

Applying Kornai's notion of autocracy: The case of authoritarian populism in Hungary¹

This paper is dedicated to the 90-year old János Kornai

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Abstract

This paper follows János Kornai in differentiating between democracy, autocracy and dictatorship, and conceptualizes authoritarian populism as a form of autocracy in an institutional economics context. Based on the theory of transaction cost economics, the paper argues that authoritarian populism reduces political transaction costs by vertically organizing political exchange, replacing the horizontal exchange characteristic of liberal democracy. Electoral demand for such a shift rises at times of crises and a mismatch between formal and informal political institutions. This is what happened in Hungary towards the end of the 2000s, in a period of socially costly fiscal stabilization and the troubles of the global financial crisis. In response, voters gave strong mandates to govern both in 2010 and 2014 to Prime Minister Orbán, who transformed Hungary into a textbook case of authoritarian populism.

Keywords: authoritarian populism, autocracy, Hungary, political exchange, political transaction costs

1. Introduction

This paper seeks to provide an institutional economics approach to a political phenomenon: authoritarian populism. Such a research question is not unprecedented but calls for explanation: Why do we need an institutional economics interpretation of authoritarian

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populism? My simple answer is because we want to understand what makes authoritarian populism so popular across the world. My hypothesis is that the underlying reasons have to do with the terms of political exchange in modern democracies, or in other words: with political transaction costs.

Such an exercise may serve multiple functions. First, it can shed light on the mechanisms of authoritarian populism, a political technique feared by a lot of devoted democrats, and supported by a lot of not so much devoted ones. Second, it can help understand the institutional economics of democracy by revealing the social and economic circumstances under which democracy can thrive. Third, it may enable a meaningful differentiation among democratic and authoritarian populism.

Hence, this paper lies at the intersection of two literatures in social sciences: (i) the political science research on populism, and (ii) the economics of transaction costs. I follow Kornai (2016) in differentiating between democracy, autocracy and dictatorship. Applying the principle notions of transaction cost economics in a political context, I argue that a major differentiating factor between liberal democracy, autocracy and dictatorship is the character of political exchange. Liberal democracies are dominated by horizontal exchange, in which ultimate decisions on ‘power, prestige and money’ (cf. Downs 1957) are made on contestable political markets. Dictatorships, in contrast, vertically integrate political decisions, and political exchange is internalized by centrally controlled, non-contestable political institutions. Autocracies – an in-between case for Kornai (2016) – partially internalize political exchange in vertically organized, non-democratic institutions. Authoritarian populism is a particular case of autocracy, in which the vertical integration of political exchange is attained in context of a majoritarian democracy, preserving the merits of direct popular legitimation for an autocratic government that is not prepared to stand free and fair elections.

In the rest of the paper, I first present a literature review on populism, drawing on contemporary political science research in section 2. I elaborate on political transaction costs and their applicability to populism in section 3. I attempt at situating my theoretical arguments into the empirical case of contemporary Hungary, using Viktor Orbán’s conduct of power as an example of authoritarian populism in section 4. The paper concludes in section 5.

2. What is populism? A literature review

Populism is a political ideology that questions the legitimacy of traditional political elites by claiming to be the true, and the only true representative of people. In consequence, populists have a tendency for undermining political plurality by questioning the legitimacy of their rivals (Müller 2016). For populists, ‘people’ themselves represent justice and morality (Shils 1956), hence they claim to establish a direct, non-institutionalized link between government and the electorate.³

Technically speaking, populism is a modernized version of charismatic rule. In Max Weber’s classic treatment, a charismatic ruler “derives his authority not from an established order and enactments, as if it were an official competence, and not from custom or feudal fealty, as under patrimonialism. He gains and retains it solely by proving his powers in practice. He must work miracles, if he wants to be a prophet. He must perform heroic deeds, if he wants to be a warlord. Most of all, his divine mission must prove itself by bringing wellbeing [emphasis in the original] to his faithful followers; if they do not fare well, he obviously is not the god-sent master” (Weber 1978 [1922], p. 1114). In this sense, populist politicians are modern-day charismatic rulers, who retain power as long as they are seen to work miracles: alter social and/or international hierarchical relations, change the economic system, bring about a true sense of ‘social justice’ for subordinated social groups often labeled ‘the people’ by undermining the authority of discredited ‘elites’ (also see Gurov and Zankina 2013, Hawkins 2003, Tismaneanu 2000).

Theoretically speaking, populism is a ‘thin-centered’ political ideology attached to a broader, more established ideological appeal (Stanley 2008). Populism typically uses more elaborate and politically better established ideologies to carve out a unique selling point in the political market. In cases of rightwing populists this is typically nationalism or another form of rightwing authoritarianism. In case of leftwing populists, this is most often a version of socialism (Mudde 2004).

Yet, populism also has its own ideological trademark. As Cas Mudde argued, populism is “an ideology that considers society to be ultimately separated into two homogeneous and

³ Direct, non-institutionalized links include leader-dominated political movements and parties, referenda and other forms of direct participation in political life by people. In Venezuela, Hugo Chavez held multi-hour long public hearings broadcasted nationally (Ellner 2012). In Russia, President Putin hold publicly broadcasted meetings with cabinet ministers questioning their record in applying public policies (White and Mcallister 2008).

antagonistic groups, ‘the pure people’ versus ‘the corrupt elite’, and which argues that politics should be an expression of the *volonté générale* (general will) of the people” (Mudde 2004, p. 543). Hence, populisms are meant to represent the true views and interests of those sidelined and subordinated by selfish and corrupt elites. In other words, populism includes those who had been excluded by traditional elites.

Importantly, this is not necessarily a matter of democratic representation. Populists claim to be the true voice of people irrespective of the number of people they represent in terms of electoral results. After all, the *volonté générale*’s social and political status cannot depend on the sheer number of people realizing its true and inevitable manifestation. And who decides about what the *volonté générale* is of course are the populists.

In a similar vein, Federico Finchelstein places populism in a context of post-totalitarianism. He argues that modern Latin American populism, most saliently embodied in Peronism⁴, is the post-WWII version of totalitarianism, or “an electoral form of post-fascism” (Finchelstein 2014, p. 469). In his account, populism refuses to accept any institutionalized constraint on executive power but is reluctant to introduce explicitly totalitarian rule. Although populism embraces electoral democracy, “[i]n populism, the legitimacy of the leader is not only based in the former’s ability to represent the electorate but also on the belief that the leader’s will goes far beyond the mandate of political representation. [...] The elected leaders act as the personification of popular sovereignty exerting a great degree of autonomy vis-à-vis the majorities that have elected them. [...] As an authoritarian version of electoral democracy, populism invoked the name of the people to stress a form of vertical leadership, to downplay political dialogue, and to solve a perceived crisis of representation by suppressing democratic checks and balances” (Finchelstein 2014, p. 477).

In a similar theoretical fashion, Takis Pappas (2016) argued that populism is “democratic illiberalism”, or in other words “populism is always democratic but never liberal” (pp. 28-29). This is because populists, on one hand, need to rely on popular legitimation so that they can claim to be the true and the only true voice of people. Hence, they hold elections. On the other hand, they – as the true and only true voice of people – cannot accept losing elections. As there are no better (i.e. more credible, just, morally better entitled, etc.) representatives of the people than they are, any contradicting electoral results should be outright dismissed. Cases in

⁴ Juan Peron was President of Argentina in 1946-1955 and in 1973-1974.

point are Viktor Orbán and Donald Trump: Orbán questioned the legitimacy of both the 2002 and the 2006 Hungarian parliamentary elections that he both lost, whereas Trump called the electoral process ‘rigged’ before the 2016 US presidential election and declared before election day that he would not concede defeat in case Hillary Clinton won.

As Jan-Werner Müller (2016) put it, populism is “a degraded form of democracy that promises to make good on democracy’s highest ideals (‘Let the people rule!’).” This is to say that populism seeks to gain electoral support for an anti-liberal political agenda that aims at reducing the effective choice that people can make in politics. The question is, however, if political regimes built and dominated by populists can be meaningfully called democracies. Müller’s answer is an emphatic *no*: Populists are anti-pluralists and anti-pluralists cannot be democrats, as democracy is per se about pluralism. This answer appears to be in line with that of Kornai (2016), who claims that democracy cannot be illiberal.

Nevertheless, an influential part of the populism literature – and some important political actors referring to it – consider populism a potentially important democratic force. Ernesto Laclau (2005) argues that populism is instrumental in mobilizing politically and economically oppressed masses against democratically unaccountable technocratic elites, multinational companies and international institutions. Newly emerging leftwing populist parties such as Syriza in Greece and Podemos in Spain make explicit references to such views, but older, more traditional leftwing parties such as Die Linke in Germany can also be considered leftwing democratic or progressive populists. Other leading leftwing political actors such as Bernie Sanders in the US and Jeremy Corbyn in the UK can be labelled – and at times are self-proclaimed – leftwing progressive populists.

Referring to their examples and emphasizing the structural weakness of democratic legitimation in capitalism, Mudde and Kaltwasser (2017) endorse populism as a potentially progressive political force. In the fashion of Laclau, they raise the problem of democratic legitimacy with respect to such politically influential but democratically not (or in their view not sufficiently) accountable actors as multinational businesses, central banks and international organizations as the International Monetary Fund and the European Union.

In this context, populism is indeed democratic; at times almost revolutionary so. The biggest success in past decades of leftwing democratic populism has probably been the rise of Lula da Silva and his Workers’ Party in Brazil, who had ruled and transformed Brazilian politics in

past decades. However, neither Lula, nor Sanders, Corbyn or Syriza leader Alexis Tsipras are authoritarian populists. Neither of them can be considered anti-pluralist, seeking to restrict democratic political choice. They may pursue populist economic policies in the sense of expansionary fiscal policies that at times may well prove unsustainable, this does not render them politically illiberal, however.

Yet, authoritarian populism well might be leftwing. Classics in this brand include Juan Peron of Argentina and Hugo Chavez of Venezuela, but Rafael Correa of Ecuador is also close to this league (Ellner 2012, Horowitz 2012). At times, Evo Morales of Bolivia also appears to approximate this type of politics (de la Torre 2016). Europe has not seen many leftwing authoritarian populists, but according to Pappas (2014), Andreas Papandreou of Greece and his Panhellenic Socialist Movement (Pasok, established in 1974), came close. Papandreou, argues Pappas, was a highly charismatic, unconstrained party leader, with a nationalist political agenda, mobilizing against established elites. He advocated strong government involvement in the economy and pursued unsustainable fiscal policies. Finally, he heavily relied on clientele building and government-created rents. Yet, this occurred in a liberal democratic institutional context characterized by competitive elections. Hence, in my view, Papandreou cannot be considered an authoritarian populist, even if he was highly charismatic, built a leader-dominated party, and operated an extensive clientele.⁵

On the same token, rightwing populists are not always authoritarian. Silvio Berlusconi of Italy, although also highly charismatic and relying on a clientele built around his personal clout, did not create an authoritarian regime for the simple reason that he could not eliminate the checks and balances the Italian political system consisted. Boyko Borisov of Bulgaria can be also seen as rightwing clientele-building populist, exercising unconstrained, personality-based rule within his own political party (Zankina 2016). Andrej Babis of the Czech Republic is yet another case of unconstrained personal rule within his own party, based on clientele building and charisma. Yet, neither Borisov, nor Babis have been able to dismantle the system of checks and balances in their respective countries, in contrast to what had happened in Peron's Argentina, Chavez' Venezuela or Orbán's Hungary.

Finally, another distinction has been made in the populism literature by Rogers Brubaker (2017) who differentiates between liberal and illiberal populisms. Observing that an

⁵ To be sure, Pappas does not make a differentiation between democratic and authoritarian populisms. He associates all populisms with an illiberal, majoritarian approach to democratic politics.

increasing number of North-West-European (NWE) right wing populist parties have recently shifted towards a distinctively liberal direction, Brubaker argues that a new type of individualistic, secular, ‘enlightened’ populism appears to be emerging. This should be seen – he claims – to be derived from the ‘Pim Fortuyn moment’ that placed – first in the Netherlands, than across a large part of Western Europe – populism in a new social and political context. As opposed to traditional populists, Fortuynian populists stand up for individual freedoms, including those of women and sexual minorities, whereas depicting groups of society adhering to pre-enlightenment, traditional social values to be the enemies. These are, of course, typically immigrant communities with Muslim backgrounds.

This new populism is liberal and ‘civilizational’ in its social values, while it defends the liberties of ‘enlightened’ European societies against the ‘anti-liberal aggression’ of non-European immigrants. The protection of individual freedoms, however, do not apply for the latter, and those claiming them individual rights and adhere to multiculturalism are regarded part of an oppressive leftwing social, political and intellectual elite exhibiting the ‘dictatorship of political correctness.’ Rightwing civilizational populism considers oppressing the enemies of European civilization legitimate and indeed inevitable. Elements of this quasi-liberal populism, argues Brubaker, can be traced in the Freedom Party of Austria, France’s National Front, the Netherland’s Party for Freedom, the Swiss People’s Party, Belgium’s Vlaams Belang, or the Danish People’s Party. They all subscribe to secularism, individualism, equality of women and homosexuals, and the values of western enlightenment in general, whereas all express markedly negative sentiments towards immigrants and especially those of Muslim backgrounds.

In contrast, East European rightwing populists such as Viktor Orbán’s Fidesz and Lech Kaczynski’s PiS, do not appear to join this club. They keep distancing themselves from individualism and the values of western enlightenment, while sticking to a kind of communitarian vision of politics in which individuals are expected to subordinate themselves to the community manifested in the ‘nation.’ Hence, East European rightwing authoritarian populism remains to be anti-liberal, not only vis-à-vis external enemies but also within their home societies. As opposed to the ‘enlightened’ liberal rightwing populism of Western Europe, East European rightwing populists use explicit religious references and identify themselves as protectors of Christianity. In the Polish case, this means a reference to a ‘closed’, illiberal version of Catholicism and an alliance with its representatives within the Polish Catholic Church (Stanley 2016). In the Hungarian case, in turn, this has little to do with

religious values or theological concepts of a good society. It is rather a secularized surrogate religion what Hungarian rightwing populism creates (Ádám and Bozóki 2016a), and hence it is also ‘civilizational’, although this is a considerably less individualistic, enlightenment-based and liberal civilization than the one referenced by Brubaker’s NWE populists.

3. Populism and political transaction costs

The notion of transaction costs in institutional economics refers to the costs of economic exchange. These include (i) search and information costs, (ii) the costs of bargaining and contracting, and (iii) the costs of policing and enforcing contracts (Williamson 1985). Not all types of economic transactions carry significant transaction costs. Recurring market transactions typically do not imply substantial uncertainties and hence neither impose large transaction costs on transacting partners (Williamson 1979). For example, one can buy or sell a loaf of bread in the shop around the corner with facing practically no information, bargaining and enforcing costs. Efficient financial markets also carry low transaction costs: Information is symmetric, market participants are numerous, transactions are standardized, and completed transparently.

Economies develop formal and informal institutions to mitigate transaction costs. Formal institutions include laws and formalized mechanisms of sanctioning unlawful behavior. Informal institutions are norms and customs, whose violation typically does not entail formalized sanctions, yet it may bring about severe financial and/or non-financial costs. Institutions in modern economies are capable of handling complex exchanges along sufficiently low transaction costs. In consequence, economic quality is closely associated to institutional quality, whereas the latter depends on both formal and informal institutions and their mutual compatibility (North 1991, 1994).⁶

Governance is about the management of transaction costs. In the classic treatment of Coase (1937), firms are conceptualized as organizations producing institutional mechanisms handling transaction costs of complex production processes. As producing cars, skyscrapers and collateralized corporate loans require the cooperation of numerous individuals adjusting

⁶ North famously referred to the potential mismatch between formal and informal institutions. Privatization can be done overnight, but the informal institutions within which private property and other core institutions of capitalism rest takes much longer to develop, he said with reference to the process of post-communist transformation in his Nobel lecture (North 1994).

their activities in a disciplined manner, they engage in collective action organized by hierarchical firms. In other words, in complex production processes, vertical integration tends to be more efficient than horizontal market relations. Yet, even this has been changing in past decades because of new information and production technologies making loosely integrated horizontal networks increasingly competitive vis-à-vis hierarchical firms (Hámori and Szabó 2016).

By analogy, political governance is about the management of political transaction costs. These are costs of political exchange in terms of reaching agreements with, and imposing decisions on, members of society. Depending on formal and informal political institutions and their mutual compatibility, reaching agreements and enforcing them (i.e. bargaining and enforcement costs) can indeed be cumbersome. In addition, disseminating political information among members of society e.g. at times of elections and major political debates may also prove costly (i.e. information costs).⁷

Political institutions deal with these costs. They include constitutions, electoral rules, campaign finance rules, decision-making procedures, political parties and their respective business clienteles, lobbying organizations and lobbying rules, political morale and norms, as well as the institutional mechanisms of public discourse, including the press. The costs of operating this entire machinery are political transaction costs.⁸ Their magnitude – just as those of economic transaction costs – depends on the efficiency of formal and informal institutions, their respective compatibility with social and economic conditions as well as each other.

Authoritarian populist governments ‘de-institutionalize’ the political system by weakening formal institutions and strengthening informal ones. This makes a number of political exchanges simpler and cheaper in terms of political transaction costs as decision-makers enjoy more discretion and their actions remain less accountable to the public. Simplicity of decision-making, however, may entail poorer outcomes: Distributional policies, concerning a

⁷ Downs (1957) elaborates on the role of asymmetric information in democracy, with respect to lobbying (persuasion of decision-makers), representation (collecting and disseminating information both top-down and bottom-up) as well as rational ignorance by voters (ignorance towards detailed political programs of political parties).

⁸ Furubotn and Richter (2005, pp. 55-57) considers the costs of setting up and maintaining social and political organizations such as political parties and state bureaucracies as political transaction costs. Yet, in political science, very few authors use the notion of political transaction costs. Notable exceptions are Gurov and Zankina (2013) and Zankina (2016).

large number of people and a wide range of industries may deteriorate in the lack of public scrutiny, and corruption may become a serious issue.

‘Inclusive’ institutions, in general, typically require formalized decision-making processes to efficiently operate in relatively large communities such as nations. ‘Extractive’ institutions, on the other hand, can be efficiently operated on an informal basis: Whoever gets in charge is entitled to some extent exploiting rivals and competitors.⁹ How much exploitation is legally and normatively approved, however, depends on formal and informal institutions. Note that the systemic criticism of capitalism (or ‘neoliberalism’) precisely argues that capitalist societies legally and/or normatively approve the systemic exploitation of large social segments both nationally and globally.

Horizontal political exchange – the principle type of political exchange in a democracy – rely on formal institutions that constrain power-holders. Vertical political exchange, on the other hand – the principle type of political exchange in dictatorships and autocracies – can be efficiently performed in an environment predominantly inhabited by informal institutions. The reason for this is that informal institutions allow for more discretionary behavior by political elites.

In autocratic regimes, effective political choice is restricted, hence governments can spend less on keeping the electorate on board. This means lower political transaction costs: Authoritarian populists can spend less on budgetary transfers ensuring electoral support than liberal democrats do. In this sense, authoritarian populism is also an alternative to democratic populism: It is able to cut the vicious circle of electoral demand → fiscal overspending → budgetary restrictions → electoral demand by reducing the effective political choice of voters; i.e. by reconstructing political exchange in a vertically integrated way.

This could be done, of course, through dictatorship, as military juntas in Latin America had done throughout the 20th century. However, economic costs of outright oppression is high, as competitive markets seldom flourish under dictatorships, and purely rent-based economies are rare to exhibit long term development capacities (Acemoglu and Robinson 2000, 2012).

Authoritarian populism – a particularly popular version of Kornai’s autocracy – is a compromise between democracy and dictatorship: It does not require as much oppression as dictatorship does, it enjoys direct popular legitimation, yet it is capable of sufficiently

⁹ For the difference between inclusive and extractive institutions, see Acemoglu and Robinson (2012).

constraining political exchange so that governments become less dependent on short term electoral preferences. Hence, the major difference between democratic and authoritarian populisms is that whereas the former politically overvalues popular needs and seek to fulfill them at any social, political and economic cost, the latter undervalues them by constraining electoral choice.

Electoral choice in authoritarian populist regimes is typically constrained through dismantling checks and balances on the government and weakening the rule of law. Authoritarian populists in power turn into hegemons allowing for limited contestability of the political market. Opposition alternatives are systematically undermined, press freedoms are weakened, while incumbents use public resources to get reelected. Monopolization of power takes place along extensive clientele building, which is a politically coordinated, and both financially and administratively costly process. Hence, authoritarian populist regimes rely on the extraction of substantial resources, without which they either democratize or transform into dictatorships.¹⁰

4. The Orbán regime

A prime example of current populist governance is Viktor Orbán's Hungary, and in this section I present some stylized facts about it. Having served as prime minister in 1998-2002, Orbán took over government in 2010 for the second time. As his rightwing populist Fidesz party took two-third of parliamentary seats, he could alter the entire constitutional system with no political constrain (Ádám and Bozóki 2016b). Note that a two-third majority was relatively easy to attain in the individual constituency based Hungarian electoral system, in which the majority principle has dominated since 1990. In consequence, a majoritarian approach to power, generally characterizing populist parties and leaders, had been present in Hungary since the regime change, and prevailed both within individual political parties and the entire political system (Ádám 2018).

In 2010-14, Orbán made the constitutional system even more majority-based, effectively dismantling all checks and balances on government power (Tóth 2012, Kornai 2015). In 2014, Fidesz was reelected, and Orbán continued to govern. At the time of writing, he is set to gain

¹⁰ This is the reason for the 'paradox of plenty' (Karl 1997) or the 'resource curse' (Venables 2016, Ross 2015): The more exogenously given resources an autocratic regime controls, the more stable politically it is as the less resources it needs to extract from its own population. Such exogenously given resources can be natural resources, customs, or external funds, including international aid and EU cohesion funds.

yet another overwhelming electoral victory at the spring 2018 general elections, and Hungary is expected to remain governed by him for at least four more years. His success was based on a characteristically authoritarian populist policy mix: He has centralized power, made government economically more active, built an extensive clientele, and heavily reallocated resources to the benefit of his supporter base. State ownership expanded, income inequalities grew, whereas fiscal redistribution stayed as high as it was before 2010, with less redistribution from the rich to the poor.

Orbán's policies explicitly prefer middle classes. This is a manifestly declared policy goal: Strengthening an ethno-culturally defined Hungarian middle class that supports national interests embodied in local (as opposed to global or foreign) political initiatives ranks high in Orbán's political discourse. Second, redistribution policies, including policies on taxation and social benefits, have been modified to serve middle classes.

A key instrument of pro-middle class policies is the flat income tax Orbán introduced right after taking over in 2010, bringing about a large reduction in tax burden of the average and higher incomes whereas increasing taxes on low incomes. In addition, generous income tax holidays after children made tax burden of middle class families particularly low. In contrast, lower income big families simply not have enough revenues to claim these benefits. In the meantime, child benefits, paid after children regardless of family income, stayed unchanged nominally, losing part of their real value, particularly hitting low income big families, many of them being Roma (Inglot et al. 2012). Generous housing finance schemes have been also introduced to the benefit of high income families, able to buy or build new houses. Finally, the polarization of state-administered pensions, started in the pre-2010 period, continued as a high replacement ratio and undifferentiated pension hikes made middle class pensions grow faster than low income pensions (Ádám and Simonovits 2017).

Some of Orbán's policies have exhibited a less explicit pro-middle class bias. Utility prices have been administratively cut by the government in 2012-14, significantly boosting Orbán's popularity and reelection chances in 2014. Cutting utility prices at first sight appears a pro-poor measure, and to some extent it has indeed been. However, middle classes also enjoy lower utility prices, especially those having a large real estates. Moreover, the utility price cut was part of Orbán's scheme of redistributing markets of utility industries: These were privatized in the 1990s for large foreign firms by the then governing Socialists and Liberals, whereas Orbán aimed at renationalizing them after 2010. Cutting utility prices was an

incentive for foreign firms to leave the market and relinquish their investments in an increasingly hostile business environment (Ámon and Deák 2015, pp. 95-96).

Orbán also levied industry-specific taxes on banking, energy provision, telecommunication and retail trade. Apart from raising additional budgetary revenues, these taxes were also incentives for large foreign companies to leave the market (or to become lenient on the government), and made the government able to exercise increasing direct control. This has taken place through various channels, including nationalization of particular banks and utilities, and – in some cases – re-privatization to friendly businesses. This was meant to support local capital accumulation and to build a business clientele through the allocation of market shares and preferential government provisions (i.e. through government-allocated rents), often at (or beyond) the edge of legalized corruption (cf. Fazekas and Tóth 2016, CRCB 2016).¹¹

The government has managed to restructure a number of other business sectors such as food processing, construction, tourism or passenger transportation. The government bought a controlling share in the market leading oil company and strengthened its controlling role in electricity production and provision with power stations and electricity utilities having been nationalized. Local governments have become increasingly subordinated to the central government financially and administratively. Whereas public education and healthcare had been mostly administered by local governments before, central government agencies have taken over these sectors. Autonomy of public universities has been severed through direct government control over finances. Mandatory private pension funds have been effectively nationalized with an overwhelming majority of private savings have been transferred to the state-run pension system. A large scale restructuring of the media sector has taken place with government friendly businesses have been playing an increasingly dominant role. Public media outlets have turned into government propaganda vehicles. Public administration has become directly and politically controlled by the government, whereas a growing influence over the judicial system has been exercised.

Another politically important policy measure has been the expansion of public work programs, in which hundreds of thousands of people have been employed who otherwise would have typically stayed economically inactive. They earned miserable wages but enjoyed

¹¹ Another form of providing government secured rents for friendly businesses was the creation of local tobacco retail sales monopolies that were typically allocated to Fidesz-friendly local businesses.

some degree of income stability. To make the program more attractive, social benefits of long term unemployed and inactive were cut.

Public work programs seldom make participants more competitive on the primary labor market. Instead, participants often get stuck in these programs (Cseres-Gergely and Molnár 2015), making them dependent on government policies and, in particular, local authorities, who directly employ them in most public work schemes. Especially in villages and small towns this can contribute to the re-feudalization of power relations, while at the same time addressing the negative stereotypes of the public on the scores of ‘lazy inactive’ people, among whom the Roma are overrepresented (Kertesi and Kézdi 2011).

In sum, the Orbán regime has centralized control over society, eliminated autonomies, and interfered in businesses, with government influence in media, banking and utilities playing a prominent role. Hence, dissemination of information, money and energy has been increasingly controlled by the government, along with high budgetary redistribution with pro-middle class bias and heavy clientele building. All this have restructured political exchange, making the political market monopolistic and the government less exposed to the political preferences of poorer segments of society.¹² Meanwhile, pensioners – a numerous and politically active part of the electorate – have been generously taken care of, annual indexation of state administered pensions typically exceeding statutory requirements (Ádám and Simonovits 2017).

As a result, uncertainties of political exchange have been greatly reduced and so has pro-poor redistribution. Although budgetary redistribution has stayed high, electoral competition has significantly decreased. A monopoly in clientele building has been created with only the government being able to build and maintain a substantial business clientele. Spending on public services, including healthcare and education, could be reduced with budgetary transfers being reallocated towards administrative and economic functions, serving the maintenance of bureaucratic and business clienteles.

There has been one more advantage of restructuring the political and economic systems in an authoritarian fashion. One of the comparative disadvantages of democratic populism is that it can seldom meet its own normative preferences with respect to the transparency of political

¹² Political preferences of the electorate have been heavily manipulated through propaganda means. Large scale government propaganda campaigns have been waged with particularly aggressive anti-EU, anti-immigrant/anti-refugee and anti-Soros emphases.

decision making. Electoral competition is expensive as rival clienteles aim at outspending each other, hoping of course to be reimbursed after elections. This leads to a recurring pattern of corruption; a phenomenon normatively rejected, yet remaining to be a dominant strategy in a prisoner's dilemma-like situation. In consequence, discrepancies between formal and informal institutions become a standing characteristic, with an (at least relatively) free press and (at least relatively) autonomous law enforcement agencies having entrenched interests in exploring them. In contrast, an authoritarian populist regime, like the one created by Orbán after 2010, such discrepancies vanish as, in the first place, rent-seeking is monopolized and legally approved, while in the second, neither a free press nor autonomous law enforcement agencies exist.

Now, Hungary is a textbook case for this. Before 2010, an infamous 70-30 rule had been allegedly in place with government and opposition sponsored clienteles appropriating respective shares in public procurement tenders. Such deals at times had been investigated by the press as well as – although rarely and politically typically not impartially – by the police and the public prosecution service. After 2010, in contrast, all major public procurement deals have been allocated to the same clientele, discretion by authorities in deal allocation has been legalized, while both the press and the law enforcement agencies have been politically subordinated.

5. Conclusions

In this paper, I argued that authoritarian populism – a particular version of Kornai's autocracy – is a degraded form of democratic politics that seeks to constrain political competition while maintaining popular legitimacy through multiparty elections. Both left- and rightwing authoritarian populists are illiberal. Both left- and rightwing populisms, however, can come along with a liberal democratic institutional system, acknowledging – even if not wholeheartedly endorsing – checks and balances.

Authoritarian populists project a unidimensional political space in which they represent the true and only true cause of the people, rejecting the legitimacy of any other political claim. Simplifying a complex social and political space, they seek to reduce effective political choice. By the virtue of that, they reduce political transaction costs as they introduce vertical

political exchange instead of horizontal ones, organizing the allocation of political power within centrally controlled hierarchies.

Electoral demand for such a political shift, I argued, increases when formal and informal institutions of liberal democracy weaken and/or a mismatch between formal and informal political institutions arises. A systemic role of corruption – an institutionalized yet informal system of power sharing normatively going against the rule of law – is a common cause for this. Such a mismatch creates uncertainty of power sharing and unpredictability of political exchange – a major factor in the rise of political transaction costs. Autocracy in general and authoritarian populism in particular is frequently the preferred political response for this.

Authoritarian populism reduces political transaction costs by constraining political choice. Authority is centralized, both politically and economically. Government interference in politically important business sectors gets enlarged, media freedoms compromised, public administration (over)politicized, and autonomy of government agencies reduced. All this together makes the government the unquestioned hegemon in determining political exchange. As everybody is aware of this, collective action against the government becomes unlikely¹³, while government-sponsored clienteles gain systemic importance in the reproduction of the regime.

Under such circumstances, political alternatives evaporate, and political exchange becomes predictable. An effective monopoly of power enables the government to align formal and informal institutions by legislating previously informal practices. The rule of law gets perverted, and liberal democracy turns into a centrally controlled, democratically legitimized autocracy. However, as Kornai (2016) argues, this is not an outright dictatorship, hence it can be maintained along relatively modest costs of oppression. Yet, it does not require the sophisticated system of checks and balances and the scores of formal and informal institutions liberal democracy relies on, either.

In my interpretation, this is precisely what happened in Hungary after 2010. Having experienced a deepening political and economic crisis of liberal democratic governance in the late 2000s, Hungarians identified Viktor Orbán's illiberal approach to power as a promising alternative of a more stable and predictable political regime. Orbán's authoritarian populism well might be

¹³ In terms of Weingast (1997), 'focal solutions' to the problem of collective action against transgressing governments cease to exist.

normatively unacceptable for a large section of the electorate, redistributing an unprecedented share of national income to the government's business clientele, yet it provides a sufficient amount of benefits for a sufficient number of people along relatively modest political transaction costs, so that it has a fair chance to survive in forthcoming years.

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