The Emergence of Illiberal Democracy in the European Union:  
The Hungarian Case

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In 2010, the Hungarian government established so-called “illiberal democracy.” Western courtiers have looked on with bewilderment over the past eight years at this political trajectory of Hungary. Some post-Communist countries that were committed to common European values, have already been implementing this illiberal democracy model. The perceived interests of the “nation” are taking centre stage and governments are subject to far fewer checks and balances. They are turning instead towards an alternative social, political, and economic model, in which the cultivation of traditional values and distinct national identities are of paramount ideological importance. This new model is frequently characterised by widespread, systematic state corruption, and an increasingly authoritarian political culture. The paper tries to shed light on the reasons of development of illiberal democracy in the European Union by examining the case in Hungary. Furthermore, the paper defines the price of partially giving up certain principles of liberal democracy, such as checks and balances, political pluralism, economic equality of market constituents, or the rule of law, in return of hoped greater economic and state efficiency.

Keywords: illiberal democracy, post-Communist countries, transition, modernization, economic governance, public administration reform

Introduction

In the regions east of the Elbe, there was no tradition of liberal democracy among the institutions. Bourgeois revolutions erupted with considerable delays, because the capitalist socio-economic conditions developed later and in a manner contradictory to the framework of feudalism. In these countries, modernisation began with the reform initiatives of enlightened absolutist rulers, which led to the development of the institutions of capitalist economies, but without a strong civilian base in the background, would have been dedicated to the creation of a liberal democratic state.

In the mid-19th century, the civil revolutions unfolding in these regions were unable to achieve spectacular results in terms of the institutions’ establishment of the rule of law, constitutionality, popular sovereignty, and political freedoms. The first bourgeois democratic states formed in the first half of the 20th century in Central-East Europe were no longer able to take shape because of the spread of fascism, so during their short-term period of operation, they were unable to create the traditions of liberal democracy.

After World War II, the process of modernisation of states under the influence of the Soviet Union in Central-East Europe stopped for half of a century, because in these countries, the Soviet state and economic
governance model had been violently introduced. The Soviet state model resulted in a foreign body in the Central and Eastern European countries, where Western-type liberal democracies had been introduced at the beginning of the 20th century. The Soviet Communist model which, thanks to the Bolshevik party’s sense of mission, wanted to establish a higher order of social and economic systems in comparison with capitalism, but because of lacking democratic traditions remained a system based upon violence and totalitarian ideology, later just focused on exclusively maintaining the power of the Bolshevik Party. The system of bureaucratic economic administration based upon planning directives could not increase economic efficiency and it became apparent that it was significantly lagging behind the developed Western market economies. The promise of the Communist state that the sacrifices the population endured would only be temporary was not fulfilled and living conditions deteriorated constantly. The Soviet state began to erode itself.

After the collapse of the Soviet political system in post-Communist states, the processes of modernisation took place in a controversial way. The most important issue for the Central-East European states was that the states had just been liberated from the Communist shackles now had to find out which kind of values should be followed. There was no old tradition of public administration working in a democratic state system in these countries, because the democracies that had preceded the fascist dictatorships before World War II were short-lived and too fragile. The institutions of Western-type liberal democracy could not have taken root and become a tradition.

In post-Communist countries in Central-East Europe, from the transition period, i.e., from the 1990s, the question of modernization emerged differently from the Western countries. Taking into account the fact that there was no tradition of democratic state structure and market economy in these countries, the establishment of these institutions was not free of conflicts. It emerged as a dilemma which one should be introduced from among the governmental systems and economic governance models already used in the developed Western states, which also represented a number of trends under the umbrella of liberal democracy itself.

Instead of the Communist state, the institutions of the democratic state, which ensured the separation of the branches of state power, the system of checks and balances, the constitutionality, the rule of law, the exercise of the controlling bodies’ functions, and the rights of local self-government, were the first to be created. The bureaucratic planned economic system had to be replaced by a market economy model operated by institutions of Western-style economic governance based upon economic constitutionality, social market economy, market competition, and business freedom.

The development of the Hungarian post-Communist state model is a good example of searching for the way out, experimenting with the creation of several models leading to extreme administrative systems during the transition period over the past 28 years. Hungary was the first state in the European Union, where the so called “illiberal democracy”\(^1\) (Zakaria, 1997, p. 3) developed since the 2010s. This government system evidently violates certain values of the treaties of the European Union, despite it seems to have stabilized itself during the last decade. Even more, it serves as an example for some other countries in the region of Central East European countries post-Communist countries.

\(^1\) The definition of illiberal democracy was given by Fareed Zakaria.
Problems of Modernization in Hungary in the First Part of the 20th Century

Autocratic Traditions of the Horthy System

The transition period in Hungary was determined by the traditions characterizing the state organization of the Horthy’s system. The ideology of the government of 2010 is, in many respects, similar to the government system established in 1919, which was primarily governed by autocratic features. The dominant and multi-faction conservative political gathering parties, representing primarily the big holder aristocracy, the middle-class nobility, the big and middle capitalist class, and, but in lesser extent, the middle class and the peasant holders, emphasized parliamentary democracy but rejected the liberal democracy that regarded as the “rule of the raw masses”. Compared to the conservative governmental parties, one of the poles was the socialist, liberal, and agricultural parties, with little support and the second pole of the far-right party, which gained more and more influence in parliament in the 1930s.

The law on the election was amended at that time by government decree which promoted the supporters of the conservative parties in the way of reducing the right of 80% of the population to vote and replacing the secret voting with open one in the rural areas.

The governor position of Miklós Horthy established in 1920 had a large power but did not expand beyond the usual roles of a strong presidential system. According to the law, the government was controlled by the Parliament, but with regard to the political interconnection of the two powers, that is to the massive parliamentary majority, the Parliament did not exercise substantive control over the government. In addition, the weight of regulatory governance increased in times of crisis, especially during the war. Local governance was controlled by the institutes appointed by the county councils. The municipal elections did not follow the principle of universal and equal suffrage, as the social groups having privileges, e.g., the wealthy layers, the professional roles, or the religious denominations were to be the major part of the eligible members of county councils (Ignác, 1997, p. 1).

With regards political and freedom rights, it can be stated that freedom of press, in particular, had been restricted by censorship, by banning newspapers and press reports, or by suing the journalists. The restriction of freedom of association and assembly was mainly hit by the members of the Communist and the far-right political parties who were usually imprisoned for their political activities. The religious and racial discrimination of the Jews had been gradually extended since 1920.

However, the Horthy system retained the character of parliamentary democracy until the beginning of the 1930s, but not as a liberal democracy. Due to the governmental system with autocratic features, where general and equal suffrage did not prevail, political and freedom rights were limited, and local government entirely lacked the principle of municipal autonomy. However, the governments formed since 1932 became more and more fascist, and in 1944, after the Arrow Cross Party (Hungarian Nazi Party) had taken over the political power, the country became an open dictatorship.

The Reform Attempts of the Hungarian Communist Party After the Revolution of 1956

In Hungary, from 1947, in the era marked by the name of Mátýás Rákosi, a Stalinesque Soviet model emerged, characterised by personal culture and the unbridled terror of the Communist Party. By the middle of the 1950s, these elements mentioned above undermined the stability of the political power of the Rákosi regime.

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2 Three parties won the parliamentary elections following each other since 1922 to 1939, but all of them had the same political characteristic.
The internal opposition of the Communist Party was removed by means of conceptual lawsuits; the old power elite was executed, deported, or expelled. The Soviet-style system of state planning, which emphasised forced industrialisation and the development of the military industry, could not set the economy on the track of permanent development. During nearly 10 years after the Communist Party came to power, the population was increasingly suffering the depths of misery.

After the collapse of the 1956 Revolution, the question of the reform of economic governance could not have arisen in the atmosphere of repression, and thus was only reconsidered in 1968. The economic reform of 1968 aimed at increasing the self-sufficiency of state-owned enterprises by conceding that they were only interested in better economic performance in this way. So, their operation becomes more efficiently if they can make autonomous economic decisions and can deal with the profits they produce. This new system of economic governance was given the indicator of “indirect” as a tag, representing a more liberal system of management by using economic regulators instead of planning directives of the Soviet model.

In the indirect system of economic governance, the central administration was also transformed: The number of ministries decreased significantly and their tasks were restructured. They guided the economy as a whole, with the tools of economic regulators, instead of the plan directives.

In 1984, a new economic governance reform was introduced. The reason for this attempt at reform was that the Communist Party-state wanted to develop the reform of 1968, as it had only declared the independence of state-owned enterprises, however, had not given them any real guarantees. The economic organisational and legal reform of 1984 gave state-owned enterprises greater economic autonomy and supported organisational and legal guarantees as well. Self-governing bodies of state-owned enterprises were set up, consisting of workers’ representatives, which exercised real owners’ rights, appointing and dismissing directors, and deciding on all the economic issues of the state-owned enterprise. Public authorities managing state-owned enterprises could only then have lawful control over state-owned enterprises. In other words, they could only supervise their lawful functioning, but no longer had the right to give direct instructions to companies in economic affairs.


However, the state-owned enterprises were the entrepreneurial assets of the state and the operation of which would have required ownership decisions that self-governing bodies managing the state-owned enterprise were not able to undertake. They did not behave as real owners, because their members, being at the same time the employees, did not have interests of ownership and could not operate as real and true business ventures.

These economic governance reforms failed to come up to the expectations. It was because it had been proved that although the Hungarian experiments at reform were a significant step forward compared with the direct planning approach, the efforts at efficiency could not be implemented consistently in a centralized and bureaucratic economic governance system based on the exclusivity of state ownership, and in which market mechanisms could prevail only in a limited way (Kornai, 1991, pp. 1026-1028).

The uniqueness of the Hungarian Communist economic governance model lies in the fact that the exclusivity of the state’s economic control role had been broken up by the end of the 1980s. In the economy
outside the public sector, private forms of entrepreneurship emerged, though these did not become dominant in
the economy as a whole. As a result, a small business market emerged on the periphery of the economy, called
the “second economy” (Csillag & Lengyel, 1985, pp. 197-199). These reform efforts triggered a process, in
which the transformation of the regime in the economy was not executed in a revolutionary fashion, but
pragmatically, it “gradually evolved in hidden way—in the womb of the “Kádár system” (Sárközi, 2009, p. 34).

The economic governance reforms of the Kádár system did not solely intend to increase economic
efficiency, but also economic growth, which served as a basis to implement a specific social policy that could
provide the population with a higher standard of living.

From the middle of the 1970s, certain forms of small business of the individuals were approved, and later,
it was also possible to operate various small businesses of the state-employees even within the state-owned
enterprises. With these elements, the Kádár system provided to the population with additional income and
enabled higher consumption. In the European Communist states, this was quite exceptional.

The Communist Party could thus succeed in Hungary by improving the welfare of the population. Under
an implicit social agreement, in exchange for prosperity, the population did not initiate movements of
dissatisfaction after the 1956 Revolution. The majority of the population in Hungary accepted the Communist
leadership in the late Kádár era, too, for it made political and cultural life more liberal. As a result, the
significance of the reprisals after the repression of the 1956 Revolution was diminished. With the reforms of
economic governance, the Kádár system created so-called “market socialism”, commonly known as “goulash
Communism”, which could, through the relative liberalisation of the economy, achieve the raising of the
standard of living, wealth, and consumption of the population. Hungary was therefore referred to as the “most
idyllic barracks” in the Communist community.

The welfare policy created by the Kádár system introduced a paternalistic tradition in Hungary, which
later survived. During the period of transition, and subsequently, the population continued to expect state care,
especially those who were not competitive in the labour market in the framework of real market economy
conditions. As a result of this trend, an increasing proportion of the population left the labour market and
became dependent on state social support.

The Kádár regime’s economic and social policy resulted in a large part of the population’s deeply rooted
tradition of not articulating its interests in a pluralistic political system, but also an involved agreement with the
political power, trusting its ability to act in the nation’s interest. Since in the history of Hungary, the bourgeois
democratic state did not develop even until the mid-20th century and the liberal democracy did not have any
traditions. These circumstances greatly contributed to the establishment of the model of illiberal democracy in
2010.

Post-Communist Hungarian Public Administration During the Transitional Period

The Peculiarities of the Political System

The modernisation process of the Hungarian public administration has not shown steady progress in the
last past quarter of a century, one reason for which could be found in the peculiarities of the Hungarian political
system.

The institutions of liberal democracy were established in the early 1990s in the state organisation, as a
result of the negotiations of the so-called “round table opposition political groups” (including the reform wing
of the Hungarian Communist Party) and the modification of the Communist constitution of 1949.
The socialist and liberal parties in Hungary considered the American system of public administration based on the principles of liberalism to be ideal by emphasizing the rhetoric of American neoliberalism: market mechanisms, competition, minimum state involvement, more self-care, and the importance of political rights and rights to freedom.

The other extreme case is represented by the right-wing state organisation model that emerged in 2010, in which the role of one political party is dominant. This state system is characterised by centralisation, limitation of checks and balances, and massive state intervention. This ideology emphasizes national sovereignty and national economic interest against the globalisation tendencies.

The main drawback of the process of Hungarian modernisation was the ultimate opposition of the two political sides. In order to achieve the most important reforms or the amendment of the constitution itself, the Constitution required that an act be adopted by a two-thirds majority in the parliament, but there was never a consensus between the current government parties and the opposition. The socialist-liberal political side, on the one hand, held completely opposing ideas about the institutions of a market economy, state intervention, state ownership, privatization, or the level of welfare institutions from those of the right-wing side, on the other hand.

In the political struggle between the two opposing sides, all other aspects seemed to be subordinated to the acquisition and retention of political power. Party financing and grants to business firms close to the political parties from the state financial resources, placed government above all other goals. It was because this provided them with the success of election campaigns and the creation of their own media empire. Building the “spoil system” too solidly and thus including political loyalty in the appointment of administrative positions also served this political aim. With this, the principle of expert governance became underdeveloped and the public administration expert apparatus became subject to daily political interests.

Due to the inability of the two political sides to reach consensus, it has become impossible to create and implement long-term economic and social policy concepts. Government programmes were therefore necessarily short-term, for a term of government or an even shorter time. After the elections, the governing parties usually expunged the results of the former government and pursued a completely different concept that made reform processes chaotic. The public administration consequently became over-politicised and government decisions were increasingly determined by party political considerations, causing serious disruption to the exercise of public administration, as there was no political mechanism that would have been able to formulate public interests.

Leftist and liberal economic governance during the 2000s had been less and less capable of addressing the economic problems, which later worsened the effects of the global economic crisis in 2007. These governments increasingly became unpopular due to the advice of the international financial institutions, which suggested introducing new austerity measures. The population regarded it as a symbol of weak and powerless governance vulnerable to global economic processes. The values of the neoliberal economic philosophy did not have real public support in Hungary. Rather instead, they believed that a strong and caring state was able to execute the requirements of efficiency. All this was still borne out by the ever-growing corruption scandals that referred to the involvement of leading government officials and politicians. As a result, the left-wing and liberal ruling parties lost their landslide popularity, which resulted in the right-wing party’s winning in the parliamentary elections of 2010, and then the overwhelming winning of the municipal elections that followed, gaining two-thirds majority in parliament and then in vast majority of local governments.
The Political Conception of the Steps to Build Illiberal Democracy in Hungary

The ideology of “majority democracy” emerged in 2010, argued that political will was too fragmented in the former Hungarian political system because of the constant value debates and the social divide, and therefore the country had become unmanageable. The winning right-wing party also highlighted that the lack of modernisation was evident in the fact that the left-wing party, as the successor to the Communist Party, had transformed its former political power into economic power, had exclusively ruled public administration for two decades, and had not used it for the public good. It had provided the country with the effects of globalisation, and its economic policy was individualistic and produced excessive privatisation. At the expense of the middle class, merely for the purpose of gaining votes, it supported the downsized groups who were living on state subsidies and were thus heavily dependent on the state. The economic basis of its political power was the granting of its own “paraselene” to the material benefits through state corruption.

Therefore, according to the ideology of majority democracy, there was a need for a political power, the so-called “central power field”,3 which can, on the basis of a broad popular mandate, represent the nation’s interest in the long term and can fulfil its national economic policy. The legitimacy of the new political power is, according to the argument, the majority of voters who support the national economic policy, so it must be regarded as a matter of public interest.

The majority democracy model is based on the principle of popular representation, according to which the demands of a political party with an absolute majority in the parliament should be considered legitimate for a government decision to be implemented quickly and easily in the public administration. It has implemented the following steps: restricted the checks and balances in the state system, and the powers of the controlling bodies; centralised the public administration; extended the “spoil system” to the election of politically loyal public dignitaries and major public officials; controlled trade unions in order to facilitate the implementation of the reforms deemed necessary; as well as increased state ownership and the scope of state monopolies in order to overcome barriers to the government’s attempts at economic intervention.

Majority democracy is hoped by many to become a more efficient state-organisation model in Hungarian political conditions, but it is the price of partially giving up certain principles of liberal democracy, such as checks and balances, political pluralism, economic equality of market constituents, or the rule of law.

This government established in 2010 is also referred to as “illiberal democracy”, facing with developed western states’ liberal democracy already having centuries of democratic traditions. In Hungary, this means that a ruling party gaining two-thirds majority in parliament in 2010 (and then in 2014 and 2018), with a broad popular mandate as its own legitimacy, has created a new constitution and also transformed the public law system. They did all this with the unhidden aim of minimizing the chances of government being replaced by the means of parliamentary democracy.

The most important step in building “illiberal democracy” was the creation of a new electoral law adapted by the ruling party to the political party structure emerged in 2010, so that the government can assume its long-term survival. The non-proportional electoral system thus created allows a party to form a government that did not achieve at least half of the votes in the elections, only the relative majority. The seats in Parliament are not proportionate to the number of votes obtained. After the 2014 and 2018 elections, the ruling party, despite

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3 This phrase was used first by the prime minister in his well-known speech of Kotcse, in 2007, when he summarized his political program. The “central power field” means in this context the necessary leading role of the recent governing party in the political system.
gaining less than half its votes, again received parliamentary seats leading to two-thirds majority.

It is a fact that “majority democracy” has been based on the votes of 30% of eligible electors and slightly less than 50% of actual electors. Electors voting for the ruling party are quite heterogeneous in terms of why they support the government’s economic and social policies. According to some surveys, about one fifth of the population feels that they have been the winner of government policy since 2010. Half of the supporters of the government come from the middle class, whose income has been significantly increased by the government. This social layer, which includes most of the upper middle class, accepts inequalities of opportunity and large social differences based on the conservative ideology. A quarter of supporters of the government are made up of rural and religious people who are authoritarians and adherents of national-Christian ideology. Now among the supporters of the government, we can find the former left-wing party supporters, such as the pensioners, skilled workers, and workers having only basic education, i.e., the so called “Kádár’s small people”, for whom the decrease of utility service prices, casual vouchers, and the minimum wage increase are significant financial help. This less educated class is also receptive to the messages of government communication in refugee issues or anti-EU sentiment. This mass of government supporters is the decisive part of the so-called “central power field”.

The majority of electors with 20% votes, supporting the left and liberal opposition parties, are mainly from Budapest and metropolitan intellectuals who, due to their ideological attitude, are the advocates of liberal democracy and widespread political and liberty rights, reject social inequality, but support action against public corruption and emphasize the development of health and education. This social layer is not susceptible to national-Christian ideology, devoted in its view to the values of the European Union and a broader integration with it, encourages a closer contact with the Western states, and rejects the approach to Eastern dictatorships. This part of the voters has covered some of the right-wing intellectuals who voted for the ruling party earlier today.

There is no numerical data on how many the supporters of the former far-right party are, which are currently defining itself as a conservative party. Among the opposition parties, this former far-right party has the highest support with 20% of eligible electors. The left and the liberal parties are extremely fragmented, and especially the support of the left-wing and liberal parties formed after 2010 is low (below 5%). The support of the two left-wing political parties, which are the successor of the former Communist Party, was higher than that.

The supporters of government’s policy consider state benefits more important to the values of liberal democracy. They accept the government’s national values and conservative politics emphasizing the independence of the nation. Leftist and liberal opposition parties have a declining tendency, which reason, besides their fragmentation, is that leftist and liberal values are less and less popular.

Almost a third of those entitled to elect do not vote, because their misery and poverty have led them to a hopeless situation that no one of political sides can provide any solution.

Any opponent of the ruling party could have a realistic chance at parliamentary elections to win only if a single political party replaced the current fragmented opposition parties. However, there is little chance to it in a long term as the unification or the collaboration of opposition parties, given that they are from far-right politics to leftist and liberal values, represent a wide range of ideologies, would lead to a massive loss of vote. For example, the far-right opposition party emphasizes greater independence from the European Union, promises drastic action against migration, and intends further economic strengthening of the middle class, but
the left-wing parties focus on deepening EU integration, managing the refugee situation under the principle of multiculturalism, which help minorities and the poor. These political differences are difficult to bring under common name which should be borne in mind. In addition, there is another breakthrough between the opposition parties: political parties formed after 2010 reject the former left-wing parties, given that they consider them responsible for the unsuccessful governance before 2010. Common element in the opposition parties’ policy is the restoration of the liberal rule of law, the eradication of state corruption, and the improvement of the education and health situation.

The long-term governance of the ruling party from 2010 is assumed to ensure that it can acquire a relative majority by parliamentary elections in the future, too, which entitles them to form a government under the new electoral law. To maintain the relative majority, they had developed several strategies that seem to be successful so far.

It first transformed the media structure by placing public media under direct government control by appointing members of the public oversight body of the media loyal to the government, as well as removing a large part of commercial media from the market and then had bought it up with businesses close to the government. Due to the diversity of media, it is difficult to estimate that the government-based media created in this way, on the one hand, the government critical media, on the other hand, in which proportion reached the media consumers, but it is undoubtedly true that government media in this regard represent almost two thirds of the total.

The governing party from 2010 also announced a political party policy that is attractive to all social strata in some form. At the heart of its policy is the emphasis on national interests, in which it focuses on the independence of the nation and the right to sovereignty. In keeping with national economic interests, it promotes the creation of its own national capital class, economically strengthens the middle class, and provides various benefits for the poor. With this political party policy over the last eight years, the support of about a third of the population eligible for voting can be maintained in the long run. The belief that the ruling party’s economic policy is implemented not by means of the rule of law, but by the elimination of the principles of liberal democracy and by widespread state corruption is represented only by the other third of the population. The third of the population does not participate in the elections.

The circle has been closed with this, as the governing party is, in theory, still detachable in democratic elections, but not in the practical reality. The ideology on the side of the government that the interest in stability is paramount, as the coalition governance of the divided opposition parties would lead to chaos is close to the truth, but the criticism from the opposition side that in the long run the elimination of the liberal democracy does not result efficient governance, is also correct. The division of the two political sides has been unprecedented since the beginning of the transition period, which completely excludes their cooperation.

Transformation of Public Law System Due to the Principles of Illiberal Democracy

Questions of Centralization and Decentralization in the Public Administration

The new constitution, created in 2012 left the basic institutions of the former state organisation, and expanded with new provisions that give a chance to the government’s aspirations of monopolisation of political power. The new constitution hinders from many aspects the scope of the controlling bodies, such as the Constitutional Court, the State Audit Office, the ombudsman, and the jurisdiction. As another success to suppress the control over the government, government loyalist members were appointed by the government or
elected by Parliament. This assured that government decisions were implemented in the state system without any obstacle.

Other institutions, including the State Audit Office and the Ombudsman whose function is to control the executive branch of power are of less importance in this respect because they are one-man-guided, and so can be controlled more easily by the appointment of a politically loyal leader.

Justice, as the most independent branch of power, has been able to withstand the central government’s aspirations due to the centuries-old tradition of juridical independence. In 2010, the government established the Office of Justice whose head is loyal to the governing party, has the right to appoint the judges, decides about tenders, and increases the salaries of the judges. This all allows the Office of Justice the opportunity to put political pressure on the jurisdiction. The same political goal was promoted in 2018 by the newly established administrative court with politically loyal judges.

The limitation of the independence of the judiciary was most clearly achieved by the appointment of a politically loyal attorney general in 2010. It is the right of the public prosecutor’s office to investigate state corruption cases, and also to bring an accusation in them, so the suspected corruption cases in business circles close to the government will not be brought to justice.

In Hungary, in 1990, a decentralised local government system with a strong autonomy was established. The administrative reform was announced in 2010 to make local and regional public administration more efficient by simplifying the organisation system, bringing the government closer to citizens, and consolidating public procurement and digitalisation of public administration. The criticisms of the new administrative system suggest that the aim was rather to reduce the powers of the local government and to increase the influence of the central government at local level.

With this in mind, the central authorities have placed the EU funds under their provisions, which meant wide-ranging oversight, conciliation, approval, and review of the tenders of EU financial resources. This step, on the other hand, has increased the risk of corruption, but it has also created the conditions for EU funds to be placed in the business circles preferred by the government. In the post-2010 local government elections, the ruling party overcame the vast majority of local governments again and again, which ensured this goal of the government.

The allocation of the EU’s development resources has never been free from political aspirations aimed at benefitting the “parasenele” of the respective government parties. It is true that the post-2010 government has far more opportunities to do so by making the role of the controlling bodies (State Audit Office and Public Prosecutor’s Office) much restricted in this area, and in turn, it has built up a tendering framework based on political loyalty and personal dependency system.

The Fall of Economic Constitutionalism in the Illiberal Democracy

By 2010, the Constitutional Court formed a significant counterweight to the public authority of the government and the parliament, so it constituted an important guarantee of constitutionality.

According to the ideology of “majority democracy”, the Constitutional Court exceeded its powers, because it took over a significant part of the parliamentary constitutional power. In 2012, therefore, the Government abolished the previous Constitutional Court decisions and the new constitution greatly reduced the scope of the Constitutional Court’s powers, particularly in economic matters. After 2010, the Constitutional Court did not play any significant role in the constitutional supervision of the government’s economic activities.
In the body of the Constitutional Court, every judge after 2010 was appointed by the governing party, so all of them are loyal to the government, rarely making decisions against the economic policy of the government.

Underestimating constitutionalism on such a large scale may undermine the requirements of economic efficiency—public policy approaches, stability, predictability, accountability, and quality legislation—which will confuse the market participants who will evaluate it as inadequate economic governance decisions. It was much more important for the government that constitutional supervision over government economic policy decisions no longer should constitute a limitation in the future.

The government in 2010 appointed a person who is politically loyal to it as the head of the State Audit Office. After 2010, the State Audit Office did not investigate the use of public funds, nor disclose shortcomings. All of this exacerbates the government influence.

The government denies that the economic policy of strengthening its “paraselene” by granting their supporters state property, state subsidies, or EU financial resources would be state corruption, because this kind of economic policy has been regulated by law. These acts that should be the subject of constitutional problems, and the lawfulness of public procurements, however, are never queried, because of the lack of impartiality in the operation of controlling authorities, such as the Constitutional Court or the State Audit Office.

Since 2010, the government has openly announced that the goal of use of European Union funds is to create a so-called “national capitalist class”, and therefore the purpose of the public interest is to provide immovable property to people close to the government and this is not a state corruption. The vast majority of tenders for EU funding are won by businesses close to the government, in a likely manipulated procedure. However, because of the lack of substantive supervision by the controlling authorities over the use of European Union funds, which is in this way under close government control, the revelation of corruption cases is limited to OLAF reports and media investigative articles. Prosecution investigations, however, are rarely initiated or seldom ended with accusation.

**The Establishment of Market-Oriented Economy Institutions During the Transition**

**Privatisation as a Tool of Economic Governance**

At the beginning of the transition period, the laws regulated the new market economy institutions that broke with the bureaucratic economic governance system of the Communist state and its paternalistic social policy. The new economic governance applied the principles of market competition, freedom of enterprise, and equality of ownership.

The first step towards the market economy was the privatisation of state-owned enterprises. The biggest challenge was to make private ownership dominant in the business sector, because a huge amount of state-owned enterprises’ property should be sold. Political struggles have always accompanied the privatisation processes since the beginning of the transition, because the political parties have seen the possibility of strengthening their economic positions through their respective interest groups in privatisation. Therefore, the assessment of privatisation is difficult from the point of view of economic efficiency, because it has in most cases served as a political endeavour and not for the public interest.

The literature describes the first form of privatisation in 1988-1989 as “spontaneous privatization” (Sárközi, 2009, p. 34). The earlier economic reforms grant wide economic autonomy rights to the state-owned enterprises to privatize themselves. According to many opinions, national wealth was “squandered” because in the majority of national property was obtained by the old Communist Party elite at low prices. Although no
survey on this has stated this yet, it is widely believed that the economic power of the successors of the former Communist Party is based upon this kind of privatisation.

Since 1990, after the first democratic government was formed, it wanted to bring its own party members into the most important corporate positions and needed revenues from privatisation for state debt repayment as well. This stage of privatisation is termed “political privatization” because the State Privatisation Agency, under strict government control, decided on privatisation using its discretionary legal authority based on tenders whose criteria, aspects, and procedures were not subject to parliamentary supervision. This privatisation practice has been criticised because of the lack of legality and democracy. Privatisation, therefore, slowed down, became bureaucratized, and evolved into a hotbed of corruption (Ágh, 1991, pp. 16-18).

In the subsequent period, legal regulations allowed the privatisation of more and more property formerly belonging to the state, exclusively through government decision-making, which meant that by the end of the 2000s, only very few enterprises remained in exclusive state ownership. There are no reliable data on the extent of corruption in the privatisation processes, but according to a report made by the State Audit Office, approximately a quarter of state assets disappeared during privatisation.

The privatisation in Hungary was rushed, because the share of state ownership was reduced to unduly low levels, and therefore strategic assets of the national economy came under ownership by foreign companies. This tendency made way for globalisation and a chance for the multinational enterprises to infiltrate into Hungarian economy, which had some negative impacts, too.

**Shaping Economic Policy by the Let-Wing, the Liberal and the Right-Wing Parties**

At the beginning of the transition period, the Hungarian economy lost its earlier potential for dynamic development, since after the disappearance of the markets of the former Communist countries; it became apparent that it was no longer competitive in the world economy (Lentner, 2010, p. 11).

This was still borne out by the economic anomalies caused by the transition to the market economy. Privatisation revenues did not cover the public debt and could not compensate for significant losses in the state budget. The budget deficit was also heightened by the fact that the emerging grey economy was based on illegal labour and tax evasion. The revenues of the budget had therefore significantly decreased as well as by the massive unemployment emerged as a result of the disappearance of state-owned companies, and this resulted in a downsizing class that was not competitive on the labour market. However, this sector still expected state care, which led to widespread welfare expenditure. Because of these reasons, the government deficit and government debt were so high that state bankruptcy threatened.

The fiscal balance in the mid-1990s was restored by the neoliberal economic policy of the Socialist-Liberal Government, known as the “Bokros package”, which sought to reduce consumption by reducing incomes, mainly by cutting social spending. The irrefutable differences of opinion between the two political sides were beginning to emerge.

According to right-wing politics, the governance of the left-wing party meant a Communist legacy, because it saw any conceivable economic reform only in restricting the population, and demanded from the middle class a sacrifice, which later proved unnecessary. It did not focus on investment, development, and employment, but supported only the poor in a great extent in the form of social assistance. The left-wing welfare policy remained a distributor, merely with the political goal of buying votes.

In the late 1990s, right-wing economic policy supported the investments of domestic small and
medium-sized enterprises, housing construction, and implemented state investments with which they created jobs and increased the living standard. This government raised the minimum wage, created a new employment policy for the dislocated stratum of the labour market, and built up the family support system. This economic policy concept used the Keynes demand-driven fiscal policy instruments against the austerity measures of the left.

By the end of the 2000s—not least as a result of the impact of the global financial crisis—an economic crisis emerged in Hungary, which the left-wing liberal government sought to address with additional restrictions on the population and an increased tax burden on businesses, as a condition of credit provided by the National Monetary Fund. A large majority of the population by then did not support the government’s economic policy.

The so-called “unorthodox” economic policy introduced in 2010, defines itself as being against neoliberal economic policy, and it entitles the state to have an active role in managing economic processes. Its economic policy was built on anti-globalisation and the emphasis on national economic interests and on increasing the welfare of the population (Matolcsy, 2008, pp. 211-213).

As a tool, it increased the share of state ownership and the number of state monopolies, introduced robust money market regulation and multinational corporations with special taxes, supported small and medium-sized enterprises, increased investment and employment, established favourable tax conditions for the middle class, and reduced the social assistance.

Increase of state ownership was achieved by reorganising the market in such a way that state-owned enterprises and business firms close to the governing political party benefited from certain sorts of advantages conceded by the government. Thus, these new economic stakeholders could expel the former market players. Due to the special taxes, a large part of multinationals in the banking sector, the media market, the energy sector, and the telecoms market have suffered significant losses, which forced them to give up their operation in the country. As another way, the state has made acquisitions, expanded the state monopolies or withdrew local public services from local governments, and placed them within the scope of state power. This facilitated the redistribution of the markets, with more intense economic intervention. It provided for the government’s economic “paraselene” very significant financial assets in order to achieve equality with the benefits of the left-wing entities in this area. In the banking sector, the state-owned banks offer preferential loans to start-up-to-run businesses close to the government, and to purchase of certain economic sectors of businesses close to the government.

The scope of state monopolies has increased not only in the public service sector but also in the business sector since 2010, which is an unusual phenomenon in the market economy-based Western management systems. The purpose of this is to obtain new markets for the enterprises close to the government party. The government accomplished this goal by declaring several economic activities as a state monopoly, and then by setting up public companies in these markets and donating them favourable market positions. New tenders were issued after having declared these activities state monopolies, and in a non-fair competition, the government preferred their own holdings by granting them the right of the operation of these economic activities.

The “unorthodox economic policy” could stabilise the economy, keep the budget deficit below the expected 3%, trigger economic growth (though not as expected), economically strengthen its own voting power, and promote economic positions of strength for the government through its own “paraselene”. Additionally, in fact, it built its own media empire.
Despite the anomalies, the “unorthodox economic policy” is supported by a wide range of people, and its success is basically due to its rhetoric breaking with the previous economic policy, but emphasising welfare principles and the interests of a national economy as opposed to neoliberal principles. Strong, centralised public administration seems to be more closely aligned with Hungarian traditions, keeping economic processes under control by having a well formulated and strong economic purpose, and also by providing care for its favoured middle-class citizens. It is argued that the neoliberal state based on the “laissez faire” principle, which trusts in the omnipotence of the market and encourages citizens to self-help, is a foreign body in Hungarian public administration. The left-wing political side represented a neo-conservative economic policy that was increasingly rejected by the population.

The “unorthodox economic policy” using unusual methods in advanced market economies is not easy to judge from the point of view of economic efficiency. The state was able to increase its controlling role in economic processes, to achieve its social and economic goals fast and easily. The government has largely repressed the aspects of economic constitutionalism, along with, at many points, the institution of the rule of law. From many perspectives, it was not able to achieve more efficient governance, either, much rather the rearrangement of the economic positions.

Public Utility Prices as a Tool of the Politics

In the Communist economic governance system, public utilities were provided by state-owned public utility enterprises, which, despite the reforms aimed at economic autonomy, remained under close state administrative control. The reason for this was that the Communist state regarded public utilities as goods forming part of basic needs, whose price was set at a much lower level than the market price by price regulation. The efficiency and profitability of utility companies did not become a priority, but the focus was more on the general availability of services.

During the transition period, the privatisation of infrastructure public utilities in Hungary took place in the second half of the 1990s. In the 2000s, the government liberalised the infrastructural public sector in line with EU directives, enabling any enterprise to enter the market, thereby creating a competitive market.

In Hungary, the price of infrastructure public services has become a field of political struggle since the 1990s. The welfare gained in the Kádár era was lost by a large part of the population at the beginning of the transition period, who still insisted on state care, one of which was the low price of public utility and transport services. In the early 1990s, therefore, the government had a major political interest in keeping the price of infrastructure public services at a low level, even at the cost of state-owned public utility companies making a loss, rather than their being privatised.

Public infrastructure services were privatised in the mid-1990s, the profit-oriented companies provided higher quality, but a more expensive service. The government, however, kept the right for itself to regulate the prices of the utilities.

It was a continuing debate that the government-established energy prices were indeed aligned with world market prices, as governments have regularly argued, or, according to opposition critics, the government’s price control practices provided extra profits to foreign investors in the energy sector. This question proved to be unanswerable because it was not based on objective calculations, merely upon political views.

Price regulation in the energy sector, which had been the central issue of the election campaigns from the beginning, took a new turn in 2010. The election promise made by the government set up in 2010 was the
so-called “decrease of utility service prices”, consistently implemented not only in energy services, but also other services.

The ongoing liberalisation process was stopped. By the end of the 2000s, state monopolies disappeared in the public service sector, as a result of liberalisation policies, and the price regulation became the exception. From 2010, the government tried to buy the service companies in the infrastructure public service sector, which was easy, because companies in foreign ownership suffered serious losses, due to the drastic decreases foreseen in the price regulations of public services. The government aimed to squeeze out the companies that had already been in the market, as well as by creating new state-owned public service companies with more competitive conditions, such as grants of state subsidies or EU development resources. In other cases, the government declared the public service as a state or municipal monopoly, or invited new tenders in which newly established state-owned applicants became winners, and the old ones were pushed out.

The aim of this new policy since 2010 was to increase the share of state ownership and the number of state monopolies in the infrastructure public sector, which served as a tool to reduce the ability and bargaining power of multinational companies in the government price determination. As a result, more and more infrastructure public services—energy services, all sectors of transport, parking, highway tolls, universal communications, water and sewerage services, and waste collection—have again have been subject to price regulation in order to reduce the prices.

Within a short time, this has brought spectacular political gains, but in the longer term, the government will have to compensate for the losses of state-owned public utility companies, and also provide additional resources for their development in order to maintain the quality of public services together with the somewhat lower prices.

Reforms of the Welfare System

In Hungary, during 40 years of Communism, the state provided welfare for individuals and raised their standard of living, especially in the late Kádár era. During the transition period, when the economic conditions of the population deteriorated because of the economic downturn and economic restructuring, governments had a major political loss in the drastic reduction of welfare.

The public felt that the public debts to which they were required to pay were too high, and that the state was using public money in a wasteful way; and because of the corruption of the political elite, public money was becoming private assets. As a result, income of the state budget was decreasing, due to the reluctance of population to pay taxes. Only long afterwards, by the end of the 2000s, did the techniques used to filter out “free riders” from the beneficiaries of welfare system develop. From the end of the 1990s, the Tax Administration Office became an ever stronger and more powerful public administration organisation, and in addition to administrative fines, it also received the power to law enforcement.

Left and liberal governments have been accused of supporting only lumpen elements that do not want to work with the provision of large-scale social assistance. It has resulted in generations of this social group the tradition that they are not earning income but receiving social aid. However, there are those who say that the status of this social layer is basically determined by the low potential on the labour market, and the lack of job opportunities in some regions of the country. The middle class had been less and less supportive of the extensive social support system for the poor, and then argued that it does not even encourage work because there is virtually no difference between the salary of the lower middle class and the income earned by social assistance.
The level and availability of welfare benefits declared since 2010, the so-called concept of a “work-based society”, meant that, as a rule, everyone should work, which signified the government wanted to provide public work, but it did not mean real job opportunities, but something rather in the nature of forced labour. The creation of public work opportunities is the responsibility of local governments, which puts public employees into a dependency position, and can be used for political purposes, such as buying votes.

From 2010, the government has provided grants to the middle class, largely to support only those who have access to work at a certain level of income, such as family tax relief for children, state loan for buying homes, and childcare allowances. In parallel, it introduced the flat tax system, which also increased the income of higher income groups. Family income support can be used primarily by the higher income earners, too.

At the same time, from 2010, the government has drastically reduced social assistance for the poor, which, moreover, only goes without the availability of public work in the given settlement. The government set up, in 2010, a radical cut of social aid affirming that anybody had the opportunity to undertake public work. Public work, however, does not assure even the minimum wage regulated by law, only the half of it. The children allowance, which is quarter part of the family tax allowance, is subject to certain rules of conduct, such as school attendance and work.

This social policy, with preferring those who have work and have higher income, openly supports the willingness of the middle class to have children and makes the poorer strata counter-appealing. With this social policy, the government gained considerable support from the middle class, at the same time, it has resulted that the numbers of poor people have dramatically increased during the last eight years.

Summary

The fall of liberal democracy in Hungary in 2010 is due to several reasons. Liberal democracy has no traditions in the country’s modern history. The Horthy system in the first part of the 20th century was a multi-party parliamentary system with autocratic features, emphasizing authoritarianism and conservative national traditions.

The half-century existence of the Communist system also hindered the development of democratic traditions in Hungary. At that time, the reform of the Communist economic governance model was a step forward, but it established unfavourable traditions, too, which later became disadvantageous for the modernisation processes.

The paternalistic social policy of the Kádár system put an end to self-care of the population, which led to a public attitude to wait from the state to take care of the population. There was also a lack of demand for democracy, because everyday living for the population was more important than participating in political decision-making processes. Furthermore, the time of transition in Hungary was peaceful, which led to continuity in the society, as opposed to the other post-Communist country in the region, where dictatorships were overthrown by revolution. With these traditions emerging in the Kádár regime, the institutions of liberal democracy could not be built up in the long run. Instead, the need for a strong, centralised state grew and later gained broad support from the population.

It has been also clear that the former Communist elite was not entirely deprived of its political and economic power. As a result, they succeeded in successfully transforming their political power into an economic power from the second half of the 1980s, which, from the time of the transition, made it possible for the former Communist Party’s successor, the recent socialist party, to build its own “paraselene” and media overweight.
However, in the socialist party, in the coalition government with the newly established liberal party, beyond the paternalistic politics for the poor, it pursued a neoliberal economic policy that was based on the emphasis of market mechanisms, the state’s non-interference in economic processes, and self-care. In the Hungarian society, however, there were no traditions of liberalism, much rather a limited recognition of political and freedom rights, and it is not considered as primary goal to assure equal opportunities. The economy of the country has been exposed to the effects of globalization by over-privatization, and they have not sufficiently supported the strengthening of the domestic capitalist class and middle class that are committed to national values.

The right-wing party introduced illiberal democracy from 2010 believed that it had to compensate for its disadvantaged situation, and therefore over-asserted its political power by means of public law, which, through its social and economic policies, was the first to receive support from the middle class and then from the “Kádár’s small people”, too. The success of this policy has been greatly contributed to the fact that neoliberalism has also been in crisis as a result of the global economic crisis in 2008, and a growing expectation of a strong state that can solve public interest problems quickly and efficiently.

However, this raises a question: Does the end justify the means in the sense that is it worth sacrificing the values of liberal democracy for the hoped greater efficiency?

The extent of economic and social inequality has continued to increase, employment indicators have only been improved by the ratio of public work, and the quality of education and health has not improved. The positioning the “paraselene” to favourable economic position will further undermine the competitiveness of the economy in the longer term, despite the government declares it as building a new national capitalist class, replacing the dominant multinational enterprises.

The society has been divided into three parts: The “paraselene” has become spectacularly rich, the income of the middle-class has improved, although it shows a tendency to deteriorate in the EU comparison (which has led to mass migration of the employees, and later to a shortage of labour), and the position of the poor living in a relative, or deep-seated poverty has not changed. Only a slim class, the so called “new bourgeois” has become a real beneficiary of the illiberal democracy in Hungary.

References