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Authoritarian populism at work: A political transaction cost approach with reference to Viktor Orbán's Hungary

Zoltán Ádám, Corvinus University of Budapest



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Abstract

This paper conceptualizes authoritarian populism in an institutional economics context. Examining the literature on populism in political science, it considers authoritarian populism a degraded form of democracy that holds elections in regular intervals as means of popular legitimation, but undermines pluralism and constrains political choice. Based on the theory of transaction cost economics, the paper argues that authoritarian populism reduces political transaction costs by vertically organizing political exchange instead of the horizontal organization 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. Correspondingly, voters have given Prime Minister Orbán strong mandates to govern at three consecutive elections since 2010, who transformed Hungary into a textbook case of authoritarian populism.

JEL codes: P10, P16, P48, P51, P52

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

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² Assistant Professor, Corvinus University of Budapest, Faculty of Economics, Department of Comparative and Institutional Economics. Email: zoltan.adam@uni-corvinus.hu

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 populism? My answer is because we want to understand what makes authoritarian populism a rational political choice for an increasing number of people 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. In what follows, I first present a literature review on populism, drawing on contemporary political science research in section 2. Next 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 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 position 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 in his seminal paper argued, populism is "an ideology that considers society to be ultimately separated into two homogeneous and 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, populism is 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.

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).

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 voting for the populists. And who decides about what specifically 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 it 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 populists, any contradicting electoral results should be outright dismissed. Cases in point are Viktor Orbán and Donald Trump: Orbán questioned the legitimacy of 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!’).” Hence,

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

populism seeks to gain electoral support for an anti-liberal political agenda that aims at reducing the effective choice of people. The logical question follows is 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 be also considered leftwing democratic or progressive populists. Further examples of leftwing progressive populism include Bernie Sanders of the US and Jeremy Corbyn of the UK.

Referring to their examples and emphasizing the structural weakness of democratic legitimation in modern 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 such as the International Monetary Fund and the European Union.

Although populism enhances participation, and in that sense it plays a potentially democratic role, this does not prevent populists from turning into autocrats, whether they belong to the political left or right. Classic examples of manifestly leftwing authoritarian populists include Juan Peron of Argentina and Hugo Chavez of Venezuela, whereas more recently Rafael Correa of Ecuador has exhibited authoritarian tendencies (Ellner 2012, Horowitz 2012). A majoritarian, illiberal approach to power is also characteristic of Evo Morales of Bolivia – another leading Latin American leftwing populist (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. In Pappas' account, Papandreou was a highly charismatic, unconstrained

party leader, with a nationalistic political agenda, mobilizing against established elites. He advocated extensive government involvement in the economy and pursued unsustainable fiscal policies. In addition, he heavily relied on clientele building and government-created rents. Nevertheless, in contrast to Peron and Chavez, Papandreou did not dismantle the system of checks and balances and overall respected political pluralism. Hence, in my view, he cannot be considered an authoritarian populist, even if he was highly charismatic, built a leader-dominated party, and operated an extensive clientele.⁵

Finally, another distinction has been made in the populism literature by Rogers Brubaker (2017) who differentiates between liberal and illiberal populisms. Observing that an increasing number of North-West-European (NWE) rightwing 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. In his view, this originates 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 identify social groups adhering to pre-enlightenment, traditional social values as 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 as an oppressive leftwing social, political and intellectual elite exhibiting the ‘dictatorship of political correctness.’ In response, rightwing civilizational populists consider oppressing the enemies of European civilization legitimate and inevitable. Elements of this quasi-liberal populism, argues Brubaker, can be traced in the Freedom Party of Austria, France’s National Front, the Netherlands’ 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 Muslims.

⁵ To be sure, Pappas does not differentiate between democratic and authoritarian populisms. He identifies all populisms with an illiberal, majoritarian approach to democratic politics.

In contrast, East European rightwing populists such as Viktor Orbán's Fidesz in Hungary⁶ and Jaroslav Kaczynski's PiS in Poland, 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.' The dominant stream of East European rightwing authoritarian populism has so far remained 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 the anti-liberal wing of the Catholic Church (Stanley 2016). In the more secularized Hungarian context, this has little to do with religious values or theological concepts of good society. It is rather a secularized surrogate religion, and although in this sense it is also 'civilizational', it is considerably less individualistic, enlightenment-based and liberal than the one exhibited by Brubaker's NWE populists (Ádám and Bozóki 2016a).

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.

⁶ Interestingly, as the formerly radical right Jobbik has been navigating towards the political center in Hungary, its political discourse has been increasingly approximating Brubaker's NWE rightwing liberal populism.

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).⁷

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 nonhuman assets and the cooperation of individuals in a disciplined manner, hierarchical firms are organized to internalize transactions. In other words, in complex production processes, vertical integration tends to be more efficient than horizontal market relations. Yet, as a result of technological development, the efficiency differential between firms and market relations is constantly changing, and loosely integrated corporate networks have become increasingly competitive vis-à-vis centralized hierarchies in past decades (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 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).⁸

Political institutions deal with these costs. They include constitutions, electoral rules, campaign finance rules, decision-making procedures, political parties and their respective

⁷ 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).

⁸ 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 information on actual and future activities of political actors).

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.⁹ 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 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 polities such as nations. ‘Extractive’ institutions, on the other hand, can be efficiently operated on an informal basis: whoever gets in charge is entitled to an extent exploiting rivals and competitors.¹⁰ How much exploitation is legally and normatively approved, depends on formal and informal institutions. (Note that most systemic criticism of capitalism – or ‘neoliberalism’ – precisely argues that capitalist societies legally and normatively approve the systemic exploitation of large social segments both domestically and globally.)

Horizontal political exchange – the principle type of political exchange in a democracy – rely on formal institutions that constrain power-holders. In contrast, vertical political exchange – the principle type of political exchange in dictatorships and autocracies¹¹ – 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 authoritarian regimes, effective political choice is restricted, hence governments can spend less resources on keeping the electorate on board. This means lower political transaction costs: authoritarian populists need to spend less on budgetary transfers ensuring electoral

⁹ 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. One notable exception is Zankina (2016).

¹⁰ For the difference between inclusive and extractive institutions, see Acemoglu and Robinson (2012).

¹¹ For the difference between dictatorships and autocracies, see Kornai (2016).

support than liberal democratic elites do. In this sense, authoritarian populism is 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.

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 tend to be high, as competitive markets seldom flourish under dictatorships and purely rent-based economies tend to exhibit inferior long term development potentials (Acemoglu and Robinson 2000, 2012). Authoritarian populism – a particularly popular version of Kornai's (2016) autocracy – is a compromise between democracy and dictatorship: it enjoys direct popular legitimation, hence it requires much less oppression than dictatorship, yet it is capable of sufficiently constraining political exchange so that governments become less dependent on short term electoral preferences. In consequence, 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 costs, the latter undervalues them by constraining electoral choice.

Authoritarian populist regimes typically constrain electoral choice by dismantling the system of checks and balances on executive power and by weakening the rule of law. Authoritarian populists in power typically turn into hegemons allowing for limited contestability of political markets. Opposition alternatives are systematically undermined, press freedoms are curtailed, and incumbents use public resources to get reelected. Monopolization of power takes place along extensive clientele building, which is a politically coordinated, 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.¹²

4. The Orbán regime

A prime current example of authoritarian 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-

¹² 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 resources, including international aid and EU cohesion funds.

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, political parties had been traditionally highly centralized, and the political system had been characterized with high barriers of entry. In consequence, a majoritarian approach to power in which electoral competition is conceptualized as a zero-sum game had been markedly present in Hungary since the regime change, and prevailed both within and across individual political parties (Ádám 2018).

In 2010-14, Orbán made the constitutional system even more majority-based, effectively dismantling all checks and balances on executive power (Tóth 2012, Kornai 2015). In both 2014 and 2018, Fidesz was reelected, and Orbán continued to govern. His success has been based on a characteristically authoritarian populist policy mix, including the centralization of power, an economically active government, extensive clientele building, and reallocation of 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.

Hence, Orbán's policies explicitly prefer middle classes. This is a manifestly declared policy goal, as strengthening an ethno-culturally defined Hungarian middle class that pursues 'national economic interests' in the form of domestic capital accumulation and the (politically controlled) capitalization of domestic political elites ranks high in the regimes agenda. Accordingly, redistribution policies concerning taxation, public procurements and social transfers have been employed to serve 'national middle classes.'

A key instrument of pro-middle class policies has been the flat income tax Orbán introduced right after taking over in 2010, bringing about a large reduction in tax burden of average and higher incomes while 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 do not have enough income 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). In addition, generous housing finance schemes have been 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 large real estates. Moreover, the utility price cut was part of Orbán's scheme of redistributing markets of utility industries: these were typically privatized in the 1990s for large foreign firms by the then governing Socialists and Liberals, whereas Orbán aimed at renationalizing them after 2010. In this context, 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).¹³

A number of other business sectors, including food processing, construction, tourism and passenger transportation have been partially restructured, with government cronies playing an increasingly prominent role. The government bought a controlling share in the market leading national oil company and strengthened its controlling role in electricity production and distribution with power stations and electricity utilities having been nationalized. Meanwhile, local governments have become increasingly subordinated to the central government financially and administratively. Whereas public education and healthcare had been mostly

¹³ 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.

administered by local governments before, central government agencies have taken over these functions. 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 being transferred to the state-run pension system. A large-scale restructuring of the media sector has taken place with government friendly businesses 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, while growing political influence over the judicial system has been exerted.

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 some degree of income stability. To make the program more attractive, social benefits of long term unemployed and inactive were cut or typically made dependent on participation in public work schemes.

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, on 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 ‘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 direct government-influence in media, banking and utilities playing an increasingly prominent role. In consequence, the dissemination of information, money and energy has been increasingly controlled by the government along with high, pro-middle class budgetary redistribution and heavy clientele building. As a result, political exchange has been fundamentally restructured, making the political market monopolistic and the government less exposed to the preferences of poorer segments of society.¹⁴ Meanwhile, pensioners – a numerous and politically active part of the electorate – have been generously

¹⁴ The subjective utility function of the electorate has been always 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.

taken care of, annual indexation of state-administered pensions typically exceeding statutory requirements (Ádám and Simonovits 2017).

Hence, uncertainties in political exchange have been greatly reduced and so has pro-poor redistribution. Although budgetary redistribution has stayed high, electoral competition has significantly weakened. A monopoly in clientele building has been created with only the government being able to create 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 capitalization of bureaucratic and business clienteles.

There has been one more competitive advantage of authoritarian populism vis-à-vis earlier more democratic forms of political exchange. In democratic populism that had characterized Hungary before 2010, normative expectations of an honest and transparent state can be hardly met. Electoral competition is expensive as rival clienteles aim at outspending each other, hoping 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 any more.

Hungary is a textbook case for this shift. Before 2010, an infamous 70-30 rule had been allegedly in place with government- and opposition-sponsored clienteles appropriating respective shares in public procurement deals. 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 government-sponsored clientele. Discretion by authorities in allocating commissions has been legalized, while both the press and the law enforcement agencies have been politically and institutionally subordinated.

5. Conclusions

In this paper, I argued that authoritarian populism is a degraded version of democratic politics that seeks to constrain political rivalry 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 complicated social and political reality, they seek to reduce effective political choice. By that virtue, they reduce political transaction costs.

Political transaction costs, I argued, are the costs of conducting political exchange. For efficiently allocating power, societies need to rely on formal and informal institutions that condition political behavior. Whenever these institutions weaken, or whenever a mismatch between formal and informal institutions emerges, political transaction costs can grow excessively high and sustainability of the existing political regime deteriorates. This is the typical structure of the crisis of liberal democracy: Formal and informal institutional practices deviate, and normative expectations towards the regime are systematically violated.

Authoritarian populism reduces political transaction costs by constraining political choice. Authority is centralized, both politically and economically. Government interference in politically important business sectors has been enlarged, media freedoms have been compromised, and public administration has been politicized. Autonomy of government agencies has ceased to exist. All these developments together made the government the sole social actor determining political exchange. As all other actors are aware of this, collective action capacities against the government decrease¹⁵, and the only way to enjoy politically allocated distributive benefits becomes joining the government-sponsored clientele.

In consequence, political alternatives evaporate, and political exchange becomes predictable. An effective monopoly of political power enables the government to align formal and informal institutions by legislating formerly informal political practices. The rule of law deteriorates, and liberal democracy turns into a centrally controlled, democratically

¹⁵ In terms of Weingast (1997), ‘focal solutions’ to the problem of collective action against transgressing governments cease to exist.

legitimized autocracy. Importantly, this is still not outright dictatorship, hence 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 they rely on to be in place either.

I argued that this is what has 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 reign well might be corrupt, redistributing to the benefit of a business clientele at a massive scale, yet it provides a sufficient amount of benefits for a sufficient number of people in a stable and predictable manner as the results of the April 2018 elections have aptly demonstrated.

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