedness in the 2002–2010 period, while two-thirds of Hungarians did not have sufficient cash reserves to pay for unexpected expenses. At the same time, the quality of life of workers was greatly affected by the shrinking access to non-material services. Access to public services dwindled, subsidised company and trade union holidays were no longer available, social housing was destroyed, workers' hostels were abolished, and local cultural and

Figure 3
Employment to population ratio, 1989–2017



Source: Author's calculations based on the Penn World Table 9.1

sports facilities were closed down. People living in towns experiencing rapid privatisation and deindustrialisation also experienced worse health and higher mortality.[10]

It is thus no wonder that the overwhelming majority of Hungarians experienced Hungary's reintegration into the global economy between 1989 and 2009 as social mayhem.[11] In 1993, support for capitalism was still higher in Hungary than in Western Europe. However, by 2009 the country showed the most significant decline in the level of support for the market economy. In 2007, 70% of even the highest-earning one-third felt that their situation was worse than in 1989. This proportion was almost the same in every age group, which means that this disillusionment was not mere 'nostalgia'; young people saw their situation just as hopeless as the elderly. Disappointment with the market transition, however, did not mean that people became disillusioned with democracy as well. In the second half of the 2000s, the proportion of Hungarians rejecting democracy was below the global average, smaller than in Portugal, Poland or in the United States.

The disillusionment with Hungary's new capitalism peaked when the left-wing coalition of the Hungarian Socialist Party (MSZP) and the Alliance of Free Democrats (SZDSZ) governed. Until recently, the majority of the leaders of the Hungarian Socialist Party accepted the Third Way approach to social democracy, which allowed liberal-technocratic economists to dominate its socio-economic strategy.[12] The left-liberal coalitions presided over the most pronounced waves of neoliberalism, which included the privatisation of pensions, as well as energy and water utilities between 1994-1998. It also made – an ultimately failed – effort to liberalise health insurance between 2006-2010. The party organisation was also transformed from a movement-based mass organisation into technocratic media-focused apparatus. During the second half of the 2000s, as Hungary's liberal dependent market economy finally exhausted, the support of the Hungarian Socialist Party among working-class voters collapsed, and Fidesz – and to a lesser degree, Jobbik – came to be seen as the party of the working class.[13]

ORBANOMICS AND THE BUSINESS CLASS

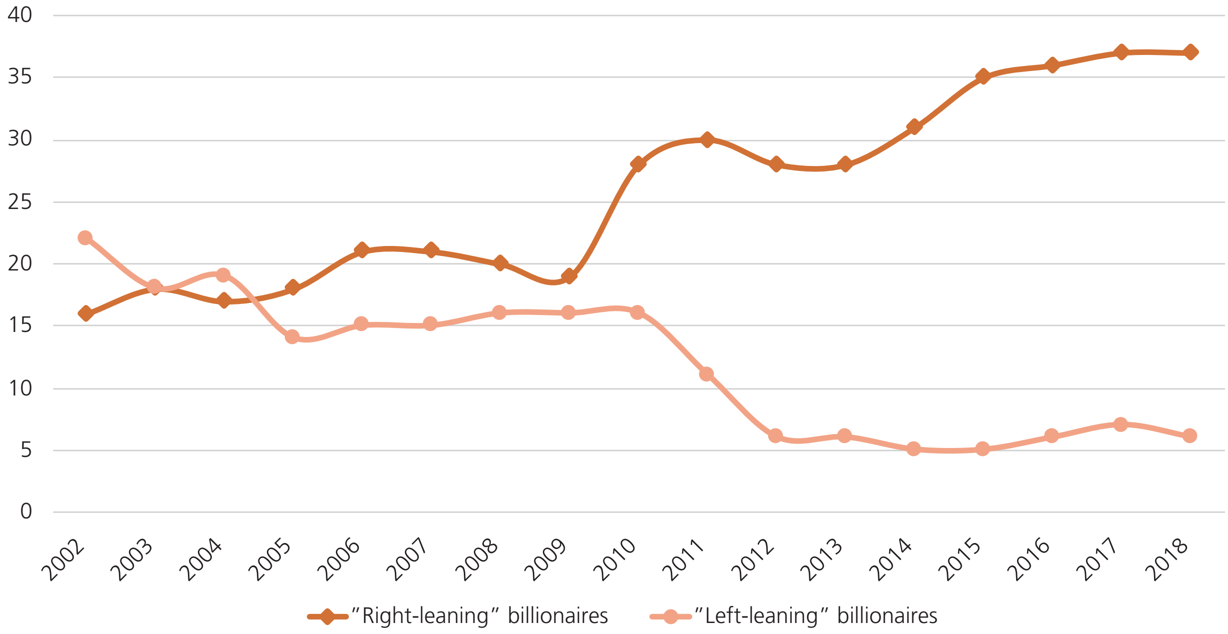
Most analysts describe Orbanomics as anti-liberal anti-business policies serving the interests of the political elite and loyal oligarchs. However, this is a misunderstanding. By the 2000s, domestic capitalists were increasingly alienated by the left-liberal governments and allied themselves in increasing number with Fidesz well before the 2010 election. They did so because they hoped that a Fidesz government would better facilitate the capital accumulation of national capitalists. Fidesz engineered a new class compromise between the political class, the national bourgeoisie and TNCs. Orban allied with transnational capitalists in the productive sector too, but his really significant achievement is emancipating domestic capitalists.[14]

Orbanomics offers a political solution to the internal contradictions of Hungary's liberal dependent capitalism by accelerating capital accumulation and promoting the embourgeoisement of the upper-middle class.[15] Public procurement corruption is widely recognised as a critical tool to serve crony capitalism. The state also nationalised several companies and banks, restructured existing concessions and management rights, most notably in the tobacco, savings cooperatives, and agricultural sectors.

However, Orbanomics not only targets loyal oligarchs – there are a host of economic policies targeting a much broader segment of the business class. The government has also signed Strategic Partnership Agreements with the largest transnational corporations, which helped to pacify tech-intensive manufacturing corporations. In other, non-technological sectors that play little role in generating export revenue, such as banking, services, or energy, the government actively tries to push out transnational capital and make space for the national bourgeoisie. The government also distributes direct financial subsidies both to national and international capitalists; these subsidies vastly exceed the pre-2010 level and are more targeted towards national capitalists than before. The government opened new revolving doors for national capitalists, inviting less politicised capitalists to occupy government posts, such as in the case of logistics and bus manufacturing. The expansionary monetary policy introduced by Gyorgy Matolcsy as the new governor of the Hungarian central bank is also viewed favourably by businesses.

The government introduced a flat 9% corporate tax in 2016, effectively transforming the country into a tax haven. One of the Orban'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. The winners of the new personal income tax system

Figure 4
The rightward shift of the billionaire class, 2002–2018

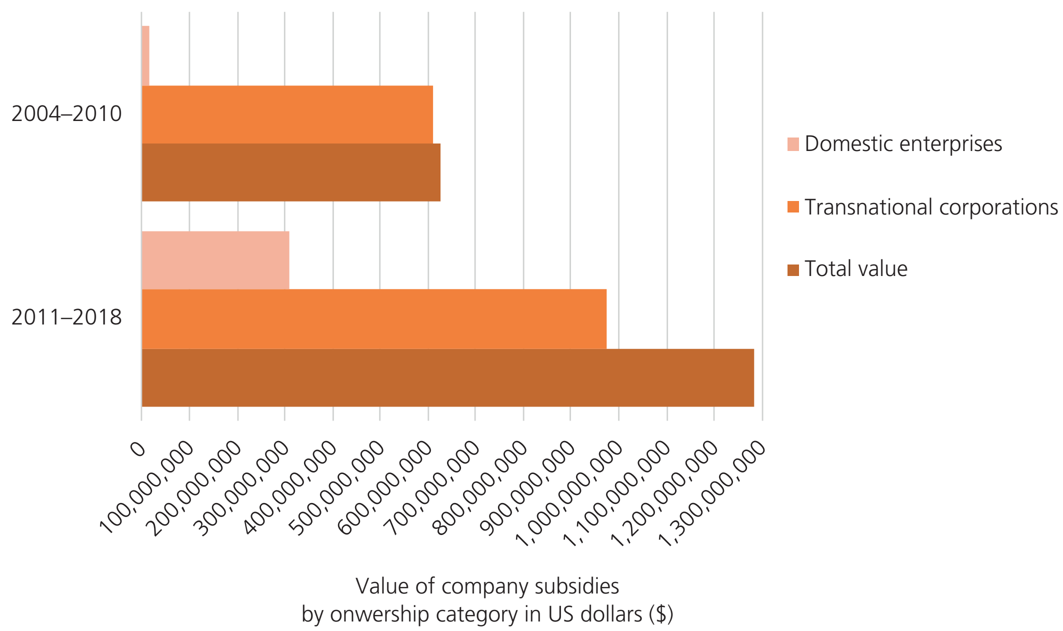


Source: Authors' calculations based on the "100 richest Hungarians" report series, for more details see Scheiring (2020c)

are the top 20% of income earners, whereas the majority of the bottom 80% is worse off.

Austerity is a further crucial tool to redistribute wealth towards the business class. Public health care spending declined from 5.2% of GDP in 2009, a level already low in international comparison, to 4.7% in 2018, the lowest in the Visegrad region. Education spending was reduced from 5.4% in 2009 to 5.1% in 2018. Spending on social protection was slashed from 18.1% of the GDP in 2009 to 13.3% in 2018. These cuts funded the massive redistribution to the top in the form of tax cuts, subsidised loans, increased public investment and new pro-natalist policies targeting high-income families. This socialism for the rich and capitalism for the poor allowed the government to keep the budget deficit below 3% after 2012, bringing

Figure 5
The value of government subsidies for companies by ownership, 2002–2018



Source: Author's calculations based on Projects Funded from the Discretionary Fund of the Government state debt down from 80.6% of the GDP to 70.2% between 2009–2019.

All in all, Orban's illiberal state has a lot to offer to the business class. It is thus no surprise that so far neither national nor international capitalists have risen up to challenge the illiberal attacks on liberal institutions. Elites are a significant pillar of Hungary's illiberalism. A nationally representative survey[16] found that the number of Hungarians supporting authoritarianism has slightly increased – but the number increased by far the most among upper-class respondents, among whom the share of those supporting authoritarianism grew from 6% to 23% from 2015 to 2018. According to the editor of Budapester Zeitung, 90% of German investors in Hungary would vote for Orban.

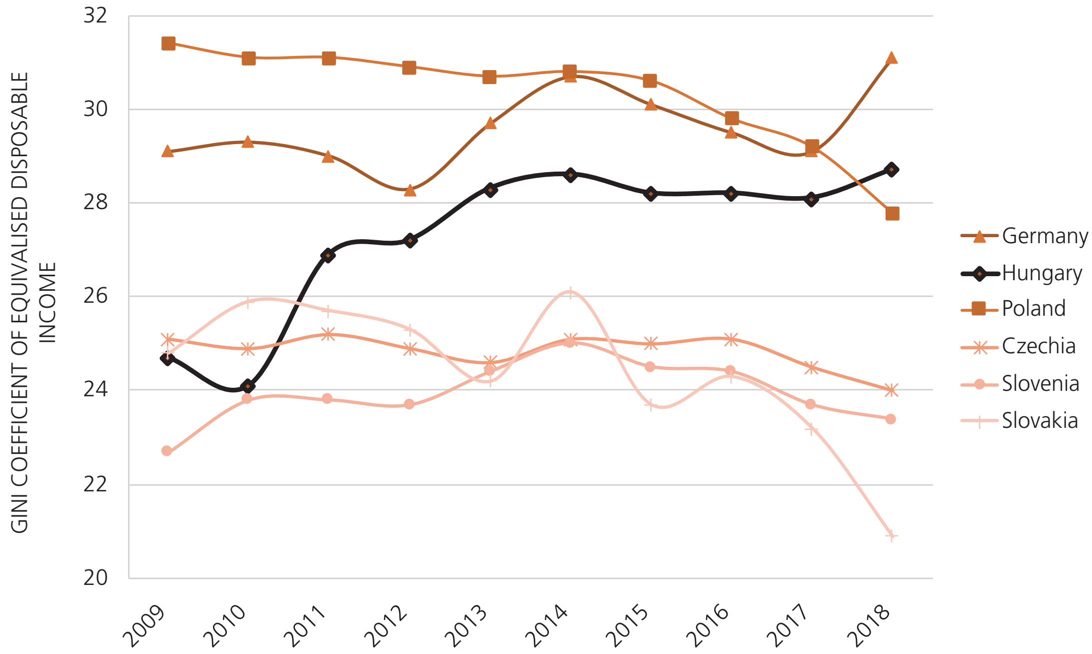
SOCIAL POLARISATION AND PRECARITY

Orban would not have been able to conquer the parliament with a two-thirds majority without the support of the working class. The social dislocations that characterised the 1990–2010 period created favourable conditions for the mobilisation of workers against 'uncaring' neoliberal cosmopolitans. Fidesz promised to reintegrate the national community by returning the state to its rightful owners: hard-working people.[17]

After 2010, indebted workers and middle-class families, and people left behind in deprived areas indeed received some help. The 2009–2019 period witnessed a 15-percentage point increase in the employment rate. The public works programme played a significant role in this expansion in the first few years, employing more than 200 thousand Hungarians in 2016. As market jobs started to significantly increase, the public works programme was scaled back. Nevertheless, for people left behind in deindustrialised areas and deagrarianised villages, the public works was a significant step ahead compared to the pre-2010 neoliberal era.

Aggressive reforms to the system of social protection also contributed to the growth in employment, though a large part of this is precarious jobs. 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

Figure 6
Income inequality, 2009–2018



Source: Eurostat

enrolment also. In line with the ideology of the 'workfare state',[18] which penalises 'idleness' to an unprecedented degree, these reforms pushed several hundred thousands of vulnerable people onto the labour market.

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. Working classes everywhere in the region finally began to profit from the post-1989 global integration – Orban has little do with this, except for cementing Hungary's role as local assembly platform in technological value chains.[19]

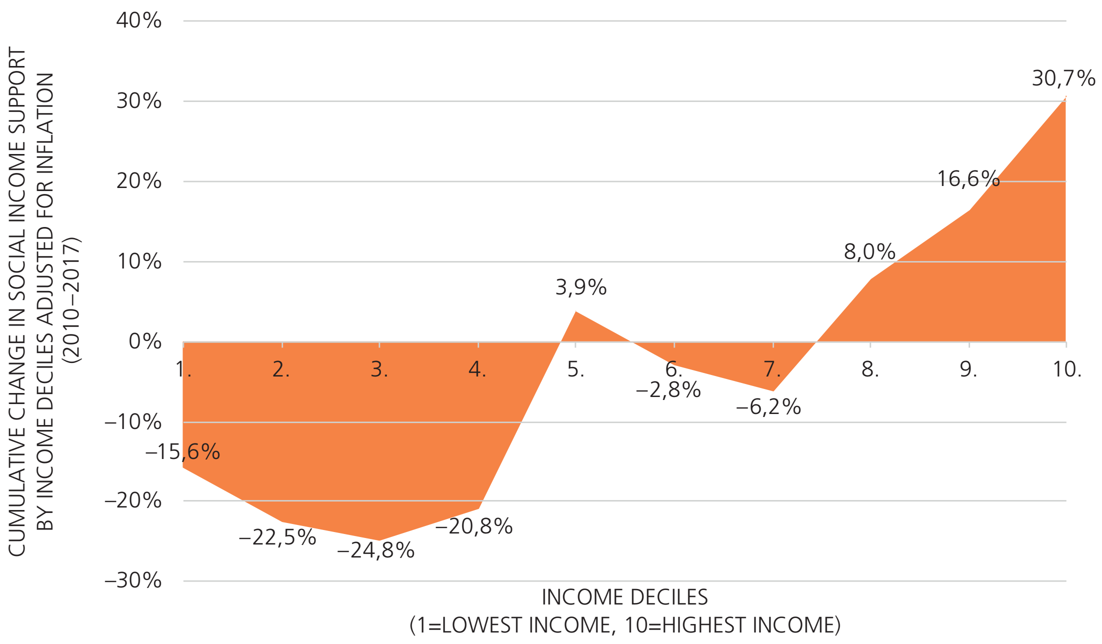
Increasing labour shortage improved workers' bargaining position, which led to a significant wage growth after 2016. However, between 2010 and 2016, the real wage declined or stagnated, it only started to grow after 2016, so the real wage in 2018 was only 13.1%, higher than in 2010. This increase is still significant, but it is not outstanding compared to other countries in the region, all other Visegrad countries experienced a higher gross real wage growth in the same period.

Orbanomics was also able to mitigate the financial vulnerability of upper- and middle-class households. The government effectively wiped out foreign currency debts and helped high-income citizens to repay their outstanding debts. Like the government's other measures, debt forgiveness and restructuring focused on high-income citizens. Families with lower income and without adequate reserves were unable to make use of the government's interventions.

The price of these achievements was an extreme rise in inequality and precarity. The Gini coefficient of income inequality jumped from 24.1 in 2010 to 28.7 in 2018. Hungary is now the most unequal country by this measure in the Visegrad region. The restructuring of social benefits actively contributed to the increase in income inequality. Between 2009-2017, the social component of individual incomes – e.g. benefits, pensions, allowances – declined dramatically for the bottom income deciles, and increased considerably for the top income deciles. The country also saw a highly unequal creation of new wealth. 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 – owned by the top few per cent of income earners – increased by 68%.

Orban's labour policy also increased precarity. The government reduced the duration of the unemployment benefit to 3 months, which is the lowest in Europe. In 2012, the government introduced a new liberal labour code, and disbanded the standing tripartite body and restricted the opportunity to strike. In 2018, the government increased overtime and allowed companies to postpone payment for overtime to three years. This amendment, labelled as the slave law by the opposition, led to significant protests throughout the country but the government did not waver.[20] In 2020, in the wake of the coronavirus crisis, the government simply suspended the labour code, exploiting the corona-crisis to push further ahead with its polarising socio-economic strategy.[21]

Figure 7
Redistribution to the top (2010–2018)



Source: Author's calculations based on data from the Hungarian Central Statistical Office

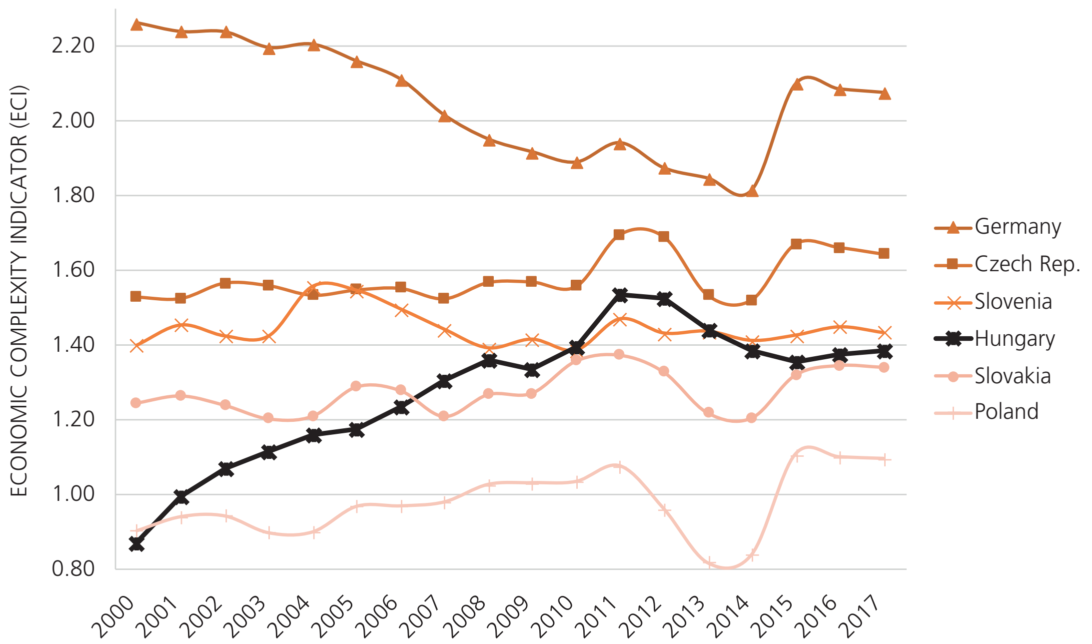
THE LONG-TERM POTENTIALS OF ORBANOMICS

Hungary's growth model is less and less connected to the inflow of transnational capital. Foreign investment has been stagnating throughout the region, but Hungary shows a marked decline. Public investment and domestic private investment took over much of the role of foreign investment. 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 export performance of the Hungarian economy also remains dependent on transnational corporations.

Balancing economic dualism by gradually decreasing the role of transnational corporations and increasing domestic value added would indeed be necessary to make economic development future-proof. However, the capacity of Hungarian-owned companies to take advantage of global value chains remains exceptionally low. Domestic producers' capacity to innovate declined further after 2010 from an already deficient level. The difference between the productivity of foreign- and domestic-owned companies has also increased slightly since 2010. In parallel, the export structure of transnational corporations has also changed adversely, leading to a decline in the knowledge-intensity of the Hungarian economy 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. 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. The declining quality of education, falling tertiary education financing and enrolment, aggressive intervention into the operation of research institutes and universities have undermined the possibility to build a knowledge-intensive economy.

Figure 8
The knowledge-intensity of the economy, 2000–2017



Source: The Observatory of Economic Complexity

The primary economic objective of the government is to facilitate the embourgeoisement of the upper-middle class and accelerate the capital accumulation of the national bourgeoisie and the transnational capitalists in the export-oriented tech sectors – without pushing the economy towards long-term upgrading. While the dominance of transnational corporations remains in tech-intensive export sectors, their overall role in the economy declines, and the vacuum is filled by the state and national capital. 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, it diminishes the possibility of advancing upwards in the international division of labour.

Orbanomics is also socially costly, hurting large segments of society. Orban lost a large share of his working-class supporters between 2010-2014. In 2014, Fidesz received fewer votes than in 2006, when they lost the election. The 2019 local government elections again showed that Orban's illiberal hegemony is vulnerable, as the opposition was able to take hold of critical large cities throughout the country, including the capital.[22]

The stability of the regime increasingly depends on the institutional authoritarianism and authoritarian populism it employs. To pre-empt a possible political backlash emanating from the losers of the government's socio-economic strategy and to hinder the politicisation of diffuse social unrest, Fidesz curtailed the institutions of liberal democracy. Institutional authoritarianism is aimed at pre-empting organised dissent by political parties, trade unions, and NGOs, while authoritarian populism reframes distributive grievances into cultural hierarchies to hinder the emergence of a broad social coalition among the material losers of illiberalism.

CONCLUSIONS

The long-term viability of Orbanomics and his illiberal regime, in part depends on its continued ability to maintain support across broad sections of the business class. A tightening of the EU budget and a worsening of the global economic climate could potentially destabilise this alliance. Another challenge could possibly come from an oppositional movement that organises the working-class casualties of Orbanomics. However, the authoritarian measures employed by the state to suppress dissent has so far successfully hindered the emergence of a capable opposition. Thus, so far, illiberal Orbanomics appears to be a polarising, contradictory, but solid strategy to manage dependent capitalism.

The collapse of liberal democracy and the rise of illiberalism in Hungary offers clear policy lessons. Curtailing downward tax competition, combating tax havens, introducing new taxes on financial transactions and on big wealth would allow states to implement social and industrial policies that are needed to stabilise democracy. Such policies need a new progressive European and international economic cooperation that globalises social and environmental rights instead of giving more power to footloose capital. However, the need for progressive international cooperation must not overshadow the fact that in the foreseeable future, the nation state is the most potent democratic institution available for progressive purposes. Therefore, progressives have to learn to trust and use the state again, in the framework of a democratic left-wing economic patriotism.

Politically, the way out is a new progressive political identity that offers security against market imbalances and psychological insecurities. Progressives have to regain the trust of workers left behind in deindustrialised areas. This is not possible without political organisations that are deeply embedded socially. Progressives, therefore, need to refocus on community organising. Reinventing progressive policies, identity and political organising are crucial weapons against authoritarianism, not just in Hungary, but in an increasing number of countries experiencing challenges to democracy.

ENDNOTES

1 See for example Freedom House (2020) or (Bozóki and Hegedűs 2018).

2 Such as the accounts focusing on populist polarisation (Enyedi 2016).

3 Most paradigmatically exemplified by the idea of the 'Mafia state' (Magyar 2016).

4 'Method to the madness' is an expression derived from Shakespeare's Hamlet. According to the Cambridge Dictionary, it describes a situation, where one has a good reason for what one is doing, although it might seem strange. The expression does not imply actual 'madness' but 'strangeness' and the logic behind.

5 This policy paper is based on the author's book, The retreat of liberal democracy (Scheiring 2020c). For brevity, the paper only lists some selected references and provides a simplified citation for the sources of the data. Detailed data sources, a description of the methodology and further bibliographic references are presented in the book.

6 For a prescient discussion see Szalai (2005).

7 Bohle and Greskovits (2012)

8 For more details see Scheiring (2018).

9 For more details on the lack of income convergence see Pogátsa (2015).

10 See Scheiring et al. (2018).

11 See Hann (2019).

12 Fabry (2019) presents a comprehensive overview about the historical roots of technocratic liberalism in Hungary.

13 See Antal (2019); Kalb and Halmai (2011); Scheiring (2020b).

14 For more details see Scheiring (2019a).

15 Gagyi (2016) presents an overview of the embeddedness of Hungarian politics in the global economy.

16 Szabó and Gerő (2019), pp. 47–55.

17 Szombati (2018) presents an in-depth overview of the micro-foundations of Orbán's illiberal hegemonic strategy.

18 See Szikra (2018).

19 Csaba (2019).

20 See Scheiring and Szombati (2019).

21 See Scheiring (2020a).

22 Scheiring (2019b).

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ORBANOMICS

A polarising answer to the crisis of liberal dependent capitalism

Most analysts describe Orbanomics as anti-liberal anti-business policies only serving the interests of the political elite and loyal oligarchs. However, this is a misunderstanding. Orban's regime has a socio-economic logic that can only be understood in the context of economic globalisation. Building on the author's research, this paper presents a political-economic perspective on illiberalism in Hungary.

Orbanomics is an answer to the crisis of Hungary's post-1990 liberal dependent economic model. The misgovernance of dependent development resulted in a severe economic dualism: productive technology-intensive transnational corporations generate the bulk of export revenue, while labour-intensive domestic companies lack access to high-value-added markets. This led to the rise of nationalism among domestic capitalists. The overwhelming majority of Hungarians experienced Hungary's reintegration into the global economy between 1989 and 2009 as social mayhem. This led to a disillusionment with liberal capitalism. In the lack of a progressive left-wing alternative, workers drifted rightward in search of social protection.

Orbanomics aims to boost the creation of wealth and capital accumulation targeting the upper middle class, national capital and transnational corporations in the tech-intensive export sectors. This strategy allowed precarious employment to rise and reduced the financial vulnerability of families and the economy. However, Orbanomics failed to improve the productivity of domestic businesses and undermined long-term development potentials. It is a polarising socio-economic strategy exacerbating income and wealth inequality as well as precarity. The long-term viability of Orbanomics and his regime requires authoritarian fixes. The collapse of liberal democracy and the rise of illiberalism in Hungary offers clear policy lessons. Reinventing progressive policies, identity and political organising are crucial weapons against authoritarianism, not just in Hungary, but in an increasing number of countries experiencing similar autocratisation.

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