The Political Economy of Illiberalism:

A Relational Class Analysis of the Tensions between Capitalism and Democracy in Hungary

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Abstract

Using the strategic case of Hungary the article presents a relational political economy of illiberalism. Reorienting the scholarship on democracy and capitalism the article focuses on how the post-socialist dependent capitalism institutionalised in Hungary affected the chance of reaching democratic consolidation. Using a mixed method process tracing framework, analysing macro-social data on the erosion of the social base of democratic legitimacy, presenting a quantitative content analysis of policy elite members' biographies as well as three case studies the article analyses two interrelated dimensions of the exhaustion of dependent development. First, the study analyses how the collapse of the social structures of legitimation in the liberal transition regime led to the rightward turn of the working middle class as a necessary but not sufficient condition of the illiberal break-through. Second, the article demonstrates how the polarisation of the economic elite and the growing frustration of the national capitalist class contributed to the illiberal breakthrough. The results demonstrate the different class composition of left and right wing governments as well as how the national bourgeoisie uses the illiberal state to further its own accelerated capital accumulation. The most important theoretical implication of the article is that the social theory of illiberalism has to account both for the tensions among the working middle class and among the economic elites as interrelated processes. Ultimately the paper contributes to re-evaluating the relationship between capitalism and democracy pointing out structural tensions conducive to illiberalism.

1. Introduction: the dawn of illiberalism

Francis Fukuyama (1992) set the tone for the nineties with his prophecy about the triumph of liberal capitalism and liberal democracy. Yet, from Trump in the US and Brexit in the UK, to illiberalism in Hungary or Poland liberal ideas and institutions are tumbling. Outright authoritarian turns are rare but the loss of democratic quality as measured by a decline in civil and political freedoms is a more common phenomenon in countries at various stages of democratisation. New authoritarian politicians seem to be able to better ride the waves of citizens' disillusionment.

The risk of anti-liberalism evolving into a major democratic backsliding is particularly high in regions with little democratic history. It is perplexing to observe that several countries that were considered to be frontrunners of the third wave of democratisation (Huntington 1991b) are experiencing democratic backsliding. A series of countries where "good politicians" previously followed "good governance" blueprints inspired by the transition literature and major international institutions are now succumbing to anti-liberal and often anti-democratic political forces. The post-socialist region offers several of the most alarming cases of democratic backsliding. Although there is a significant variance in the strength of authoritarian tendencies in Eastern Europe, nonetheless, the risk of illiberalism now endangers the whole post-socialist region. As such, the region offers a natural experiment to develop and test theories of de-democratisation and illiberalism.

Among post-socialist countries Hungary's sweeping U-turn from a consolidated democracy to a hybrid illiberal regime is particularly puzzling. Having won a landslide victory in 2010 Prime Minister Viktor Orbán systematically demolished the system of checks and balances and reshaped political and economic institutions in Hungary (Bánkuti, Halmai and Scheppele 2012; Bozóki 2011; Kornai 2015). The social and economic costs of illiberalism are potentially immense ranging from growing social polarisation and reduction in freedom, through outmigration to the erosion of the rule of law and bureaucratic rationality. Illiberalism might also spill over to other neighbouring countries both through political imitation and through increasing the cost of international political cooperation. Despite the massive public attention paid to political episodes marking the rise of anti-liberal politics, the social scientific literature analysing and theorising the social roots of contemporary de-democratisation is under-developed. The empirical puzzle of democratic backsliding in Hungary offers a unique opportunity to develop a new political economic explanation.

What are the social roots of the wave of illiberalism sweeping both core and semi-peripheral countries? What explains the unprecedented U-turn in countries that were forerunners of the third wave of democratisation? Ultimately, how can the tensions between capitalism and democracy reconciled on the long run? Given the lack of a social theory of illiberalism there is a need for empirically informed theory building both to understand the rising phenomenon of illiberalism as well as to design policies and political strategies that are less conducive to democratic backsliding. This article uses the strategic case of Hungary to construct a new relational political economy of illiberalism. By so doing the article intends to reorient the scholarship on democracy and capitalism to focus on how the post-socialist dependent capitalism institutionalised in Hungary affected the chance of reaching democratic consolidation.

The aim of the article is to open up the 'black box' of causality that connects economic structures to political outcomes in the process of the rise of illiberalism. Using a mixed method quantitative and qualitative process tracing approach the paper provides an empirically substantiated causal narrative about the interaction of structure and agency in the rise of illiberalism in Hungary. Ultimately, the paper contributes to re-evaluating the relationship between capitalism and democracy with a particular emphasis on the social structures of legitimation and power that might be incompatible with democracy in the long run. The paper also contributes to the literature and practice of democratisation by pointing out the policies and political practices conducive to illiberalism. Given that many other countries throughout the world are undergoing a process of economic and political transition comparable to that of Hungary the results of the paper can be utilised to increase the chances of sustainable democratisation worldwide.

The paper is structured as follows. The next section of the paper reviews the theoretical controversies surrounding democratic backsliding, discusses the lack of a social theory of illiberalism and proposes a new relational political economy approach. The third section of the paper presents process tracing as the analytical strategy establishing Hungary as a strategic research site as well as describing data and methodologies. The fourth section of the paper presents the process of the exhaustion of the politics of patience as one of the two central mechanisms behind the rise of illiberalism in Hungary. The fifth section discusses the process of the polarisation of the economic elite and how this was translated into governance decisions under the liberal transition regime and under the illiberal regime. Finally, the sixth section synthesises these data, discussing the process of the break-through of illiberalism in Hungary from the perspective of the literature. In the conclusion the paper specifies the theoretical implications for the literature on capitalism and democracy.

2. Towards a relational class theory of illiberalism

From democracy to illiberalism

Sociologists and political scientists have long posited an ambivalent relationship between capitalism and democracy both in developed (Bollen 1983; Rueschemeyer, Stephens and Stephens 1992; Streeck 2011; Wolfe 1977) and in peripheral economies (O'Donnell 1973). For a short while it seemed that with the third wave of democratisation these structural tensions bear no relevance any more. “No preconditions”, sounded the call of the new transition paradigm, democracy is possible regardless of the structures of capitalism, it just depends on the right strategic choices of elites (Huntington 1991a; Linz and Stepan 1996). These new theories posited that building capitalism and democracy simultaneously would reinforce each other as the new emergent capitalist class would be naturally inclined to demand and protect liberal institutions and act as check on the central government (Boycko et al. 1993: 147). Facilitating embourgeoisement would thus also facilitate democratisation.

However, things soon turned out to be more complicated, first in Russia, then in other parts of the post-communist world. It became increasingly difficult to apply a teleological concept of transition with a unified definition of democracy. The literature started to come up with a plethora of concepts to capture the grey zone between fully fledged democracies and dictatorships. The current article relies on a fairly conservative definition of democracy as provided by Dahl (1973) to analyse the deviation from a theoretical ideal type of democracy. Since PM Viktor Orbán has infamously portrayed Hungary as an "illiberal state" in one of his speeches (Orbán 2014), the article also builds on the concept of illiberalism understood in the sense of significant loss of democratic quality. According to Zakaria (1997), illiberalism is a severely curtailed form of democracy arising when an elected majority violates the rights of people, diminishes the freedom of oppositional groups and civil society to organise, and decreases the freedom of the media.

I depart from pluralist political sociology by considering democratisation and de-democratisation as a conflictual process (Tilly 2000; Tilly 2003). According to Tilly democratisation is a movement toward broad and equal citizenship, binding consultation and protection of citizens from arbitrary state action. These pillars of democratisation also depend on a significant degree of state capacity. Democratisation and thus de-democratisation emerges from interacting changes in politics, inequality, and networks of trust, driven by mechanisms of change in social relations. I propose to develop a political economy of illiberalism that analyses the process of de-democratisation in the context the structural tensions induced by contemporary capitalism. By so doing I also contribute to bringing back the grand conflict between capitalism and democracy to the centre of analytical attention.

Accounts of post-socialist illiberalism

Dominant research agendas do not offer convincing explanations for the risk of illiberalism in CEE countries. The most popular strand of the literature explains causality at the level of political actors. The *actor oriented transition theory* (Carothers 2002) highlights the role of power hungry politicians and political parties in the process of de-democratisation. For example, analysing democratic backsliding in Hungary, Fukuyama highlights the need for "good politicians" who do not destroy liberal institutions even if they have the power to do so (Fukuyama 2012a; Fukuyama 2012b). In his paper on democratic backsliding in Hungary Enyedi (2016) also draws the conclusion that the fierce competition of the political elite led to "populist polarisation" that explains illiberalism in Hungary. In their refined analysis on political holes in the economy Stark and Vedres (2012) also point out how political competition is translated into related company networks and corruption. The theory of the "post-communist mafia state" also portrays Orbán as a Godfather using his political authority to further his own economic interests (Magyar 2016).

Another marked trend in the transitions literature focuses on the role of *institutions* in stabilising democracies. However, this literature performed even worse in predicting or understanding the illiberal turn of former lead reformers of the post-socialist region. The institutionalist strand of the literature infused by an evolutionary theory of change has singled out Poland and Hungary as the most successful cases of democratic consolidation and European integration (Bunce 2006). Uncritical of the structural tensions induced by European Integration, seeing European institutions as a political lock-in mechanism thus as guarantees against political backsliding, institutionalists were blind to the coming illiberal breakthrough in Eastern Europe right until the election of Orbán (Levitz and Pop-Eleches 2010; Schimmelfennig and Scholtz 2010).

As opposed to the transition paradigm, *the varieties of capitalism literature* came closest to understanding the structural tensions of parallel democratisation and marketisation in post-socialist countries. These scholars identified important features of post-socialist capitalisms as a result of elite's manoeuvring to bolster democratic legitimacy in economically hard times of the transition. To pacify the early victims of the transition politicians shored up legitimacy through generous early retirement schemes, various pension benefits as well as through the system of increased private consumption financed by cheap foreign currency loans (Bohle 2013; Greskovits 1998; Vanhuysse 2006). The varieties of capitalism literature also pointed out that capitalism in Central and Eastern Europe was created with the help of foreign capitalists from the outset (Bohle and Greskovits 2012; Eyal, Szelényi and Townsley 1998; King and Szelényi 2005; Nölke and Vliegenthart 2009) and this has helped to stabilise the region. Yet, deep international economic integration seems to have been insufficient in locking in an economically sustainable development model in Hungary and Poland, two countries that were champions of foreign direct investment for two decades.

Finally, there are a few structurally sensitive analyses that point out the role of social and economic polarisation in the erosion of the legitimacy of liberalism in post-socialist Europe and in Hungary (Ágh 2014; Csillag and Szelényi 2015; Ost 2016). These papers offer important insights but none of the authors attempt to provide a theory that links the exhaustion of the social mechanism of legitimation to the polarisation of the economic elite and through this to the rise of illiberalism in a systematic way. In sum, the majority of prevailing theories of democratic backsliding fail to offer a satisfactory analysis of social roots of illiberalism in Hungary. The lack of robust theory of illiberalism has been noted by several prominent scholars of post-socialist democratisation calling for a re-evaluation of existing theories (Krastev 2016; Kubik 2012).

The relational political economy of illiberalism

Reorienting the scholarship on democratisation this article focuses on the collapse of the social structures of legitimation in Hungary as a result of the inherent tensions of the liberal transition regime dependent on international investment. The relational political economy of illiberalism I propose is influenced by Polányi's analysis on the limits of fictitious commodification (Polanyi 2001[1944]), by the emergent neo-structuralist accounts of democracy and capitalism (Acemoglu and Robinson 2005; Merkel 2014), by the work of "relationalist" and "global" ethnographers analysing the local manifestation of the liberal transition regime's tensions (Burawoy 2000; Feischmidt and Szombati 2017; Kalb 2015b) as well as by the international political economy approach of varieties of capitalism scholars. My understanding of class is influenced by Marxist revisionism (Korpi 1983) and in particular by William Domhoff's power structure analysis (Domhoff 2006[1967]). Building on these theoretical traditions the conceptual framework developed in this paper is built on the following three premises.

First, by assuming social fields as separate social universes having their own laws of functioning we can relax assumptions about different forms of capital and overcome the rigidity of the classic Marxist notion of structure and agency. The relational theory of class conceptualises class as an emergent "bundle of unstable, uneven, contradictory and antagonistic relational interdependencies" (Kalb 2015a: 14). The relational theory of class treats the field of politics and hence democratic class struggle as relatively autonomous, spatially and historically contingent, though constrained and constituted by the field of economic structures. The relational theory of class conceptualises the state as capable of integrating, though not eliminating, class conflicts (Offe 1991).

Democracy is neither delivered automatically through economic development nor through the institutionalisation of abstract liberal values but through historically contingent class conflicts institutionalised in various mechanisms of legitimation. From this premise it follows that “anti-liberal political culture”, “populism” or “corruption” are embedded in relations of class and thus cannot be analysed separately.

Second, instead of building class concepts on grand historical narratives, I build my account on power structure analysis as developed by William Domhoff (2006[1967]). Power structure theory analyses powerful people and powerful groups through the positions they occupy, identifying interlocking company directorates and the linkages among various segments of the elite. Dominant classes pursue their own self-interest, there is no unified capitalist class dominating the state but competing capitalist factions enmeshing decision making. Power structure analysis maps the networks of dominant classes and analyses the ideology and policy preferences of the group or class under scrutiny. This is often done by analysing the written "output" of strategically located people such as of speeches, policy statements, or proposed legislation (Domhoff 2006). I apply this methodology to analyse the polarisation of capitalist classes in Hungary, the class composition of policy elites and how this led to the revolt against the liberal transition regime by the post-2010 illiberal government built on a coalition of national capitalists and the upper middle class.

Third, economic structures do not exist in self-contained nation states. Although national institutions play an important independent role in engendering different development trajectories, they are embedded in the global capitalist system. The global economy is instituted through local political action, Central and Eastern European countries institutionalised globalisation as a normatively desirable development strategy through attracting foreign investment (Bandelj 2009). The internationalisation of domestic economies through foreign investment opens up possibilities for development but also creates tensions and polarisation (Cardoso and Faletto 1979). Divergent constellations of class forces and inter- and intra-class struggles influenced the path taken by each post-socialist country during transition and serve as the social foundation for foreign investment led development. Thus, to be able to map and analyse the role of capitalist classes in producing illiberalism in Hungary we need to follow an approach informed by international political economy.

I conclude the presentation of my theoretical framework with two hypotheses and a set of empirically observable implications that will allow me to refute or underpin my theory. My claim is that the revolt of the post-2010 illiberal regime against the rules of the game of the post-1990 liberal transition regime rests on two processes that are both connected to the structural features of the dependent capitalism instituted during the transition

Hypothesis 1. *The exhaustion of the legitimation mechanism of the politics of patience led to the political demobilisation and rightward shift of the working middle class that resulted in a strong political mandate for the 2010 Orbán government*. *However, this strong political mandate in itself would be insufficient to induce a major rollback of liberal institutions.*

Hypothesis 2. *The economic disarticulation and elite polarisation driven by the dependent integration of the Hungarian economy led a group of national capitalists to actively lobby for the systematic restructuring of the liberal transition regime. The major overhaul of existing social and property rights serving the accelerated capital accumulation of domestic capitalists and the embourgeoisement of the upper middle class necessitated a severe curtailment of political rights.*

If the first hypothesis is true then I expect to find evidence that the constituent elements of the central social mechanism of democratic legitimation in the liberal transition regime that I will call the politics of patience, i.e. pension and social expenditures as well as private consumption through loans, could not be sustained any more, and that this had important political consequences. If the first hypothesis is true I also expect to find evidence that the exhaustion of state and private debts led to increasing support for the Right among working class people and other victims of the debt regime. However, the first condition only explains a strong right wing social protectionism but in itself is insufficient to produce an illiberal state. Without the consent and sometimes active support of the domestic capitalist class Orbán's illiberal state would not be sustainable.

Therefore I pay special attention to the politics of economic elite polarisation that plays a special role in Hungarian illiberalism.

My second hypothesis is that the divergent embeddedness of the left and right wing political elites into the economic elite is related to the rise of an anti-liberal native capitalist class. If the second hypothesis is true then I expect to find significant differences between the economic ties of the left and the right wing governmental elites. If my hypothesis is true then the post-socialist Left should have more ties to dominant capitalist groups, especially in the multinational and banking sectors. Based on hypothesis 2 I also expect to find that the post-2010 right wing government differs from its left wing predecessors, by being less connected to the dominant capitalist classes (multinationals, banking, early national capitalists), and having stronger connections to less technology-intensive and more labour-intensive national enterprises.

3. Data and methodology

Hungary as a strategic research site

In accordance with Tilly's processual theory of democracy the article follows a mixed method case study approach. Besides my theoretical orientation, the low empirical frequency of instances of illiberalism also necessitates a departure from classic multivariate analysis to small N comparisons and case-based causal narratives (Falleti 2016; Mahoney 2012; Sewell 1996). The aim of this article is to provide a deep understanding of causal mechanisms and propose themes and variables for future research. Using a single case study is not suitable to verify theories as in normal science (Lakatos 1978). Rather my aim is to transcend the existing paradigms on democratisation and propose and empirically substantiate a new causal narrative on the process of de-democratisation and the rise of illiberalism. I focus on the strategic case of Hungary because the collapse of democracy in the country is empirically puzzling and theoretically intriguing. I treat the 2010 collapse of democracy in Hungary as a critical juncture that can be analysed to reveal deeper structural processes behind the surface of political actors (Capoccia and Kelemen 2007). My dependent variable is democracy and I use structural dynamics in a relational class framework as explanatory variables.

Hungary's sweeping U-turn from a consolidated democracy to a hybrid illiberal regime is particularly perplexing. Hungary was one of the first to liberalise its economy and political system from the second half of the eighties. Nationalist mobilization during the nineties was low in the country with centrist politicians dominating the public sphere until the end of the 2000s. High levels of foreign investment (FDI), a technologically complex export structure, a well-institutionalised party structure and well-developed independent institutions characterised the country. The FDI-driven development model seemed to perform well compared to other post-socialist growth regimes (King and Váradi 2002). Legal-rational authority seemed to prevail over patron-client networks, institutions of liberal democracy and a functioning market economy seemed to produce sustained growth (King and Szelényi 2005). Membership in the EU and other international bodies further strengthened this perception. Hungary was ranked by the EBRD as the leading post-socialist country based on the Transition Index between 1995 and 2001 consecutively in every year (Pogátsa 2009: 600).

The development of the party structure also seemed to point towards consolidation (Tóka 2004). The two major parties of the early transition years (the conservative Democratic Forum and the liberal Free Democrats) have shrunken to small parties and a bipolar party system emerged dominated by the Hungarian Socialist Party (MSZP) on the Left and PM Viktor Orbán's party, the Federation of Young Democrats (FIDESZ) on the Right. The population of medium and large towns especially in former socialist industrial centres provided a base for a solid left wing majority throughout the country in 1994, 2002 and 2006. Yet, after 2006 the Left was wiped out from all of the 23 major towns with county-rights except for one. Viktor Orbán used this political opportunity to systematically restructure the existing regime of social and property rights bolstered by the systematic dismantling of the core institutions of liberal democracy (Ágh 2014; Bánkuti, Halmai and Scheppele 2012; Bozóki 2011; Rupnik 2012). With this in mind, János Kornai (2015) even went so far as to assert that Hungary is already an autocracy, no longer a democracy.

This erosion of democratic quality was tangible in the unilateral passing of a new constitution that removed reference to social rights and included various conservative references among others to citizens' moral responsibility to work. Later the government systematically restructured the media landscape by tightening governmental control over public media and by facilitating the expansion of right wing media oligarchs. In a crucial move, the illiberal state also curtailed the rights of the constitutional court as well as attempted to shrink the independence of the judiciary. Governmental attacks on civil society, with a special focus on NGOs financed by international donors serves to delegitimise the extra-parliamentary opposition. The ruling political elite also systematically conquered independent institutions such as the State Audit Office or the National Bank, with every supposedly independent organ of the state controlled by party loyalists. Quasi-governmental organs of interest intermediation, such as economic chambers or cultural associations, have also been occupied by the ruling party, not even sport clubs remained outside the purview of the central power. We have thus a fair reason to conclude that with Viktor Orbán's election to power in 2010 the quality of democracy as defined by Dahl's poliarchy has deteriorated significantly in Hungary. The rest of the paper uses the case of Hungary to develop a new causal narrative about the rise of illiberalism.

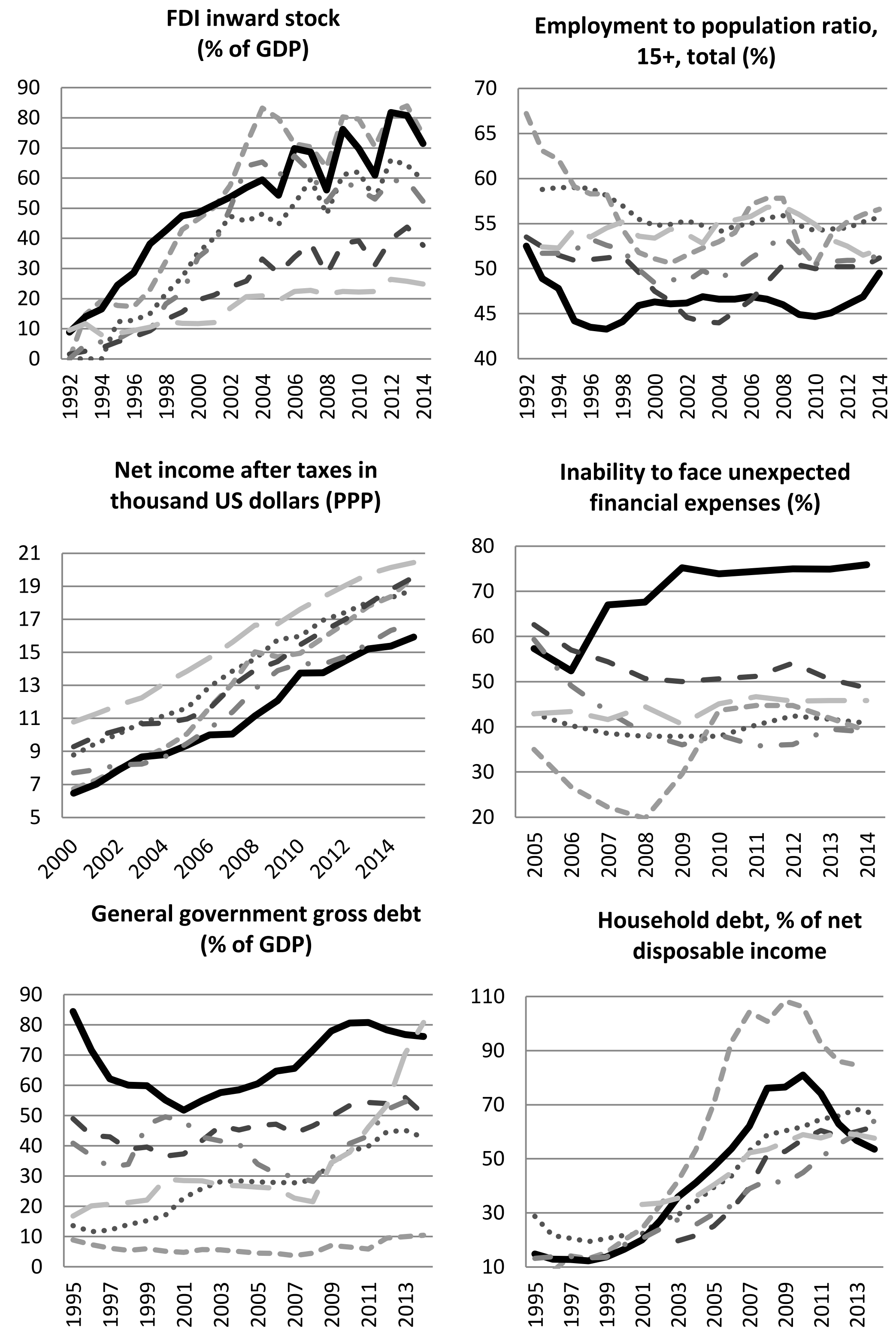
Sources of data and analyses

To test the first hypothesis in section 4 I present descriptive and comparative macro-economic and macro-social statistics about the social performance of the post-1990 liberal state collected from the databases of the IMF, BIS, World Bank, OECD, Eurostat and the Hungarian Central Statistical Agency, as well as from existing research. I attempt in particular to elaborate the class dynamics that link structures to political agency. To do so, I pay special attention to analysing the second hypothesis. I present data on the emergence of structural disarticulation and economic elite polarisation in section 5. After establishing the structural conditions I present data on the political affiliations and the net worth of the top 100 billionaires to map possible divergent trajectories in their capital accumulation and the economic profiles of the companies they own. To further elaborate the political polarisation of capitalist classes I also present a quantitative analysis of economic policy elite members' biographies and elaborate the divergent class composition of right and left wing governance teams. I analyse the mechanisms in three case studies on the restructuring of the tobacco industry, the restructuring of the backing sector and on the new labour code.

A crucial added value of the research is the use of a novel dataset on the economic policy elite (N=194) that I use to carry out a quantitative analysis of the biographies and economic connections of various policy elites. I defined a member of the economic policy elite as a person who holds significant positional power to control economic governance. They are people who worked for the government as a prime minister, a minister, or as a state secretary or deputy state secretary in a ministry with an economic profile (i.e. ministry of finance, ministry of economy, ministry of economic development, ministry of trade and industry). Ministries of social or employment affairs are not considered as part of economic governance. I identified every such individual for the period between 1990 and 2014 with the help of the Information Service of the Library of the Hungarian National Assembly. After identifying the individuals I reconstructed their biographies based on information from public yearbooks published by the National Assembly containing information on the program and the team of the governments and from the Political Yearbook of Hungary series.

I also used press coverage and sources from the internet to back check each person and to extend their biographical data if necessary. I used this biographical information to create a dataset with numerical codes on the following information: name, date and place of birth, role in government (also indicating if there were multiple roles or if the individual worked for multiple governments), education, public service career, employment history, experience in the banking, multinational, domestic, industrial or agricultural sector of the economy. State owned development banks (Hungarian Development Bank) or intergovernmental banks (World Bank) were coded separately from private commercial banks. I used STATA 13.0 to test the relationship between political affiliation and economic and employment profile using cross tables as well as logistic regressions on the chances of subjects being a member of left or right wing governments with backgrounds in different segments of the economy.

Figure 1. Socioeconomic Indicators of Transition[1]



1 Czech Republic
Estonia
Hungary
Poland
Slovak Republic
Slovenia

4. The exhaustion of the politics of patience

Given the strong support for the transition and the liberal orientation of voters during the 1990s, how can we explain the strong rightward shift of the working middle class? Figure 1 provides a longitudinal overview of the most important indicators comparing Hungary to other countries in the region. One of the most characteristic weaknesses of the Hungarian economy was the substantial deindustrialisation during the early years of the transition and the resulting low level of employment. From nearly full employment before the transition, the employment to population ratio dropped to 43.3 per cent by 1996, peaked at 46.9 per cent in 2002 and fell 44.7 by 2010 again. A large segment of the society, the early victims of the transition, the elderly, the young with little education, those living outside biggest towns of the country could not take part in the new growth centres of the economy dominated by technology intensive multinational companies. Those outside the local hubs of the global economy felt increasingly left behind.

Another crucial measure of the low social performance of Hungary's transition model is the low growth in wages. Although the value added of the enterprise sector has increased more than tenfold, and the gross operating profit has increased more than twentyfold, wages have only grown by seven times between 1992 and 2008 without adjusting for inflation (prices have increases six times during the same period which means real wages have hardly grown at all). The share of wages in total national income has decreased from 57.2 percent to 46.3 percent during the same period (Pitti 2010: 90). Hungarian wages were lagging behind average wages in the Central and Eastern European region throughout the 2000s (see Figure 1) and have been among the lowest throughout the OECD in 2009.

Table 1. Share of early retirees among men and women in different periods

	Women	Men
Before transition (-1989)	33.0	44.2
Early transition (1990-1996)	52.7	75.2
Late transition (1997-)	39.2	68.0

source: Kolosi and Tóth (2008: 22)

Despite the dismal social performance of the early transition years, the acceptance of the new regime remained relatively high. On the one hand, people were willing to defer consumption for a few more years hoping for a better future. On the other hand, post-socialist governments also attempted to pacify the victims of the transition by allowing them to retire early and providing generous pension, unemployment and other social assistance benefits. Early retirement was a particularly important specificity of the transition, functioning as a key mechanism of democratic legitimation in the nineties. As Table 1 shows, the share of early retirees among pensioners grew significantly from the 1980s to the 1990s from 33 per cent to 52.7 per cent among women and from 44 per cent to 75.2 per cent among men (Kolosi and Tóth 2008: 22). As a result, as Figure 1 portrays, government debts grew strongly during the early nineties (from 66.3 per cent in 1990 to 86.0 per cent in 1994) and then again during the 2000s (from 55 per cent in 2002 to 80.6 per cent in 2010) (HCSO 2016). Incomes through privatisation could offset high state expenditure during the mid-nineties, but as assets owned by the state decreased this channel of financial revenue dried up. Fiscal deficits and the growth of public debt were also facilitated by the low taxation of capital as the state fiercely competed for foreign investment with other states of the region (Drahokoupil 2008).

As I show in the next section, the tax base of the Hungarian welfare state was severely skewed toward taxing labour and maintaining generous tax holidays for multinational companies. This resulted in a skewed tax base, a weakened extractive capacity of the state and an increasing squeeze on the budget. Gaping budget deficits and growing government debt brought the necessity of economic adjustment in 2006-2007. Beyond the growth of public debts, the spiralling of private debts also signalled the tensions of the credit bubble fuelled dependent growth model. The liberal banking regime of the 2000s facilitated the increase of private debts that could offset low wages for almost a decade contributing to maintaining the legitimacy of the democratic regime and the popularity of the Socialist government between 2002 and 2010. As Crouch argues, this “privatised Keynesianism” was used in several countries to reconcile the tensions between capitalism and democracy (Crouch 2009). The use of consumer credits and mortgages, often denominated in foreign currencies, to finance consumption grew heavily among Hungarian households in the 2000s to offset the slow growth of wages (Bohle 2013). Between 1999 and 2006, household debt rose more than ten times in nominal terms, while in January 2007 the average outstanding loan amounted to 94 percent of the annual household income (Holló 2007). As a result, as also portrayed in Figure 1, by 2009 75 per cent of Hungarians were unable to face unexpected expenses, the highest level throughout the EU (EUROSTAT 2015). Empirical political research clearly demonstrated that indebtedness was strongly and significantly associated with the political support for Fidesz (Enyedi, Fábián and Tardos 2014). The rightward shift of the working middle classes was strongly facilitated by the breakdown of the private debt regime.

The low social and economic performance of Hungary's growth regime could only be temporarily offset by the politics of patience. The explosion of public and private debts made the chronic problems of low wages and low employment visible again leading to the disenchantment of citizens, both among the fragile middle class and the poor. The EBRD reports that in 2007 only Serbians and Bosnians saw the change in their standard of living compared to 1989 more negatively than Hungarians, even though Hungary has by then received the highest transition score rating (EBRD 2007). Even the members of the top third income category think overwhelmingly that they were worse off in 2007 than in 1989. OECD data also show that Hungarians are the unhappiest and the least content with their lives among the citizens of developed countries (OECD 2015). Suicide rates in Hungary are also very high compared to OECD countries, in 2011 only Korea exhibited a higher rate (OECD 2014: 127). Similarly, life expectancy at birth in 2011 was one of the lowest throughout the OECD countries in Hungary with 75 years, only Turkey and Mexico perform even worse (OECD 2014: 123).

Table 2. Approval of Change to Capitalism

	Approval of change to market economy (% of population)		
	1991	2009	Change
Czech Rep.	87%	79%	-8%
Poland	80%	71%	-9%
Slovakia	69%	66%	-3%
Bulgaria	73%	53%	-20%
Lithuania	76%	50%	-26%
Russia	54%	50%	-4%
Hungary	80%	46%	-34%
Ukraine	52%	36%	-16%

source: Pew Research Centre (2009)

As Table 2 shows, approval of capitalism was one of the highest in Hungary in 1991 and was the second lowest by 2009 among the post-socialist countries (Pew Research Centre 2009). As the politics of patience, the central legitimation mechanism of the post-socialist liberal transition regime broke down by 2010, the electorate no longer thought that the Socialist Party was taking sides with the working middle classes, overwhelmingly associating the party with the elite (Tóth 2011). The most painful loss of voters for the Socialist Party occurred among those living in county seats, rural cities, skilled workers or secondary school graduates, as well as among young people under 40, that is working and young middle class citizens living in cities (Republikon Institute 2012). Voters identifying themselves as members of the working class strongly and significantly favoured Fidesz over the Socialists by 2010 (Enyedi, Fábián and Tardos 2014). The Alford-index measures the support of a party among the working class compared to other classes: a positive value represents that the support of the party is higher among the working class whereas a negative value represents a comparatively low support among working people.

Table 3. The rightward shift of the working class measured by the Altford-index

	Socialists	Fidesz	Jobbik
2002-2004	2.2	4.0	n.d.
2005-2008	-0.6	6.4	n.d.
2009-2010	-6.6	9.4	1.2
2012-2014	-5.6*	4.7	5.2

* including other parties of the opposition (Együtt-PM, DK)

source: Enyedi, Fábián and Tardos (2014: 539)

As portrayed in Table 3, Enyedi et al. found a positive Altford-index for the Socialist party for the 2002-2004 period, when the party put some emphasis on social issues the last time before 2010. By 2005-2008 the Altford-index shows a reversal, with less support for the Socialists among the working class than other categories, by 2009-2010 this difference grew even bigger. In contrast, the Altford-index for right wing parties showed a constant increase before 2010 marking the massive rightward drift of the working class. Analysing the determinants of change in the support of the Socialists, Stegmaier and Lewis-Beck (2011) also find that the support of the party actually climbed up in the aftermath of the 2006 Ősződ-speech and the following street riots (that many consider to be the prime reason for the fall of the Socialist government), whereas worsening economic expectations and unemployment significantly decreased the popularity of the party.

The collapse of the support the Socialist party among the working class was also aided by the fact that the politics of patience was a strongly apolitical strategy that rested not on the political organisation of the working class by the Left but instead on their demobilisation (Greskovits 2007). This apolitical left wing strategy was also embedded in an elite culture of neoliberalism that demonised movement politics and working class material claims as populism threatening the successful capitalist integration of the country (Gagyi 2014). This apolitical neoliberal culture effectively hindered the political organisation of the working class by the Left (Kalb 2015b). The Left simply did not devise a proper political alternative to its apolitical legitimation strategy. It would is beyond the scope of this article to describe the role of Left wing political agency (the failure to organise the victims of the transition on a progressive platform). As a result of the lack of a progressive Left wing agenda a vacuum was created that was waiting to be filled by the social protectionist Right.

However, the dissatisfaction of voters was only a necessary but not sufficient condition of illiberalism. Voters' disillusionment itself does not necessarily result in an illiberal state. In fact, citizens did not vote for the dismantling of social right and liberal institutions. The approval of the change to democracy in 2009 was still above 50 percent in Hungary, higher than in several other post-socialist countries, like Lithuania, Russia, Bulgaria, Ukraine (Pew Research Centre 2009). Without the consent and sometimes even the active involvement of crucial segments of the economic elite the illiberal state could not have emerged. In the next section I will analyse the polarisation of the capitalist class between the alliance of international capitalists and technocratic managers on the one hand the rising native capitalist class on the other led to the emergence of the illiberal state in Hungary. This national capitalist class is central source of the stability of the illiberal state as they are able to extract extra financial resources compared to the liberal transition regime.

5. The politics of economic elite polarisation

5.1 The structural disarticulation of the economy

Table 4. Rates of foreign penetration in the manufacturing sector

Stocks of FDI in the manufacturing sector *(in per cent, 2001)*

	Slovenia	Czech R.	Slovakia	Poland	Hungary
Employment	18	34	36	33	45
Turnover	29	53	59	52	73
Fixed Capital Formation	22	69	73	64	78

Source: Fink (2006: 54)

Throughout the 1990s post-socialist governments put heavy emphasis on importing large amounts of foreign investment. As Figure 1 shows the total stock of FDI reached 76.2 per cent by 2009 only surpassed by the 80.4 per cent of Estonia. As Table 4 shows, the concentration of foreign capital in the manufacturing sector compared to other countries in the Central and Eastern European region was much higher in Hungary by the mid of the early 2000s already (Fink 2006: 54). Investments were concentrated in the technology and capital-intensive manufacturing export sector with little connections to other segments of the economy. This economic structure, with weak forward and backward linkages of the high performing technology intensive, multinational dominated sector of the economy has been described by development sociologists and structuralist economists several decades ago as structural disarticulation (Breedlove and Armer 1996; De Janvry and Sadoulet 1983; Hirschman 1978; Stokes and Anderson 1990). The high performing capital intensive sector and the low performing labour intensive domestic sector of the economy function parallel: the high import content of the locally assembled products created little local demand for economic inputs, whereas the high capital intensiveness of this sector created little demand for local labour.

As a result of structural disarticulation, the total share of foreign companies in export revenues was more than 70 % during the 2000s (Pitti 2010: 55), with the leading 50 foreign affiliates accounting for 45 per cent of Hungarian exports in 2000 (Fink 2006:

61). This structural disarticulation was also facilitated by the policy environment that lacked a strategic industrial policy and favoured foreign enterprises strongly through tax holidays and other subsidies. Almost 90% of all tax reductions went to foreign owned companies in 2000, whereas their share in total employment was hardly above 20% (Pitti 2010: 55). As Table 5 portrays, taxes on capital in Hungary represented the smallest share within total taxation in Eastern Europe (EUROSTAT 2014) contributing significantly to the weakening of the fiscal capacity of the state.

Table 5. Corporate Taxation in Eastern Europe

Share of Corporate Taxes *(as % of total taxation, 2010)*	
Czech Republic	10,0%
Slovakia	9,0%
Romania	8,6%
Bulgaria	7,4%
Poland	6,3%
Slovenia	5,0%
Estonia	4,0%
Latvia	3,5%
Lithuania	3,5%
Hungary	3,1%

Source: Eurostat (EUROSTAT 2014)

The growth of domestic small and medium sized companies was also constrained by their financial environment. Foreign owned banks favoured lending to multinationals and to households in the form of mortgage credits compared to domestic and state owned banks (EBRD 2006: 63). The Gallup Institute found that SME's in Hungary were in worse position compared to other economies in the region in terms of access to credit. In Hungary only 33% of SMEs found it easy to obtain bank financing, in contrast with the Eastern European average of 54% (Eurobarometer 2006: 24). The single most powerful way to capture the structural disarticulation of the Hungarian economy is by looking at the high productivity differentials: in 2008 the employee of a foreign company produced

3.4 times as much added value as the employee of a Hungarian company (Barabás et al. 2008). This ratio is higher than in other countries of the region. The lack of growth of domestic enterprises is tangible by their absence from international rankings: Deloitte's report on the 500 largest Central and Eastern European companies contains 67 Hungarian firms, out of which 53 are foreign owned multinational companies and 9 are owned by the state, and only 2 are owned by local individuals (Deloitte 2016: 20).

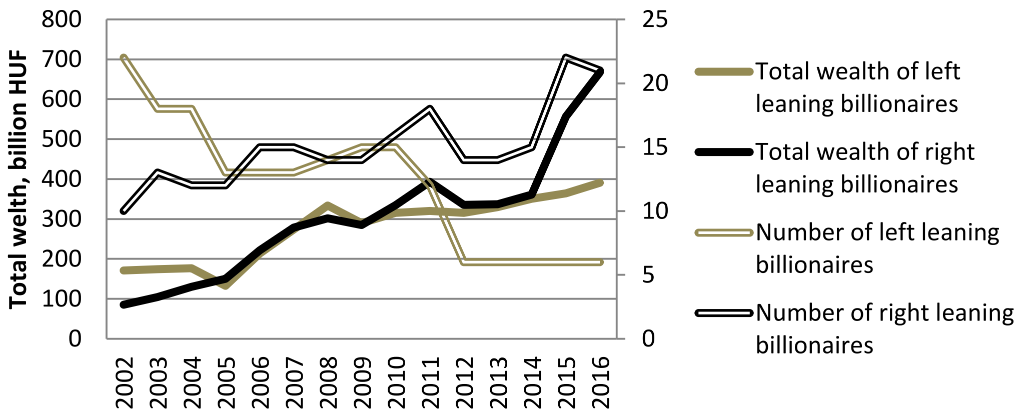
The high concentration of FDI in the technology intensive growth sectors of the economy also resulted in a geographically highly uneven development during the last 25 years. By 2010 49.9% of actually functioning enterprises were located in Budapest or Pest-county, the central region of Hungary (Pitti 2010: 65). Comparing European countries in terms of the regional dispersion of GDP per capita Smith and Timár (2010) find that by 2006 Hungary was by far the regionally most unequal economy in the EU, surpassing regional inequalities in Romania and Bulgaria, two highly unequal societies. Taken altogether, as a result of the Hungarian development strategy, the economy is divided into two parts: an effective and capital-intensive multinational sector that plays only a minor role in job creation, and a stagnant labour intensive domestic sector, with little connection between the two.

The emergent economic structure thus was characterised by a weakness of native capitalists, the strength of international capital and the rise of managerialism among local elites (Eyal, Szelényi and Townsley 1998). The first major winners of the transition – in the absence of a domestic capitalist class – were the stratum of intellectuals, professionals and managers who were in a position to make significant gains in the new liberal capitalist state. The strategy of the managerial-technocratic elite was not to accumulate capital directly but to accumulate control in a diffuse property structure in the early nineties. Those technocrats who did not occupy political positions occupied the commanding positions of the new economy, mostly as high ranking service personnel in the biggest former state companies freshly privatised and in multinational companies (Eyal, Szelényi and Townsley 1998).

Those national entrepreneurs who did not manage to become junior partners of international capitalists either as service providers or as local suppliers were increasingly pitted against the dominant bloc. The highly dualistic nature of the Hungarian economy created a polarisation within the economic elite leading to divergent interests and preferences. In the next section I show that this polarisation was translated into political action through the divergent class composition of left and right wing governance elites, through the divergent political embeddedness of different segments of the capitalist class.

5.2 The political polarisation of capitalist classes

Figure 2. Total wealth and number of left- and right-leaning billionaires



Source: Based on a dataset I created covering the wealth and political affiliation of Hungarian billionaires for the 2002 – 2016 period (N=212). I used annual public reports on the top 100 billionaires compiled by the Hungarian financial newspaper Napi Gazdaság and extended this with information on political ties through press research. I only coded a right or left wing affiliation if the reports were solid and multiple sources could be found.

Using publicly available data on Hungarian capitalists I analysed their wealth and their political connections to provide a cursory look into the dynamics of major segments of the capitalist class. The capitalist class was dominated by Left leaning billionaires till the early 2000s, but their number and wealth has been decreasing since the early 2000s with a slight increase during the 2006-2010 Socialist government. The net wealth of left-leaning billionaires has been higher than the wealth of right-leaning billionaires until 2005 and then again at the peak of the 2006-2010 Socialist government in 2008. The number of right-leaning billionaires has been slowly growing throughout the 2000s and overtook the number of left-leaning billionaires in 2010. Their wealth has also skyrocketed as the (right wing) Orbán regime was consolidated in 2014. The chart shows that the wealth of entrepreneurs with political ties follows a political business cycle. To understand the nature of illiberalism in Hungary it is also important to note that right-leaning billionaires have existed way before Orbán took power in 2010. It would be thus far fetched to argue that the post-2010 illiberal regime creates its own oligarch from nowhere. The new regime strongly favours the capital accumulation of already existing domestic capitalists and is some instances creates new loyal oligarchs as well. But national capitalists with right wing connections were not all created by the illiberal regime.

From this cursory analysis it appears that there was a group of capitalists outnumbered by left-leaning capitalists in the early 2000s but steadily growing during the 2002-2010 Socialist government. These native capitalists with right wing connections successfully used the post-2010 illiberal state for accelerated capital accumulation. They are strongly concentrated in the construction industry, several of them have financial stakes in right wing media outlets and marketing companies, some of them come from the food industry, the tobacco industry or agriculture, and some have significant investments in tourism. There are also several right-leaning billionaires with stakes in smaller Hungarian owned banks. In contrast, left-leaning billionaires are often connected to the privatisation deals of the early 1990ies, they often own large multi-portfolio investment companies, and some of them are stakeholders in innovative technology intensive companies, or other firms with significant linkages to global markets. The role of small Hungarian owned banks, construction companies and agricultural and food industry is much smaller among left-leaning billionaires.

This sketchy look at the political composition of the capitalist class does not mean that every member of the economic elite is politically connected and uses a political channel to accumulate capital. The majority of the billionaires try to stay away from the field of politics. I only found evidence for political connections for 27 per cent of the economic elite. In several cases these connections do not refer to strong connections, not every member of the politically connected economic elite is engaged in a politically driven accumulation of capital. Both members of the left and right wing economic elites try to be successful on the market with varying degrees. Only the closest political allies rely solely on a political channel to make profits and accumulate capital, but these are outliers rather than the rule. We should not confuse the highly visible cases of political corruption with the accumulation strategy of politically connected capitalists. However, this is as much we could infer from this type of data. The quality of data published annually on the billionaires and the reliability of political information covered by the press is hard to judge. The preceding cursory analysis should therefore be treated with caution. It is best interpreted as a sign of tendencies. In the next section I present a quantitative analysis of economic policy elite members' biographies that can give a more reliable picture on the linked ecologies of the political and the economic elite.

5.3 The class composition of economic policy elites

To understand the power structure of the liberal transition regime I analysed the class composition of economic policy elites using a dataset as a result of a quantitative content analysis of policy elite members' biographies. The descriptive statistics are summarised in Table 6. The results show that there is a large difference between the class composition of left and right wing policy elites. 35.62 per cent of the left wing governance elite have a background in the multinational sector compared to the 15.46 per cent of the right wing governance elite. Similarly, left wing governments were also more strongly connected to the banking sector, with 38.36 per cent of their personnel having ties to banks compared to the 17.53 per cent of the right wing economic policy elite. These differences are even stronger if we only examine ministers and prime ministers – here the 41.67 per cent of left wing ministers compares to the 13.64 per cent of right wing ministers having a tie to the banking sector. 20.55 per cent of the left wing governance personnel have an academic background compared to the 38.14 per cent of the right wing governance personnel.

Generally, domestic companies are well connected to both the left and the right wing economic policy elite, with the left wing elite appearing somewhat more open to people from domestic companies, but there is no significant difference between the two political camps in this dimension. Examining the composition of the right wing policy elite reveals however that from the first Right-wing government led by József Antal there is a constant increase in the number of those employed at domestic companies in consecutive right wing governments. The right wing policy elite started out as the most academic, and became gradually penetrated by people with connections to the domestic companies. The penetration of the left wing policy elite by people working for the domestic capitalist sector fluctuated around 60per cent throughout the 25 years investigated.

Table 6. The composition of the left and right wing economic policy elites

	Employed at a multinational company			Professional experience in the banking sector		
Political affiliation	No	Yes		No	Yes	
Only Right	84.54%	15.46%	100.00%	82.47%	17.53%	100.00%
Only Left	64.38%	35.62%	100.00%	61.64%	38.36%	100.00%
Total	75.88%	24.12%	100.00%	73.53%	26.47%	100.00%

	Employed at a multinational company			Professional experience in the banking sector		
Second Orbán government	No	Yes	Total	No	Yes	Total
No	70.59%	29.41%	100.00%	67.65%	32.35%	100.00%
Yes	89.29%	10.71%	100.00%	87.50%	12.50%	100.00%
Total	76.04%	23.96%	100.00%	73.44%	26.56%	100.00%

	Employed at a university or research institute			Employed at a domestic company		
Political affiliation	No	Yes	Total	No	Yes	Total
Only Right	61.86%	38.14%	100.00%	42.27%	57.73%	100.00%
Only Left	79.45%	20.55%	100.00%	30.14%	69.86%	100.00%
Total	69.41%%	30.59%	100.00%	37.06%	62.94%	100.00%

	Employed at a university or research institute			Employed at a domestic company		
Second Orbán government	No	Yes	Total	No	Yes	Total
No	68.38%	31.62%	100.00%	37.50%	62.50%	100.00%
Yes	71.43%	28.57%	100.00%	41.07%	58.93%	100.00%
Total	69.27%	30.73%	100.00%	38.54%	61.46%	100.00%

	Ministers employed at a multinational company			Ministers with professional experience in the banking sector		
Political affiliation	No	Yes	Total	No	Yes	Total
Only Right	90.91%	9.09%	100.00%	86.36%	13.64%	100.00%
Only Left	66.67%	33.33%	100.00%	58.33%	41.67%	100.00%
Total	78.26%	21.74%	100.00%	71.74%	28.26%	100.00%

To further analyse the influence of economic background on political affiliation I fitted logistic regressions to the data. To filter out potential confounding factors I also used information on subjects age at the time when they became first member of a government, whether they were born in Budapest, on gender, education with diploma in economics as well as whether the subject held any elected political office. The results are presented in six models with different specifications.

As tables 7, 8 and 9 show, having a background in the banking and multinational sector significantly increases the odds ratio of being a member of a left wing government as opposed to a right wing government. Controlling for subjects age, place of birth, gender, education and political career people with a background in the banking sector have a 179 per cent higher chance of being a member of a left wing government (OR=2.29, p= 0.007). Having a background in the multinational sector of the economy has an even bigger effect, increasing the chance of being a member of a left wing government by 206 per cent (OR=3.06, p=0.005). However, a background in academia has the opposite effect, decreasing the chance of being a member of a left wing government by 53 per cent (OR=0.47, p= 0.025). None of the associations was sensitive to adding further control variables.

Because of the small number of observations it is not possible to further break down the category of domestic companies for statistical analysis. However, analysing the biographies reveals marked differences between those who worked for the left and the right wing governments. Members of the left wing economic policy elite more often work for competitive companies in the ICT sector (Matáv, Graphisoft, Cellum, Elender), for smaller Hungarian companies providing various secondary financial services (venture capital companies, tax optimisation, investment funds), for the biggest Hungarian owned investment companies (Wallis, Altus), successful large domestic owned companies in the chemical sector (Nitrokémia, Pannonplast), or companies connected to political privatisation (Aluker).

Table 7. Odds of being a member of a Left wing government with a background in the banking sector

	model 1		model 2		model 3		model 4		model 5		model 6	
	OR	SE	OR	SE	OR	SE	OR	SE	OR	SE	OR	SE
Banking experience	2.62**	-0.9	3.04**	-1.11	2.94**	-1.08	2.94**	-1.09	2.78**	-1.04	2.79**	-1.05
Age at first gov.			1.02	-0.02	1.02	-0.02	1.02	-0.02	1.02	-0.02	1.02	-0.02
Born in Budapest					1.41	-0.46	1.38	-0.45	1.38	-0.45	1.39	-0.45
Female							0.77	-0.35	0.77	-0.36	0.78	-0.36
Economist									1.3	-0.43	1.31	-0.45
Has political career											1.04	-0.37
_cons	0.76	-0.13	0.37	-0.32	0.34	-0.29	0.34	-0.29	0.29	-0.26	0.29	-0.26
N	192		178		178		178		178		178	

* p<0.05, ** p<0.01, *** p<0.001

Table 8. Odds of being a member of a Left wing government with a background in the multinational sector

	model 1		model 2		model 3		model 4		model 5		model 6	
	OR	SE	OR	SE	OR	SE	OR	SE	OR	SE	OR	SE
Multinational experience	2.65**	-0.94	3.22**	-1.25	3.11**	-1.21	3.08**	-1.21	2.99**	-1.18	3.06**	-1.23
Age at first gov.			1.02	-0.02	1.02	-0.02	1.02	-0.02	1.02	-0.02	1.02	-0.02
Born in Budapest					1.4	-0.45	1.39	-0.45	1.39	-0.45	1.4	-0.46
Female							0.91	-0.41	0.91	-0.41	0.94	-0.43
Economist									1.46	-0.47	1.52	-0.52
Has political career											1.14	-0.42
_cons	0.78	-0.13	0.32	-0.28	0.3	-0.26	0.3	-0.26	0.24	-0.21	0.23	-0.2
N	192		178		178		178		178		178	

* p<0.05, ** p<0.01, *** p<0.001

Table 9. Odds of being a member of a Left wing government with a background in the academic sector

	model 1		model 2		model 3		model 4		model 5		model 6	
	OR	SE	OR	SE	OR	SE	OR	SE	OR	SE	OE	SE
Academic experience	0.49*	-0.16	0.52*	-0.17	0.49*	-0.17	0.48*	-0.16	0.47*	-0.16	0.47*	-0.16
Age at first gov.			1.02	-0.02	1.02	-0.02	1.02	-0.02	1.02	-0.02	1.02	-0.02
Born in Budapest					1.65	-0.53	1.61	-0.52	1.61	-0.52	1.61	-0.53
Female							0.72	-0.32	0.73	-0.33	0.73	-0.33
Economist									1.63	-0.53	1.61	-0.55
Has political career											0.96	-0.34
_cons	1.22	-0.21	0.59	-0.49	0.53	-0.44	0.52	-0.44	0.38	-0.33	0.38	-0.33
N	192		178		178		178		178		178	

* p<0.05, ** p<0.01, *** p<0.001

In contrast, the right wing economic policy elite comes often from small and medium sized domestic companies, very often law firms, tourism, health industry, construction (Közgép), industrial companies that experienced a crisis during the transition (Videoton, Ikarusz), and they are also often involved in smaller domestic banks (Corvinbank), or rural savings and loans companies. The role of ICT or secondary financial services is much weaker. It appears that the right wing economic policy elite is involved in less competitive, less technology intensive, and more labour intensive lower value added domestic companies, whereas the left wing economic policy elite is connected to the innovative, technology intensive high growth sectors and large globalised domestic companies. The newly emerging domestic capitalists outside of the high tech sectors are especially are better connected to right wing governments, especially the post-2010 illiberal regime.

Together with the data on the structural disarticulation of the economy and the polarisation of the capitalists classes these results strongly support the hypothesis that the domestic capitalist were increasing alienated by the left-liberal governments and had a strong interest in helping to power a new government that would better facilitate their capital accumulation of native capitalists. The following three case studies move from structure to agency by providing a deeper analysis of the revolt the national capitalist class. The case studies demonstrate how the power structure of the liberal transition regime alienated some key domestic capitalists, how they lobbied for major restructuring well before 2010 with little success and how they used the post-2010 regime to achieve a major restructuring of the post-1990 liberal model.

5.4 The case of tobacco restructuring

Two years after taking power, Viktor Orbán's government initiated a complete restructuring of the tobacco industry in Hungary resulting in the CXXIV (2012) law which radically changed the regulation of the market for tobacco products (Laki 2014). Before the transition, the tobacco industry was dominated by four companies, operating in Debrecen, Pécs, Eger and Sátoraljaújhely. These companies were all privatised during the nineties and the biggest companies were bought by international investors. A smaller, Hungarian owned company, Continental managed to establish a foothold in the tobacco industry when an international investor sold its plant in Sátoraljaújhely.

The law to "curtail smoking among young and regulate tobacco retail trade" was introduced to the Parliament on 16 December 2011. The lead architect of the law was János Lázár, the second strongest man in the government, a close ally to Orbán. The main element of the regulation was that tobacco trade was monopolised by the state to give out concessions at a later point. A year later oppositional MPs noticed by checking the file properties that the Word document sent out to Brussels to the European Commission for consultation was not authored by government officials but by János Sánta – the chairman of the Hungarian Tobacco Alliance (the central lobby body of the industry) who also happens to be manager and owner of Continental Tobacco. When asked by journalists about the incident János Lázár replied that he has known János Sánta for ten years and that he sent out the draft for commenting to every major tobacco company, however the foreign owned companies were not supporting the bill as it was violating their interests.

Analysing the winners of the concessions of tobacco trade it becomes obvious that János Sánta and his company was not only active in drafting the bill but also winning the right to trade. The owners, employees and even their family members are among the biggest winners of the bid for concessions, with more than 1000 new retail outlets run by someone closely connected to Continental. János Sánta was publicly encouraging members of the company to take part in the tender and stated that it is a "similar historical opportunity as land redistribution in 1945". Parallel to Continental another significant group of winners emerged connected to CBA, the biggest Hungarian owned retail chain in the country, the owners of which are enthusiastic public supporters of the Hungarian Right. Finally a third important group of winners are families and entrepreneurs connected to influential politicians in alliance with Orbán.

Native capitalists excluded from the most lucrative segments of the tobacco industry that are dominated by multinationals are behind the restructuring of the tobacco industry. Mobilising the political influence of this local entrepreneurial group was a major catalyst of the process of restructuring, with involvement of native capitalists into the enactment process from its very beginning. Continental Tobacco was not only found to be the prime architect of the new regulation but the prime winner as well.

5.5 The case of banking sector restructuring

Similarly to the tobacco sector, the banking sector came to be heavily dominated by foreign investment during the 1990s, representing one of the most internationalised segments of the economy. The share of foreign ownership in the banking sector in Hungary grew from 14 per cent in 1994 to 95 per cent by 2006 (Raviv 2008: 303). The eight largest banks in Hungary in the 2000s were all controlled by foreign investors: Budapest Bank, CIB Bank, Erste Bank, K&H Bank, MKB Bank, OTP Bank, Raiffeisen Bank, UniCredit Bank. The market share of these banks reached 80 per cent in 2009 (Király 2015: 28). As a result of the favourable policy environment, the politically induced growth of mortgage lending (Bohle 2013; Róna-Tas 2012), financial institutions in Hungary were able to extract rent incomes far in excess of their profits in the West (Raviv 2008). The banking sector came to be one of the most dynamic sectors of the economy, with the shareholders of banks among the biggest winners post-1990 liberal transition regime.

The policies of the post-2010 illiberal regime are aimed at increasing domestic ownership and expelling major foreign owned banks. Viktor Orbán announced that the goal is to achieve 50 per cent domestic ownership in the banking sector (Origo 2012). Driven by this goal the government came up with multiple measures (Johnson and Barnes 2015; Király 2015): introducing the bank tax in July 2010, recursively declaring foreign currency loan contracts illegal, introducing compulsory loan redemption at a reduced exchange rate. As a result the biggest foreign owned commercial banks suffered heavy losses. By the time of writing this article, two out of the eight big banks decided to leave the market and sell the assets to the state (Bayerische Landesbank sold MKB Bank in July 2014 and GE Capital sold Budapest Bank in December 2014 to the state). MKB was re-privatised during 2016 to a consortium partly owned by Hungarian investors. As a result of conscious government intervention the share of domestic banks increased from 10 to around 20 per cent between 2010 and 2014 (Király 2015).

The restructuring of savings and loans is a particularly edifying story. The Hungarian government restructured local savings and loans effectively scrapping them of their independence and amalgamating them into a national savings and loan conglomerate (2013. CXXXV. Bill). In the first step local banks were forced to join Takarékbank as the only body integrating local banks certified by the state. Those local banks that refused to join were threatened by the financial supervision authority that their licence to operate will be withdrawn. As a result of the integration local banks were forced to follow a common marketing and product policy using a common IT system. Directors of local branches also became underlings of the centre. Local savings and loans became owners of Takarékbank in return. However, at the same time, the state raised capital in Takarékbank just to achieve majority stake in the company as opposed to local banks. This gave the government control over the newly created centralised bank, acquiring the infrastructure of local savings and loans.

As the state consolidated its control over Takarékbank, the true purpose of the integration became evident. The state gradually sold its stakes in the bank to FHB Bank, a financial institute owned by a domestic entrepreneur and Hungarian billionaire, Zoltán Spéder, a friend of János Lázár, second man in the Orbán-government. Spéder also turned out to be the intellectual architect of the whole integration process. The special commissioner appointed by the government responsible for the legal process was Vojnits Tamás, a former member of the board of FHB Bank and thus a key ally of Spéder (Keller-Alánt 2016). The new conglomerate composed of Takarékbank and the newly acquired network of local savings and loans also made a strategic alliance with the Hungarian Post. As a result, Takarékbank became the second biggest bank by its value after OTP Bank. The 3000 local offices owned by Takarékbank represent a network far exceeding the infrastructure of any other Hungarian bank.

The political process driving the integration shows how the illiberal state facilitates the capital accumulation of national capitalists. The bill that stripped local savings and loans of their rights was passed by the Parliament in just three days after the announcement of the bill. The pre-2010 Parliament had no such prerogatives to extraordinary law making, bills were debated and discussed for weeks and months by ministries and various stakeholders. However, the illiberal state could effectively sideline these consultations. This strategy was necessary to pre-empt the potential resistance from key stakeholders in the savings and loans sector, who saw their ownership rights significantly scrapped. Directors of branches as well as some influential stakeholders in local savings and loans were furious and started to attack the process. The Constitutional Court received several complaints from the victims of the process but finally ruled that ownership rights might be "curtailed in the interest of the public" (Constitutional Court 2014).

5.6 The case of the new labour code

The new Labour Code that came into force on 1 January 2013, replaced the Labour Code of 1992 (Laki, Nacsa and Neumann 2013; Szabó 2013; Tóth 2012). The 1992 Labour Code established a combination of fairly flexible regulations with some strict minimum standards and was negotiated with a view to reaching a compromise with social partners. In contrast, the process of introducing the new regulation was marked by selective and half-hearted negotiations (Tóth 2012). Parallel to publishing the draft of the new labour code, the government disbanded the standing tripartite body and changed the strike law and made strikes much harder and thus created an institutional vacuum to carry out a selective consultation process significantly weakening unions.

The final version accepted by the Parliament made some concessions to the Unions, but on the whole it still meant a significant step back in the protection of labour rights (Szabó 2013). By abandoning tripartism and introducing a new Labour Code, the new government has rewritten the rules of the game, making it more difficult for unions to stand up for employees' interests. Individual work contracts can now set lower ('more flexible') standards than the Labour Code. The regulation of paid holidays and overtime compensation is also much less favourable for employees. It also ceased to be the duty of employers to re-employ unlawfully dismissed employees, with employers also allowed to dismiss employees on sick leave.

The new labour regulations clearly shift the balance between labour and capital towards the latter. It is no wonder that various lobby groups connected to the national capitalist class hailed the new labour code. György Vadász, chairman of the Hungarian Industrial

Association pointed out that they have been lobbying for a new labour code since the onset of the financial crisis (FigyeloNet.hu 2011). Ferenc Dávid, the secretary general of the National Association of Entrepreneurs and Employers approved of the new regulation by pointing out that the previous regulation "*tied the hands of employers and employees too much*". He goes on to point out that the association has been lobbying for more flexibility for a long time, especially "*to make the life of domestic small and middle sized companies easier*" (Pusztay 2011).

In an interview with one of the expert architects of the new Labour Code, György Kiss has admitted that the work has already started under the previous Socialist government. As György Kiss admits:

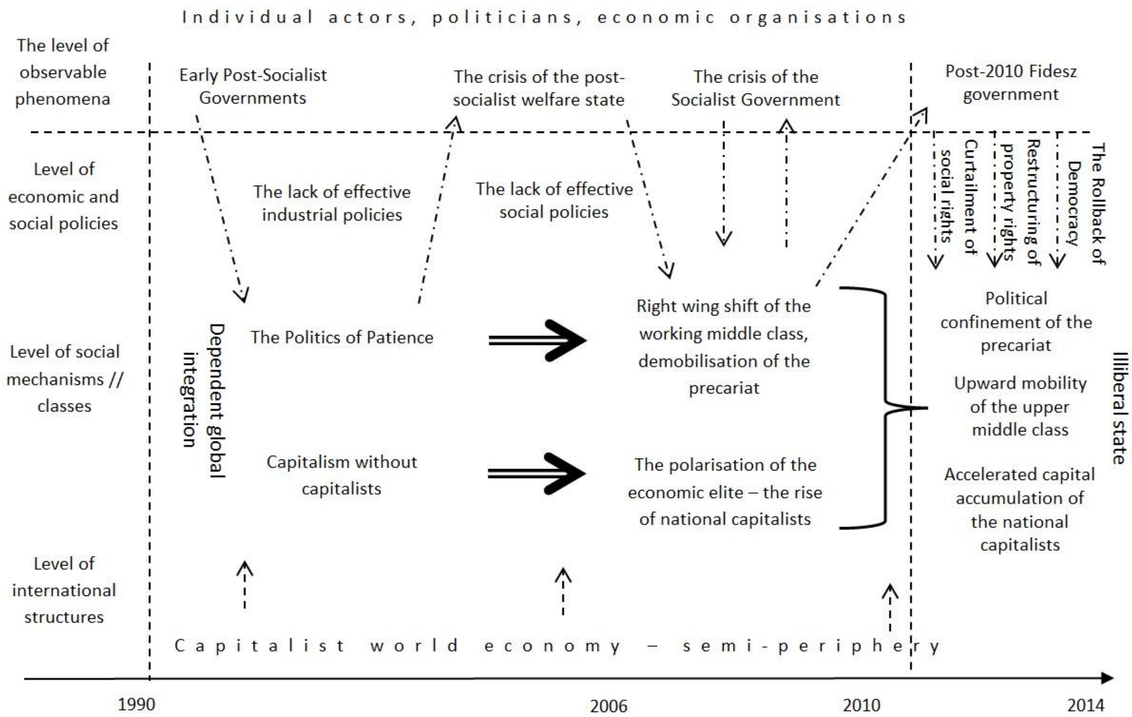
> This proposal is not novel in any way, it was not even ordered first by this government. I and some seven other experts have been working on this regulation for seven years already, only the procurer has changed in the meantime. (Máriás 2011)

At that time when the first details of the proposed changes leaked to the public the outrage prompted the Socialist government to put the proposal on ice. However, this was not enough for the lobbyists and the expert lawyers to stop (Kis 2010). The same team that was working with the Socialist government is behind the new Labour Code as well. This time, the outrage by trade unions was not enough to stop the new right wing government from enacting the changes tailored to the labour intensive production regime of non-technology intensive domestic capitalists. The restructuring of the labour code went in parallel to other significant changes to existing social rights that formed the pillar of the post-1990 liberal transition regime. The new constitution of the illiberal regime abolished the constitutional protection of social rights but included a reference to citizens' moral obligation to work. At the same time the government also introduced a flat tax. The massive tax cuts at the upper segments of the income scale strongly favoured the embourgeoisement of the upper middle class whereas the increase of the personal income tax on the minimum wage led to a significant net financial loss among those earning below the average (Szikra 2014).

6. Discussion: the process of illiberal break-through

Figure 3 presents a process tracing framework of the illiberal break-through in Hungary. As the post-socialist transition began at the heyday of global neoliberalism the whole political elite and the vast majority of economists and social scientists subscribed to the liberal dependent development model without considering the possible structural tensions (Böröcz 1999; Pogátsa 2009). For two decades it seemed that this model was superior to other varieties of capitalism in Eastern Europe. However, the way the Hungarian liberal transition regime institutionalised the demand for foreign direct investment (Bandelj 2009) and consolidated the dependent post-socialist capitalism also created the conditions the eroded its legitimacy (Lane 2010). The slow growth of wages and employment, the gradual erosion of the fiscal capacity of the welfare state, and finally the explosion of the private debt regime resulted in the breakdown of the social mechanism of legitimation. The parties of the Left could not replace their old strategy with a new progressive politics and thus have lost the support of the working middle class, both skilled and unskilled manufacturers. In section four of the article I have demonstrated how this has allowed the parties of the Right to fill the vacuum left over by the Left and capitalise on the dissatisfaction of these voters. The rise of right-wing authoritarian politics has been previously documented in the literature both in post-socialist countries (Feischmidt and Szombati 2017; Kalb 2008; Ost 2006) and in Western democracies (Halikiopoulou and Vlandas 2017; Rothwell and Diego-Rosell 2016; Vance 2016). The present article extends our existing knowledge by establishing the rightward shift of the working middle class as a necessary but not sufficient condition for the success of illiberalism.

Figure 3. A process tracing model of the political economy of illiberalism



In section five of the article I analysed how the polarisation of the economic elite and the glass ceiling faced by the rising native capitalist class resulted in the evaporation of the consent from important elite segment. The results imply that different capitalist groups had different political connections and this had different implications on economic governance under left and right wing governments. Left wing governments were strongly connected to the banking and multinational sectors, whereas right wing governments recruited a significantly higher share of their personal from outside the market. Results also show that the connectedness of the domestic capitalist class to right wing government has been increasing throughout the transition years. Although right wing governments were always more detached from the dominants segments of the capitalist class, the post-2010 illiberal regime is particularly strongly insulated from the multinational and the banking sector. In building and solidifying the post-2010 illiberal regime PM Viktor Orbán is relying on the national capitalists' alienation from the liberal transition regime. The results presented in the paper are consistent with previous literature that emphasised the role of technocracy, managerialism and the alliance of multinationals, managers and reform-minded politicians at the heart of the emergent post-socialist power structure (Bandelj 2009; Eyal, Szelényi and Townsley 1998; Stark and Bruszt 1998; Szalai 1999).

Being involved in labour intensive production the accelerated capital accumulation of the native capitalist class rests on cheap and flexible labour, and on access to markets dominated by multinationals. To achieve the accelerated capital accumulation of national capitalists and the embourgeoisement of the upper middle class, the government systematically interfered in the existing structure of property and social rights, dismantled trade unions and all major institutional forms of the interest representation of the socially vulnerable. The major restructuring of labour, social and property rights went against several politically influential groups, such as the lower working class that supported Orbán in 2010, multinational companies that were among the biggest beneficiaries of the liberal transition regime, and smaller domestic entrepreneurs who were in the way of the national capitalists. To protect against a possible political backlash from these groups, the institutions of liberal democracy had to be curtailed in parallel to the dismantling of the institutions of liberal capitalism and social rights.

Using three case studies I have shown how the structural polarisation of the economic elite was translated into actual institutional change in the tobacco and the banking sector and in the field of labour regulations. The case of the tobacco sector has demonstrated how the only significant domestic entrepreneur involved in the tobacco industry used the illiberal state to restructure the sector. The introduction of the new system violated the rights of small-scale enterprises and individual entrepreneurs as well as the multinational companies that dominated the market previously.

The case of the financial sector offers similar lessons about how national capitalists use their leverage over the illiberal state to accelerate their capital accumulation. In this case the victims of financial reforms were again multinational companies on the one hand and domestic SMEs on the other. The structures of the illiberal state were again necessary to marginalise the losers and seal the process of the integration of savings and loans. In a recent article Johnson and Barnes (2015) analyse the financial nationalism of the Orbán government capturing a crucial element of the story. However, I went beyond ideology-centred approaches by pointing out how the financial policies of the government were embedded in the broader destruction of liberal checks and balances. Orbán needed to dismantle independent institutions to disarm potential resistance from the multiple domestic and international victims of his policies.

Finally, the case of the new labour code has also shown a conflictual process that was geared to furthering the interests of national capitalists at the expense of low income citizens. The fact that expert work and lobbying already began during the time of the previous government, and the fact that the same team was in the background of both proposals demonstrated domestic capitalists have been autonomous actors before the 2010 illiberal breakthrough. Labour intensive domestic companies are the biggest winners of the new labour code. Other social policy measures of the government point into a similar direction. The resistance of victims, in this case the workers, was again pre-empted by the curtailment of trade unions' rights, by attacking groups of civil society and by instituting an electoral system strongly favouring Fidesz.

As long as they are willing to play by the rules of the regime, national capitalists receive wide ranging support from the illiberal state, hurting existing ownership or other enshrined rights of multinationals, workers and SMEs. The class of national capitalists and the political class dominated by Viktor Orbán's Fidesz are mutually constitutive. It would be thus misleading to characterise the illiberal regime as centralised political apparatus independent of the economy. Theories emphasising the corruptness and demagoguery of Viktor Orbán fail to account for the role of national capitalists in maintaining the illiberal regime. The economic actors favoured by the state have been strong local actors before 2010 and use the post-2010 illiberal regime to further their own accelerated capital accumulation. In contrast to the proposition of pluralist theories of democracy, the domestic bourgeoisie did not engage in any form of systematic fight to protect its rights, to battle against recursive legislation or discriminatory, anti-market and anti-competition policy measures that violate the rights of investors. A significant number of domestic capitalists think that the illiberal state might be used to boost their capitalisation and thus contribute to legitimising and bolstering the regime.

As it is often with newly instituted authoritarian regimes, the first years are wrought with fights between the authoritarian leader and some key allays that helped him to power. In Hungary's illiberal regime the most important power centre outside Orbán's government rests with the capitalist class, both the international and the national segment. The clashes with members of the national capitalists class who were key allies playing an instrumental role in the illiberal turn signify the authoritarian ruler's quest for stability. Orbán has adopted all three of the strategies identified by Haber (2006) at the disposal of authoritarian leaders: he is terrorizing autonomy seeking members of his "launching organisation", the alliance the party and national capitalists; he is actively co-opting national capitalists through offering lucrative deals; and he is creating parallel structures and intra-capitalist competition through new loyal capitalists. Orbán is also aware that it is in his best interest to secure the support of key international investors, like multinationals in the production sector, that are considered to be "strategic partners" (Bartha 2015). The diverse group of native capitalists is a crucial base of the illiberal state. Until a significant part of this segment of the capitalist class sees their interests furthered and consents, the illiberal state has little to fear.

The most important theoretical implication of the article is that the social theory of illiberalism has to account both for the tensions among the working middle class and among the economic elites. Embourgeoisement does not necessarily facilitate democratisation: there is no theoretical and empirical reason to assume that the emergent bourgeoisie would be naturally inclined to demand and protect liberal institutions. Barrington Moore's often quoted and often misunderstood conclusion, "no bourgeoisie, no democracy" (Moore 1993[1967]: 418) cannot be translated into "bourgeoisie, democracy". Moore's treatise on the social foundations of dictatorship and democracy needs to be extended with Polányi's historical account of the tensions between fictitious commodification and democracy (Polanyi 2001[1944]). Polányi's theory can be updated to fit not only core capitalist countries but also states at the Europe's semi-periphery (Bohle and Greskovits 2012; Scheiring 2016). However, we need to correct the implicit structural-functionalism of Polanyi by analysing the locally specific configurations of structure and agency. To do so, this article demonstrated the usefulness of power structure analysis (Domhoff 2006) and applied a processual look at de-democratisation (Tilly 2003) to show how the marketisation and internationalisation of the economy led to social polarisation both among the working middle class and the economic elite and how this provided a context conducive to illiberalism.

7. Conclusion

Compared to the optimist prediction of Fukuyama, the future now seems to be much bleaker and occupied by authoritarian politics. The tensions between capitalism and democracy seem to be stronger than most social scientists thought during the last decades. The twenty years of transition followed by the break-through of illiberalism in Hungary offer a warning about the profoundness of these tensions. The inherent tendency of capitalism to polarise society can alienate significant segments of the voters. The growing commodification of social relations and the resulting insecurity and anxiety provide a fertile ground for antiliberal political movements not only in Hungary, but in the US, in the UK or on the old continent alike.

Yet, however disillusioned members of the working middle class might be their search for political change and yearning for upward mobility is not enough to produce a sustainable illiberal turn. For this disillusionment to be translated into strong illiberalism major segments of the elite also need to consent to the dismantling of liberal institutions. Without the support of the national bourgeoisie, antiliberal political entrepreneurs cannot succeed. Only a sociologically informed relational class analysis might shed light on the deeply engrained processes behind the external façade. Offering a relational political economy of illiberalism this article analysed how the post-socialist dependent capitalism institutionalised in Hungary affected the chance of reaching democratic consolidation. The future of successful democratisation appears to be related to the question how far the structural tensions of simultaneous democratisation and marketisation might be mitigated.

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