CEE still standing – The political economy of illiberal EU state resilience, or why captured states are not failing (yet)?[1]

Zsolt Gál, Department of Politics, Philosophy Faculty, Comenius University, zsolt.gal@uniba.sk

John Gould, Department of Politics, Colorado College, jgould@coloradocollege.edu

Paper presented for the panel,
"Central Europe's Illiberal Turn: Research at the Bend"
European Studies Association,
Denver, CO, USA
May 20, 2019

DRAFT

[1] Big thanks to Samuel Schavoir for his help with the research, editing, and writing this paper. All errors of logic, prose and fact are exclusively the responsibility of the authors.

The Puzzle: ***The Economic Success of the EU's Illiberal Countries.*** This project begins a broader effort to explore the political economy of Central Europe's increasingly illiberal political economy. From 1990 to 2004, CEE states built relatively robust liberal democracies in the EU accession process. Today, however, these liberal democracies are under threat. Since the financial crisis, the region's post-crisis executives have combined populist rhetoric with the formal and informal rollback of checks on their power. With fewer restraints, they have greater freedom to managing the state-business nexus to benefit themselves and their allies.

We would expect this "illiberal turn" to endanger political performance. Traditional political economy locates the political economy of growth in the self-restrained, "Lockean" state in which capital and power have reached a mutually beneficial accommodation. In a well-functioning Lockean state, investors have more stable expectations about the security of their investments over time. Greater investment, in turn, enriches state coffers through reasonable taxation.

This review leads us to expect that the current trend in the CEE region should undermine the economic performance in the region by making capital more insecure. Yet despite greater insecurity, regional performance remains robust. Job markets remain tight, state budget deficits are within reason, and private and public investment is stable. This is a paradox that needs explanation.

We find a resolution to this paradox in the form of CEE integration into the single market and EU budget transfers. We focus on Hungary which, having traveled the furthest in the region in its illiberal turn, is most likely to be showing the economic strains we'd predict from executive predation on the economy. As expected, we find plenty of evidence of state predation, yet here too, we find a relatively robust economic performance. We find the resolution to the paradox in the CEE's rather unique relationship with the EU.

We argue first, that EU financial mismanagement has helped create fertile ground for the illiberal turn, most notably by ignoring the needs of what Gould and Malova (2019) call, Central and Eastern Europe's "internal periphery." Second, we find that the EU is helping nurture Hungary's illiberal political economy through a number of mechanisms--each of which in turn further reinforces illiberalism. Specifically, freedom of movement in the EU provides an low cost outlet for surplus labor in the CEE periphery, helping keep wages higher and unemployment lower than they would be otherwise. It also deprives "periphery communities" of many of their most young voters--leaving behind an electorate that is more likely to vote for illiberal parties. Second, the single market provides core-based enterprises with a venue for low cost production. CEE countries provides foreign multinationals with a low taxation environment, cheap labor, and few risks of collective bargaining. It continues to be a good place to do business, especially since, even illiberal leaders are unlikely to "shake down" large manufacturers who provide their countries with export revenue and higher employment. Indeed, the incentive is to continue to send competitive signals (Appel and Orenstein 2018) to foreign capital to encourage additional investment. We find exceptions in the case of Hungary, but by and large, executive predation has stopped before taking major steps against foreign capital.

Finally, perhaps the greatest enabler is the EU's transfer of 1-5 percent of GDP annually to CEE countries for cohesion projects. EU transfers encourage both corruption and democratic erosion. Corruption in the tender process allows the state and their business allies to treat EU-funded public contracts like a source of rents. Politically, one either can capture these rents or not--it's zero-sum contest. EU funds thus increase the stakes of holding power and the incentive to cheat on the principles of democratic liberalism.

To crudely paraphrase Marx, the EU's expansion into the CEE, once full with the promise of a creating an extended realm of market democracy, human rights, and peace, has acted more like the sorcerer's apprentice, casting spells that it can no longer control. Ironically, given Hungary's cultivation of illiberal geopolitical alternatives to EU membership, (particularly with Russia), the EU's greatest source of control today may be the cohesion fund rents it provides to Orban and his network of politically connected entrepreneurs (Bozoki and Hegedus 2019). Cut this off and it is more likely that they will double down on authoritarianism and exit the EU, rather than abide by the rules of the game it committed to upon joining.

The Dilemma of the State: Classic liberal political economy locates economic performance in the self-restrained state; the successful resolution to what Barry Weingast (1991, 1) later called the "*fundamental political dilemma of the state*." To encourage productive investment, classical thought reasons, there must be a state—defined in the Weberian sense of an entity with a monopoly over the legitimate use of force within a defined territory. In the absence of the state, securing the benefits of one's investment over time is less certain and more costly to investors. The absence of state power, Hobbes famously reminds us, thus suppresses development. Liberals thus look to the state to secure property rights,

protect property owners from coercion, and enforce voluntarily agreed upon contracts (Hume 1756).

Weingast's "dilemma," first recognized by John Locke in his 1689 *Treatise on Government*, is that a state strong enough to protect property can also expropriate it (1995, 1). How then does one protect oneself from the "grabbing hand of the state" (Shlieffer and Vishney 1998)? The classical liberal answer lies in Locke's response. To ensure that state power is not exploited to benefit the executive, political liberals advocate limiting the power of the executive by separating out judicial and legislative powers and subjecting lawmakers to regular, free and fair elections of the propertied class. This renders government officials electorally accountable to those they must tax to pay government bills.

Representative democracy and the rule of law thus have antecedents in an accommodation between capital and power. Arguably, this has been one of the most important relationships in history (North and Weingast, 1989; Weingast 1997; Cox 2012; Acemoglu and Robinson, 2013). As Robert Bates has aptly demonstrated, any investment into fixed assets—from planting seeds to building a factory--involves a certain risk between the time of capital investment and realization of the investment. The innovation of the Lockean state was that it helped reduce this risk by "taming" the use of state's use violence in a way that reassured investors about the security of their capital investment over time (Bates 1999).

Most importantly, the Lockean state avoided two problems that had previously suppressed development. The first is the "poverty trap" (Sachs 2005, 56-7), in which capital holders consume their capital before it can be expropriated by the state (or by bandits, in cases of state weakness or absence (Olson 1993) This is a process of long term self-impoverishment. The second problem is "capital strike," in which capital holders avoid

state predation by hiding it (think offshore banks) or exporting it to a safer place (Przeworski 1986).

The Lockean state was thus a revolutionary development in that it put the use of state violence in the service of the capitalist class and encouraged investment. It also located an elective affinity between representative forms of government, private property, and robust capitalism. In the Lockean state, Republican constraint and strong economic performance go hand in hand.

As the Lockean formula has developed into contemporary liberal representative democracies, a number of additional salutary benefits have emerged. Capitalists, Smith (1776) famously observed, are self-interested creatures who will "conspire" to monopoly where possible. The Lockean state, however, makes such conspiracies harder to pull off by providing the victims of monopoly with some institutional capacity to police the intersection of capital and power. This can work even where everyone would conspire to monopoly if given the chance: The fight of interest against interest in competitive politics ensures that nobody gets their first choice.

Representative democracies are thus less prone, though not immune, to domestic monopoly and state capture (Hellman and Kaufmann 2001). They accordingly provide capital with lower barriers to market entry and greater opportunities for social mobility. These are essential to creative destruction and trade creation (Schumpeter 1942).

Democracies are also less prone to corruption. Or perhaps, a better way of expressing it, is that the corruption that occurs in democracies tends be smaller scale and more easily identified and disrupted by the combinations of a free press, rule of law, and competitive elections (Hellman 1998). This relationship is true for poor and democratic countries alike (Siegle et al., 2004). Information also flows more easily in democracies which helps improve

state accountability and supports entrepreneurial innovation (Siegle et al., 2004). Finally, democracies are also more immune to disastrous social engineering (Scott 2001, Sen 1999) and more amenable to self-correction when policies go wrong (Orenstein 2000). In sum, the Lockean state has helped unlock the potential of capital by protecting it over time and by policing the conspiratorial, monopolizing instincts of the merchants and manufacturers in their interactions with state power.

Problems with Partial Contracts: We need to be careful, however, not to romanticize the Lockean solution to the paradox of the state. By avoiding this trap, we can better see some of the problems the CEE faces as its leaders try to roll back the developed democracies they inherited from the EU accession process. Indeed, the contract between state power and society has always been only partially extended to humanity. David Hume's (1739) Lockean vision of a "just society," e.g. one in which the state protected of property rights, ensured that transactions be voluntary rather than coerced, and promised all voluntarily-entered contracts be enforced by the rule of law," only fully applied to Britain's upper classes. Historically, a majority of adults--women, men who are not white Europeans, the agricultural or working poor--have been excluded from the representative bargain entirely. Inclusive liberal entities that *aspire* to democracy based on universal adult suffrage, participation, extension of rights, and equal protection under the rule of law, are only a recent development, are still flawed, and have only existed in the CEE region since the early 1990s at best.

A discussion of the Lockean state is grossly incomplete, therefore, if it fails to recognize the degree to which it enabled the legal, state-led expropriation and exploitation of most of humanity. Writers as diverse as Karl Marx (1848), W.E.B Dubois (1903), Karl Polanyi (1944), Cedric Robinson (1983), Harold Isaacs (1963), Barrington Moore (1966),

amongst many others, offer diverse and valuable correctives. Their works, often relegated to the margins of mainstream political science, provide ample (often competing) historical insight into how the two great innovation of the Lockean state, representative parliaments and the rule of law, have more often than not been based on a partial contract with humanity. Those included in the social contract have used state power to "democratically" and "legally" enslave humans, colonize entire continents, expropriate the land of indigenous peoples, and exploit our collective biological and environmental inheritance. Despite the vast improvements in inclusion that have led observers to celebrate the "flexibility" of Lockean institutions, aspects of this practice continue today. It is not an understatement to say that today's Western democracies have achieved high standards of living at least in part through the "racialization" of humanity and capitalist "accumulation by dispossession." (Kelly 2017; Harvey 2004).

Nor is the further inclusion of the dispossessed into the "flexible" Lockean institutional framework necessarily a sufficient solution. The liberal democratic tradition continues to have deep difficulties adequately representing the interests "permanent minorities" whether it be through extension of full political and civil rights or convocational institutional arrangements. To the victims of disenfranchisement and exploitation, the mere extension of political and civil rights, often accompanied by an apology, is inadequate. For Roma in Central Europe, for example, the extension of equal treatment before the law is something of a cruel joke. Equity requires new thinking and policies that recognizes how the past application of "the rule of law," has placed large populations into positions of deep structural disadvantage, a disadvantage reinforced by a state that devotes its apparatus of violence to protect the assets of property owner from being used by others, including its expropriated victims. The mere extension of legal rights and representation is inadequate

compensation. Indeed, if one considers the legal displacement of CEE Roma communities through the lens of enclosure by enfranchised property owners (not to mention that informal and illegal displacement is still rampant) one can see the problem.

Nor has the Lockean state been able to adequately handle anthropocene climate change (Prudham 2008, pp. 19-21). The creation and protection of property rights over the key aspects of *Gaia*'s bodily organs, threatens its ability to survive. It is unclear how property protecting, representative states can deal with this issue adequately. The simple fact that the globe's capitalists currently own well over $20 trillion in buried fossil fuel reserves puts the problem in perspective. Many appear to have every intention of exploiting these resources regardless of the human and environmental cost (MacLean 2018, 215-7). Seen in these terms, Lockean institutions pose a threat to the medium term (50-200 years) continuation of contemporary civilization and perhaps even the long term survival of humanity.

These (big) caveats aside, much of the progress of the last 100 years has been marked by the growing inclusiveness of the Lockean state and should be celebrated. Inclusion has dislodged monopolists from positions of power and disrupted the patriarchal and racial capitalist practices of the past. In Central and Eastern Europe (CEE), however, inclusion is being challenged today. Full adult inclusion is not strongly rooted in the region, the (re-)establishment of a Lockean state tradition (re)emerged in earnest in 1989-90 and crested in 2004-2007 with their entry into the European Union as recognized, functioning liberal democracies.

Hence, the successful effort in CEE to roll back the Lockean bargain in favor of a populist tyranny of the majority and weakened checks on the powers of the executive, must be met with considered analysis. A century of gradual extension of suffrage and rights has been essential to the ongoing survival of capitalism, enabling societies to better protect themselves

against its most outrageous injustices including slavery, child labor, workplace inhumanity and danger, group marginalization, individual health and income insecurity, environmental degradation, corruption, and monopoly, to name just a few. Arguably, it is this inclusion that has allowed capitalism to avoid collapsing under the weight of oligarchy, monopoly, alienation, and revolution (Polanyi 1944). What will happen as Europe's newest democracies unravel?

It is within this context that we explore the Central Europe's illiberal turn, with an initial focus on Hungary. The Lockean state has a flawed history and may yet prove to be an inadequate framework for the dire challenges of the coming century. Yet, recent Central European developments towards the illiberal rule of popular-nationalist executives are equally problematic. Over the last decade Central Europe's democracies–led by Hungary--have undergone democratic erosion. The assault on political liberalism by Prime Minister Viktor Orban has set the pace—creating a model of populist politics and economic management that is being emulated by Serbia, echoed in Poland and is threatened in the Czech Republic, Slovakia and elsewhere.

Our task here is to examine the nexus between Central Europe's illiberal turn and its economic performance. The Lockean tradition expects that the unraveling of the Lockean contract will have severe economic and social side effects—including capital flight, suppressed investment, and deteriorating labor and environmental conditions. Specifically, an executive less restrained by electoral, legislative, judicial and societal checks will complicate the decision making calculus of investors, raise their perceptions of risk, and lead to them to either restrain investment or take it abroad. This will be mitigated, of course, by state capture (Hellman and Kaufman 2001) and the short term benefits of populist fiscal policies purchased by borrowing from future generations (Dornbusch and Edwards 1991). Access to easy state

patronage will ensure that many players will remain on the scene to invest. After all, to return to Smith's repeated warnings from *The Wealth of Nations*, entrepreneurs find it far easier, more certain, and usually more lucrative, to lobby for a profit than to earn one through successful performance on a competitive market.

But many will not have this privileged access to state favors, and for them, the illiberal political turn will be accompanied by much greater economic uncertainty and higher perceived risk. In particular, with a less accountable executive, those who do not have political protection face a greater likelihood of falling victim to predatory state power. This can take many forms--from an increase in mundane bureaucratic shakedowns to more costly demands for side-payments in exchange for permission to keep operating. In the worst case scenario, best categorized by the Russian word *Reiderstvo,* the state foregoes its traditional Lockean role as the protector of property rights to oversee or turn a blind eye to the outright confiscation of property by politically connected actors (Firestone, 2008). Illiberal political turns are this expected to alter the strategic calculations of business players (Gould 2011, 50-53).

Labor too, will feel the effects of disenfranchisement as government monopolists rewrite the bargain between labor and capital in their favor. Indeed, labour has never been naturally "written in" to the social contract between power and capital. Historically, it has had to fight its way in through collective action or violent revolution (Polanyi 1944). While the neoliberal reforms of the postcommunist era have been unfriendly to organized labor and collective action, there is little expect this to change under a less liberal government. if anything, labor's concerns will receive even less of a hearing from the "conspiracy" of the executive and his oligarchs.

Nowhere in the EU has an illiberal political "turn" been more pronounced than Hungary. We thus turn particularly to this case now to examine how the unravelling of institutions of state accountability are impacting the economy. We will then return to the question of the economic effects of the illiberal turn more broadly in Central and Eastern Europe.

Overall, we do find the distortions that one would expect when the rule of law and legislation are shaped around the prerogatives of the executive—complete with excluded labor, captured tenders, populist macroeconomic policies, and alarming reports of *Reiderstvo*. Yet, these expected effects appear to be sustainable in the medium turn. The EU, once a force for liberalism in the CEE region has played an important role in this story. EU financial policies have created a breeding group for illiberalism throughout what we call its "internal periphery" (see Gould and Malova 2019) and its labor policies, particularly the right to freedom of movement have helped sustain it. In addition, the deleterious effects of state capture and capital strike are apparently being offset by EU transfers to CEE budgets. Ironically, EU funds have provided governments and entrepreneurs alike an important incentive to distort the rule of law while helping insulate fiscal policy from its corrosive impact. CEE's political economy is increasingly describable using the model of rents and resource curse rather than the liberal model of specialization, trade and creative destruction. Hungary is developing a segmented economy in which global capital and state capture coexist in with only mild tensions between them.

Perhaps most ominously of all, the EU lacks the institutional apparatus to discipline its first illiberal member states and seems destined to continue on in its self-defeating policies. Worse, correction might push countries like Hungary in particular out of the EU's immediate orbit--to the benefit of Russia, whose strategy is to divide the EU and recreate a neutral or

Russian-aligned CEE region through a combination of energy dependence, financial greed, and illiberal ideology. We will turn to each of these explanations in turn, but first we look at Hungary, where illiberalism in the EU is most developed and has taken on constitutional form.

Hungarian Democratic Erosion is a relatively recent phenomenon. As a prerequisite for entry into the European Union in May 2004, Hungary had to prove, under the Copenhagen criteria and EU treaty obligations, that it was democratic in both the form and the operation of its institutions. From a post-communist liberal party in the early 1990's, Viktor Orban's now dominant party, Fidesz, drifted increasingly towards the nationalist right. Orban attempted to provide a "reasonable" nationalist alternative to the hard-line, neofascist, ethno-nationalist party, Jobbik. But Fidesz has become more nationalistic, racist, homophobic and xenophobic in the process. After eight years in opposition (2002-2010), Fidesz and a coalition ally dominated the 2010 parliamentary elections amidst widespread dissatisfaction following a pre-crisis austerity program, evidence of the incumbent government's corruption and mendacity, and a decline in export production and employment that accompanied the 2009-10 financial crisis. The size of the protest vote gave Fidesz a supermajority in parliament which Orban used over the next two years to consolidate power in the executive.

The details of this democratic erosion and ongoing developments since the 2018 parliamentary elections are noted extensively elsewhere (especially, Bozoki and Hegedus 2018;2019 and Kovats 2019) and do not require in depth repeating here. To summarize a much larger story, Hungary is a nominally democratic entity, whose rules have been formally and informally distorted since the 2010 parliamentary elections, to give the incumbent party, Fidesz, and its allies, an undue advantage in politics and the economy. Competitive elements may not have yet been eroded to the point where, to paraphrase Przeworski (1991, 10), the

incumbent part can no longer lose an election. But Fidesz has succeeded in establishing at least a medium term hegemony over most aspects of political, economic and social life.

Constitutional changes, most implemented without public comment, limited the ability of the Constitutional Court to check parliament and have made it easier for Orban to replace aging judges with political allies (Than & Dunai 2013; Scheppele, 111). The courts are now only allowed to challenge laws on procedural grounds and they may not rely on case precedents from before 2012 in making their decision. Recent efforts promise to make it possible for the government to hire and fire judges at will (Szabo 2018).

The ability of most Hungarians to locate alternative sources of information are also limited. Orban's allies have made substantial acquisitions in television, online, and print outlets and use them to present overtly pro-government perspectives. The government also uses the state media to present a pro-government message and stifle or distort opposition voices. Perhaps, because there are still independent opposition media available, a constitutional amendment gives the Fidesz-run state media preferential rights in covering electoral campaigns (Human Rights Watch 2013).

Given Fidesz control over media, opposition parties have difficulty getting their message to voters. However, it is also becoming clear that the opposition face challenges at the polls as well. A recent report on the 2016 elections found evidence of voter coercion in Hungarian elections in the forms of vote buying, and coercion through threats of withdrawal of state benefits from non-state actors. State resources have been also proven to be directed toward a workfare program that offers economic benefits in exchange for political support (GET CITE). In the most recent 2018 election, where Orban renewed his supermajority a third time, Bozoki and Hegedus conclude that given the party's use of state resources,

"Hungary no longer has a rule of law problem so much as a very serious democracy problem" (2019, 14).

Yet it is indisputable that Fidesz and its allies have solid majority support amongst virtually the entire country except for the capital in Budapest. The government extends its advantage by illiberally silencing critical voices, particularly in civil society organizations and the universities, through an illiberal discourse that relocates their identities abroad. It has compromised the academic independence of universities and created an environment that has forced Central Europe's leading graduate program in social studies to relocate to Vienna. It has also passed laws making it more difficult for foreign supported NGO's to operate in the country, forcing many to leave.

Tying these efforts together in the Hungarian imagination has been a government narrative that portrays a nation beset by existential threats from abroad, aided and abetted by "traitors" from within. The government's political imaginary normalizes and even celebrates a distinctly illiberal, nationalist world view (Peto 2018; Kovats 2019). Orban has explicitly repositioned Hungary ideologically as a self-proclaimed "illiberal democracy" with the mission of saving "white, Christian Europe" from its enemies at home and abroad. While banning state support for gender studies programs and restricting immigration, he has rhetorically nationalized women's bodies, calling on Hungarian women to have more children in order to augment the workforce and reproduce the Hungarian nation (Kingsley 2019) and attacked queer Hungarians for their failure to sign on to the national reproductive project. He is employing isolationist, xenophobic policies to manipulate Europe's migration crisis by targeting Brussels' decision to provide migrant visas as an attack on Hungarian sovereignty. He has also blamed the philanthropist George Soros for conspiring against the state in a PR campaign with thinly-veiled anti-Semitic undertones. Meanwhile, Orban leads a right-wing

populist effort to challenge the European People's Party in the European Parliament either from within or by, potentially, creating a new European party from Europe's (often squabbling) nationalist, white-supremacist and Eurosceptic national parties. These are all indicators of an increasingly illiberal regime, and represent the most extreme—and indeed the most constitutionally developed--version of a broader tide of populism currently sweeping Central Europe.

The EU and the CEE's Economic Resilience: Hungary's illiberal turn presents us with a puzzle. Despite the significant shift in power to the executive in Hungary, the country is still experiencing significant growth, including low unemployment, increasing real wages, and continued progress lowing the annual budget deficit. These trends are echoed in other Central and Eastern European Countries, such as Czechia, Slovakia but especially Poland, which have experienced illiberal trends in rhetoric and leadership, but still lag Hungary in fundamental shift in the institutions in the regime. A glance at the Hungarian/CEE economic performance since 2013 does not indicate that anything is amiss in the current state of the political economy. Unemployment and inflation are low, and budget deficits are admirably restrained, and foreign multinationals continue to operate local manufacturing subsidiaries unhindered (TABLES 5A-C). The government can claim that its illiberal turn has had no ill economic effects.

So what is going on? We find that the unravelling of the Lockean state has, as predicted, allowed the executive to take advantage of many of the liberties of a less constrained executive. This is contributing to strains in the economy. Nevertheless, EU membership helps to mitigate the strain 1) through an easily accessible and legal outlet for underemployed or unemployed labor; 2) by creating a political environment that shifts the costs of retaining foreign direct investment to labor, 3) by lowering barriers to entry for

foreign capital that offset the higher costs and risks of doing business with an increasingly politicized administrative state; and finally, 4) by annual transfers of EU structural funds that ironically both incentivize the corruption of the state-society nexus and offset its costs by reducing budget pressures elsewhere. We intend to develop this evidence more deeply in later versions of this paper (interviews planned for summer 2019), but so far, there is strong suggestive evidence that EU membership has to an extent simultaneously enabled CEE illiberalism.

The EU as cause of illiberalism: European membership and integration has played a role in the CEE regions' populist turn. Much of the blame for this lies in Europe's financial architecture whose dysfunction has provided fertile political ground for the region's illiberal leaders (Grzebalska, 2016, Brown 2018, Kovats 2018). The European Central Bank, the IMF, and the European Commission (the *Trioka*) have been calling the financial shots since the onset of the Euro crisis in 2009-10. Their strategy has been centered on an ad hoc and poorly thought out policy of imposing fiscal austerity on the periphery while failing to tailor fiscal policies in the core that could stimulate peripheral demand and new investment. Instead the core states--and in particular Germany--have doubled down on fiscal restraint while building up the EU's institutional capacity to bailout peripheral members when the collective EU fiscal diet doesn't work (Gould and Malova 2019).

CEE countries, including Hungary, are in a deep bind. They have urban centers, like Budapest, Bratislava and Warsaw, and manufacturing regions, like Hungary West of the Danube, Slovakia's Vah River valley, or Poland's Katowice/Krakow industrial region whose conditions closely reflect those of the EU core. But they also have deeply distressed rural and urbans centers as well, areas Gould and Malova have elsewhere called the "internal

periphery" (2019) CEE governments have chosen to adhere to the needs of their cores, but this comes at the expense of their peripheral communities.

Adhering to core financial policies makes sense for most CEE countries, particularly for Hungary. As a small, open economy with its own currency, the Hungarian government must borrow and pay back in Euros to meet its budget deficits. National capitalists face the same restraints for commercial borrowing. Euro-denominated debt is cheaper but vulnerable to currency devaluation. Large fiscal debts and overspending, in particular, would result in the increased cost of borrowing and a self-defeating domestic inflation-currency devaluation spiral. Both government and business thus have an incentive to adhere to core policies maintaining fiscal restraint.

Thus constrained, Hungary and other CEE countries have focused on export-driven growth. This policy has a long history, and with the exception of the 2009-10 financial crisis, has served the region well. After the fall of communism, liberal market reforms opened up CCE economies to EC/EU trade and investment. A flood of international investors--led by German engineering and manufacturing firms--reoriented CEE economies towards EU markets, with the German market playing the largest role.

Ironically, the model of export-driven peripheral development means that one must look to core export markets, and especially robust German domestic demand, for a better performance in the internal CEE periphery. Since 2009, the Germans have failed to provide it. After two years of counter-cyclical demand stimulus, German leaders decided to consolidate their budget while supporting *the Trioka* in its insistence that everyone else do so as well. These fiscal choices have limited Europe's economic speed, serving as an economic brake that has fought inflation in the core, but they have also limited economic development and

opportunities in perennially distressed rural communities and regional centers. Ironically, it is these voters who are most likely to support populist parties and policies throughout Europe (Blyth 2013; Newman 2015; Stiglitz 2016).

The emphasis on fiscal restraint has therefore helped generate Europe's illiberal turn, but the single EU market and labor's free movement have arguably helped maintain it. As rural and regional communities in CEE have remained starved for meaningful opportunities, their most talented and ambitious young adults have fled for better work elsewhere. Inflation-prone countries like Germany and the UK can keep wages and prices lower by importing cheap labor, while the flight of labor from distressed peripheral communities helps keep wages high and unemployment low there. This has the unfortunate dual effect of stabilizing core-periphery inequalities and reinforcing support for illiberal politics in distressed communities where the departure of young and educated voters skews the local electorate in favor of illiberal populism.

These dynamics are relatively pronounced most everywhere in CEE. In Hungary, considered a only moderate exporter of labor, the OECD's International Migration Outlook 2018, estimates that over 600,000 Hungarian citizens currently work abroad, with about 250,000 in the United Kingdom and 200,000 in Germany. This is about 7 percent of the adult population--a number that perhaps does more to explain Hungary's vaunted "tight labor market" than any wise policy decision by Fidesz (Balogh 2018).

The CEE's emigre work force further stabilizes home country balance of accounts through personal remittances. Personal transfers of individuals and households represent an additional, although much smaller net inflow of cash for most CEE countries. Czechia excepted, the balance of these remittances from workers is positive, with most of the inflow is

coming from other EU countries (Table 3). In 2017, the highest shares of intra-EU inflows as a portion of total inflows of personal transfers were recorded in Slovakia (99%), Hungary (95%), Luxembourg (94%), Poland and Romania (both 87%) .

Despite the stabilizing influence of the single market, there are signs that the core-periphery relationship is becoming unsustainable. In Hungary, foreign investors are already feeling the pinch from the tight labor market and report that skilled labor shortages are now one of the greatest barriers to additional investment. As predicted, Orban's government has used its supermajority to counteract these pressures at the expense of labor. In 2012, parliament transferred the right of collective bargaining from industry wide unions to firm-specific workers councils--a move that raised the collective action problems faced by labor in its negotiations with the government and capital (Bureau 2018). More broadly, Parliament has also accelerated the speed at which it passes major legislation and reduced public and opposition input into its drafting. Foreign-funded NGOs, some of which (like the Friedrich Ebert Stiftung) are pro-labor in orientation, have been handicapped by new rules and regulations, and they have demonized in government rhetoric as anti-Hungarian and socialist.

This, combined with growing media control, has allowed government to monopolize policy debate. With little public discussion, the government has recommitted to attracting investment into manufacturing for foreign markets by lowering the corporate tax and labor tax rates to 9 and 19.5 percent respectively. These are now amongst the lowest rates in Europe. The government simultaneously raised the VAT tax to 27 percent, Europe's highest. The measures have transferred more of the burden of fiscal consolidation from export capital to labor. (Bureau 2018).

While labor has been effectively silenced in Hungarian politics to the benefit of capital, foreign capital is also coming under strain under the government's growing clientelism. Orban's government has an official goal of attaining 50 percent Hungarian ownership of the the banking, media, energy and retail sectors. In practice, increasing national ownership works to the benefit of regime-connected tate and private businesses which, from the perspective of targeted domestic and foreign business, is indistinguishable from a soft form of *Reiderstvo*. Since 2016, the government has manipulated tax regulations to force foreign owned banks to sell out to OTP, Hungary's leading commercial bank. Companies in energy, pharmaceuticals, tourism, and media have faced similar pressures. A majority of Hungarian media is now owned by government-supporting enterprises. These enterprises not only reinforce pro-government messaging, they also contribute funds to a single centralized foundation that notably faces few of the constraints of domestic oppositional NGOs.

In fall 2018, long-time Orban loyalist Gábor Liszkay founded the Central European Press and Media Foundation (KESMA) to which various oligarchs and owners of pro-government media 'donated' their newspapers, websites, radio- and television channel, According to Atlatszo (a independent Hungarian source) the foundation now controls 476 media outlets, operating them in coordination with government information strategies. To avoid the investigation by the Hungarian Competition Authority and the Media Council, the Orban government declared KESMA to be of 'national importance' and thus exempted from legal restrictions.

With this growing concentration and the government leaning heavily on media enterprises to limit their critical content, media independence has slipped. Reporters without Borders now ranks Hungary 87th in the world on its ranking of media freedom.

Government illiberalism, is enabled by EU budget transfers to CEE members (see Table 2). CEE governments annually receive a remarkable 1 to 5.5 percent of GDP/GNI annually from the European Union. At the macro level, these transfers provide a reprieve from budgetary reality. The injection of EU cohesion funds into the economy means that high profile projects can be funded without cost to other fiscal priorities. So while EU cohesion projects are not perfectly fungible transfers to the state budget, they are certainly budget relieving. This helps prevent governments from having to make much tougher--and politically difficult--decisions as they seek to consolidate the budget.

It also provides a strong incentive for illiberalism (Bozoki and Hegedus 2019). EU funded public tenders are notoriously corrupt, not only in Hungary, but throughout CEE. In Hungary, investigations from the EU's anti-fraud office (OLAF), Commission and recent academic studies have provided insight into the cost of corruption (Rankin 2018; CRCB 2018). Close to half of all EU-funded tenders in Hungary have no more than one bidder--usually this is a firm closely connected to Fidesz. Prior to 2016, these contracts went disproportionately to four Orban-tied businessmen (CRCB 2018). In 2015, one of these businessmen--Lajos Simicska--slipped into opposition, deciding to back the ultra right wing party *Jobbik* against Fidesz in the 2018 elections. Perhaps it was deliberate, as the move helped fragment the opposition. Nevertheless, the government allegedly responded with attacks on the Simiscska's network of enterprises and limited his access to EU cohesion fund contracts. After Fidesz renewed its mandate in 2018 parliamentary elections, Simicska, (who performatively carried a radiation detector with him at all times to warn him against poisoning), felt compelled to liquidate his holdings, selling to government-tied individuals (Petho 2019). Another Hungarian businessman who had been successful in receiving EU-funded tenders alleges that he too was recently forced to sell his company to a

state-owned enterprise. The government, he reported, simply wanted to secure direct access to the EU contracts he had been winning. The alternative to selling out was to watch "as the government choked it to death with taxes and regulations." He has since emigrated with his family (Beauchamp 2018).

Unfortunately, if bringing CEE standards of living up to Western European levels is the goal of EU funds, it has not worked. Foreign direct investment remains the single greatest factor driving growth, regionally (Simionescu 2019). Due to government clientelism, EU funds have done little to accelerate "cohesion," although they make up about 80 percent of public investment. As data in Table 2 demonstrate, GDP growth is frequently only slightly higher (and on occasion even lower) than the net transfer arriving from Brussels. How is it possible that EU cohesion funds are frequently larger than net growth in the economy? One study estimates that tendered projects are 15 to 24 percent more costly than they need to be (Toth et al., 2017).

The excess profits line the pockets of the politically connected. Worse, they are unlikely to be reinvested in the economy in the short to medium term. As the fate of the two businessmen discussed above shows, the unraveling of Hungarian Lockean protections for domestic capital will induce Hungary's wealthiest to secure large portions of their rents in safer havens abroad. Such waste helps to explain why neither the CEE region nor Hungary have made significant progress closing the gap in wealth with Western Europe since the financial crisis. While we do not have the data, we expect the multiplier and dynamic effects from marginal increases in EU cohesion transfers to be much lower than the effects of FDI and domestic private investment that is not brokered by the government.

Hungary illustrates this picture perfectly. It leads the region in its illiberal shift and, as Table 4 demonstrates, has made the least progress among the V4, Baltic and Eastern Balkan states in converging with the EU in GDP per capita as percentage of EU average. Only Slovenia and Croatia have performed worse. Yet, Croatia did not join the EU until 2013, while Slovenia's income stalled at a higher level of about 85 percent of the EU average. Hungarian GDP per capita in 2004 stood at 61 percent of the average. 13 years later, is was only 68 % - a mere 7 percentage points higher. Meanwhile, most Baltic and V4 countries have closed the gap by 20 points. Even Czechia, which started from a much higher base than Hungary, has succeeded in closing the gap EU faster. National choices clearly matter, especially in the long and medium term.

In addition to corruption, EU funds incentivize political illiberalism. With millions of dollars of EU funded public contracts on the table, the calculus of power in the CEE reflects the model of a rent-based economy in which one's path to riches comes from positioning oneself to skim from flows of capital. Possession of this rent-skimming position is a zero-sum contest: One either occupies it or one does not. Skimming rents thus increase the importance of holding onto power. Where the stakes are high enough, democratic alternation between parties in power might even become unacceptable to incumbents and liberal, Lockean institutions to come under greater stress. This appears to be what is happening in CEE. EU largess is thus incentivizing corruption *and* democratic erosion which allows more corruption. It's a vicious circle.

Can the European Union do anything about this? As Bozoki and Hegedus (2019) detail in the paper presented on this panel, the answer is more complex than it would appear. The EU, Bozoki and Hegedus (2019) argue, is a legitimizing, constraining *and e*nabling entity (see

too, Kovats 2019). This paper has focused on the EU's enabling aspects which we find have regional, not just Hungarian impact and may help account for the regional trend towards illiberalism.

Bozoki and Hegedus (2019) cover the constraining mechanisms superbly in their paper for this panel, so this does not need in depth repetition here. Suffice it to repeat their conclusions that European investigative mechanisms, like the anti-fraud office OLAF, and treaty-based disciplinary mechanisms like Article 7 of the Treaty of the European Union (TEU) have had little more than a moderating impact on Hungarian illiberalism. Hungary has also cultivated a number of alternatives to the European Union, including, 1) business as usual, backing down only when external actors like the EU can inflict a real cost on its operations, 2) working with other white-supremacist and Christian-nationalist parties in the European Parliament to fundamentally reorient the EU away from the liberal values stated in Article 2 of the TEU, 3) shifting Hungary geo-politically alliance towards other illiberal states, like Russia, Turkey and China.

Ironically, the main break on option number three appears to be the desire to retain access to EU cohesion transfers. Bozoki and Hegedus conclude that real disciplinary actions--led by reducing access to cohesion funds--could therefore encourage a further consolidation of Fidesz's authoritarian control (2019).

More broadly, however, the European Union is in deep trouble in Central and Eastern Europe. A number of illiberal dynamics have developed related to the political economy. First, its financial and single market architecture is designed in a way that nurtures resentment at the periphery, and this resentment is quite likely to continue to produce populist protest votes. Second, Efforts to remedy this with transfers of EU cohesion funds to the periphery

encourage rent seeking and the illiberal politics necessary to protect it. Third, any real EU efforts to correct this situation will likely push Hungary and perhaps other illiberal-leaning states, further from the EU and it's liberal TEU Article 2 values. The CEE's illiberal turn is not yet an existential threat, but it threatens to become one in the near future.

Charts

Table 1: Economic openness – export of goods and services as percent of GDP

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Bulgaria	41,3	42,9	47,3	52,4	52,5	42,3	50,2	59,1	60,8	64,7	65,0	64,1	64,0	66,3
Czechia	57,3	62,2	65,2	66,4	63,2	58,7	66,0	71,3	76,2	76,9	82,5	81,0	79,5	79,5
Hungary	59,5	62,5	74,0	77,9	79,3	74,4	81,8	86,7	86,4	85,7	87,7	90,2	89,5	90,1
Poland	34,3	34,6	37,9	38,6	37,9	37,2	40,1	42,6	44,4	46,3	47,6	49,5	52,3	53,4
Romania	35,6	32,9	32,1	28,4	26,3	26,5	32,6	37,0	37,5	39,7	41,2	41,0	41,3	41,4
Slovakia	68,7	72,0	81,0	83,3	80,0	67,6	76,3	85,0	91,4	93,8	91,9	93,0	94,6	96,3
Argentina	23,8	23,2	23,0	22,7	22,1	19,6	18,9	18,4	16,2	14,6	14,4	10,7	12,6	11,2
Turkey	22,8	21,0	21,7	21,2	22,8	22,6	20,4	22,3	23,7	22,3	23,8	23,3	22,0	24,8
Venezuela	36,2	39,7	36,5	31,1	30,8	18,1	28,5	29,9	26,2	24,8	16,7	N.A.	N.A.	N.A.

Source: World Bank 2019: World Bank national accounts data, and OECD National Accounts data files.

Table 2: Net transfers from the EU common budget and economic growth

Country/year		**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
BG	EU transfer	1,13	1,92	1,77	2,50	1,88	3,32	3,80	4,45	5,33	4,15	2,92
	GDP growth	7,3	6	-3,6	1,3	1,9	0	0,5	1,8	3,5	3,9	3,8
CZ	EU transfer	0,51	0,78	1,23	1,44	0,96	2,02	2,33	2,08	3,77	1,96	1,37
	GDP growth	5,6	2,7	-4,8	2,3	1,8	-0,8	-0,5	2,7	5,3	2,5	4,4
HU	EU transfer	1,70	1,11	3,05	2,95	4,62	3,47	5,08	5,64	4,38	3,30	2,66
	GDP growth	0,4	0,9	-6,6	0,7	1,7	-1,6	2,1	4,2	3,5	2,3	4,1
PL	EU transfer	1,70	1,25	2,09	2,43	3,03	3,24	3,22	3,47	2,31	1,71	1,92
	GDP growth	7	4,2	2,8	3,6	5	1,6	1,4	3,3	3,8	3,1	4,8
RO	EU transfer	0,49	1,14	1,42	0,99	1,10	1,55	2,94	3,09	3,27	3,62	1,85
	GDP growth	6,9	9,3	-5,5	-3,9	2	2,1	3,5	3,4	3,9	4,8	7
SK	EU transfer	1,13	1,13	0,85	2,06	1,69	2,26	1,78	1,37	4,07	2,49	1,17
	GDP growth	10,8	5,6	-5,4	5	2,8	1,7	1,5	2,8	4,2	3,1	3,2

Notes: Results from years when EU transfer exceeded GDP growth marked with grey color. Net transfer from the EU common budget as percentage of GNI and real GDP growth in percentages. There are no major differences between GDP and GNI in CEE countries; usually the latter is smaller around 3-5 percent.
Source: European Commission 2019, Eurostat 2019.

Table 3: Personal transfers (2017 in € million)

Country	Inflows				Outflows		
	Total	Total as % of GDP	Of which:		Total	Of which:	
			Intra-EU	Extra-EU		Intra-EU	Extra-EU
Bulgaria	1 153	2.2 %	825	327	20	6	13
Czechia	737	0.4 %	573	165	814	529	284
Hungary	854	0.7 %	808	46	99	56	43
Poland	3 052	0.7 %	2 647	405	257	57	200
Romania	2 823	1.5 %	2 461	362	252	174	77
Slovakia	231	0.3 %	230	1	61	53	8

Note: Personal transfers in methodology used by Eurostat consist of all current transfers in cash or in kind between resident and non-resident households, disregarding the underlying source of income, the relationship between the households or the purpose of the transfer. Thus, the concept of personal transfers is seen to be broader than workers' remittances (compensation of employees).
Source: Eurostat (2018) Personal transfers in the EU and Eurostat (2019) GDP and main components.

Table 4: Economic convergence: GDP per capita in PPS as percentage of EU average

Country	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
EU28	100	100	100	100	100	100	100	100	100	100	100	100	100	100
Estonia	54,0	59,7	64,3	69,3	68,5	63,5	64,7	70,6	73,7	75,2	77,0	75,6	76,8	78,8
Latvia	45,8	50,2	52,8	57,3	58,7	52,3	52,7	57,0	60,3	62,1	63,4	63,9	64,3	66,8
Lithuania	48,9	52,6	55,2	60,4	62,7	56,2	60,3	65,9	69,9	73,0	75,0	74,7	75,4	78,2
Bulgaria	34,0	36,6	37,4	39,9	42,6	43,0	44,0	45,2	46,0	45,4	46,7	47,0	48,5	49,3
Czechia	78,0	79,4	79,4	82,4	83,8	85,2	82,7	83,0	82,4	83,6	85,9	87,1	87,6	89,5
Hungary	61,0	61,9	61,3	60,2	62,5	64,0	64,6	65,8	65,5	67,0	67,9	68,1	66,8	67,7
Poland	50,1	50,4	50,7	53,1	55,4	59,1	62,4	65,1	66,8	66,9	67,4	68,5	68,1	69,5
Romania	34,3	35,2	39,2	43,3	50,7	51,6	50,9	51,6	53,7	54,2	54,9	55,9	59,3	62,6
Slovakia	56,9	60,1	63,0	66,6	71,3	71,1	74,4	74,4	75,6	76,4	77,0	76,7	76,8	76,2
Slovenia	85,5	86,8	86,3	87,2	89,5	85,1	83,3	83,0	82,0	81,7	82,1	81,7	82,5	85,1
Croatia	54,4	55,4	58,3	61,0	63,0	62,1	59,4	59,7	60,0	59,7	58,8	59,5	61,0	61,6

Notes: Percentage of EU28 total per capita (based on million purchasing power standards), current prices.
Source: Eurostat 2019.

Tables 5A-C: V-4 Macroeconomic Performance

5A: GDP Growth (annual %) World Bank

Country	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Czech Republic	5.603	2.682	-4.803	2.273	1.778	-0.8	-0.484	2.715	5.309	2.451	4.353
Hungary	0.435	0.856	-6.6	0.682	1.658	-1.631	2.094	4.225	3.536	2.281	4.137
Poland	7.035	4.25	2.82	3.607	5.017	1.608	1.392	3.318	3.839	3.063	4.806
Slovak Republic	10.8	5.63	-5.423	5.042	2.819	1.657	1.491	2.75	4.175	3.125	3.188
European Union	3.08	0.483	-4.349	2.236	1.755	-0.396	0.257	1.784	2.348	2.043	2.456

5B : % Unemployment, Eurostat

Country	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Czech Republic	5.3	4.4	6.7	7.3	6.7	7	7	6.1	5.1	4	2.9
Hungary	7.4	7.8	10	11.2	11	11	10.2	7.7	6.8	5.1	4.2
Poland	9.6	7.1	8.1	9.7	9.7	10.1	10.3	9	7.5	6.2	4.9
Slovak Republic	11.2	9.6	12.1	14.5	13.7	14	14.2	13.2	11.5	9.7	8.1
European Union	7.2	7	9	9.6	9.7	10.5	10.9	10.2	9.4	8.6	7.6

5C: Inflation, consumer prices (%/year) World Bank

Country	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Czech Republic	2.853	6.359	1.019	1.473	1.917	3.288	1.438	0.344	0.309	0.684	2.451
Hungary	7.959	6.043	4.212	4.856	3.93	5.652	1.733	-0.228	-0.062	0.395	2.348
Poland	2.459	4.165	3.795	2.581	4.239	3.56	0.992	0.054	-0.874	-0.665	2.076
Slovak Republic	2.757	4.598	1.615	0.957	3.919	3.606	1.4	-0.076	-0.325	-0.52	1.312
European Union	2.485	4.159	0.929	1.666	3.31	2.63	1.31	0.22	-0.054	0.217	1.469

References:

Acemoglu, Daron and James A. Robinson. *Why Nations Fail: The Origins of Power, Prosperity, and Poverty.* (New York: Currency, 2013).

Balogh, Eva S. “Leaving in Hordes: Emigration from Hungary.” *Hungarian Spectrum*, June 22, 2018. http://hungarianspectrum.org/2018/06/22/leaving-in-hordes-emigration-from-hungary.

Bates, Robert H. *Prosperity and Violence: The Political Economy of Development.* (New York: W W Norton, 2001).

Bátorfy, A. (2019) Pro-government research institute publishes scientifically unfounded study to justify media concentration. In: Atlatszo English Available at: https://english.atlatszo.hu/2019/02/27/pro-government-research-institute-publishes-scientifically-unfounded-study-to-justify-media-concentration/

Blyth, Mark (2013), *Austerity: The History of a Dangerous Idea*, Oxford: Oxford University Press.

Beauchamp, Zack. “It Happened There: How Democracy Died in Hungary.” *Vox*. September 13, 2018. https://www.vox.com/policy-and-politics/2018/9/13/17823488/hungary-democracy-authoritarianism-trump.

Bozóki, András, and Dániel Hegedűs. “Constraining or Enabling? Democratic Backsliding in Hungary and the Role of the EU.” Paper presented to the biennial conference of the the European Studies Association. Denver, Co, May 10, 2019.

Brown, Wendy. "Apocalyptic Populism.," *Eurozine*, August 30, 2017. https://www.eurozine.com/apocalyptic-populism/

Bureau of Economic and Business Affairs. “Hungary,” 2018 Investment Climate Statements Report, United States Department of State. July 19, 2018. http://www.state.gov/e/eb/rls/othr/ics/investmentclimatestatements/index.htm?year=2018&dlid=281591

CRCB. “Cronyism in Hungary. Empirical Analysis of Public Tenders 2010-2016 | CRCB.” Accessed February 10, 2019. http://www.crcb.eu/?p=1336

Cox, Gary W. “Was the Glorious Revolution a Constitutional Watershed?” *The Journal of Economic History*. 72:3 (September 2012): 567-200.

Dornbusch, Rudiger and Sebastian Edwards. “The Macroeconomics of Populism,” in Rudiger Dornbusch and Sebastian Edwards, editors, *The Macroeconomics of Populism in Latin America*, (Chicago: Univ. Of Chicago Press, 1991), pp. 7-13. https://www.nber.org/chapters/c8295.pdf

DuBois, W.E.B. *The Souls of Black Folk* 1903.

“Eastern Europe & Central Asia: Weak Checks and Balances Threaten Anti-Corruption Efforts.” 2019. Transparency International. January 29, 2019.

European Commission 2019: EU expenditure and revenue 2014-2020 (budget in figures: interactive) http://ec.europa.eu/budget/figures/interactive/index_en.cfm

Eurostat 2019: Database (GDP per capita in PPS, Real GDP growth rate – volume) https://ec.europa.eu/eurostat/data/database

Firestone, Thomas. ”Criminal Corporate Raiding in Russia,” *International Lawyer* 42:4 (Winter 2008): 1207-1229.

Gould, John A. *Politics of Privatization: Wealth and Power in Postcommunist Europe*. Boulder: Lynne Rienner Publishers, 2011.

Grzebalska, Weronika. "Anti-Genderism and the Crisis of Neoliberal Democracy: Why the war on gender matters and not just to feminists," *Visegrad Insight*, March 7, 2016.

Harvey, David. 2004. “The 'new' imperialism: accumulation by dispossession.” *Socialist Register* 40: 63-87.

Hellman, Joel, and Daniel Kaufmann. 2001. “Confronting the Challenge of State Capture in Transition Economies.” *Finance and Development*, September 2001.

Hellman, Joel S. 1998. “Winners Take All: The Politics of Partial Reform in Postcommunist Transitions.” *World Politics* 50 (2): 203–34.

Human Rights Watch. “Wrong Direction on Rights | Assessing the Impact of Hungary’s New Constitution and Laws.” Human Rights Watch. May 16, 2013.

Hume, David. *Treatise on Human Nature*. 1739.

Isaacs, Harold. *The New World of Negro Americans.* Viking, 1963.

Kelley, Robin D. G. “What did Cedric Robinson Mean by Racial Capitalism?” *Boston Review* January 12, 2017.

Kingsley, Patrick. 2019. “Orban Encourages Mothers in Hungary to Have 4 or More Babies.” *The New York Times*, February 17, 2019.

Kovats, Ezter. "Questioning Consensuses: Right-Wing Populism, Anti-Populism, and the Threat of ‘Gender Ideology.’" *Sociological Research Online*, (2018): 1-11

Kovats, Ezter. “The role of ‘gender’ in the illiberal turn in Hungary. Post-socialist conditions and the Orbán governments’ gender politics between 2010 and 2019.” Paper presented to the biennial conference of the the European Studies Association. Denver, Co, May 10, 2019.

MacLean, Nancy. *Democracy in Chains.* (New York: Penguin Random House, 2018).
Marx, Karl. *The Communist Manifesto*. 1848.
Moore, Barrington. *Social Origins of Dictatorship and Democracy: Lord and Peasant in the Making of the Modern World*. Boston: Beacon Press, 1966.
"Nations in Transit 2018: Confronting Illiberalism." 2018. Freedom House. April 11, 2018.
Newman, Abraham (2015), "The Reluctant Leader: Germany's Euro Experience and the Long Shadow of Reunification," in: Matthias Matthijs and Mark Blyth (eds), *The Future of the Euro*, Oxford: Oxford University Press, pp. 117-135.
North, Douglass, and Barry Weingast. "Constitutions and Commitment: The Evolution of Institutions Governing Public Choice in Seventeenth-Century Britain." The Journal of Economic History 49, no. 4 (1989): 803–32.
Olson, Mancr. "Dictatorship, Development and Democracy." *American Political Sciecne Review* 87:3 (September 1993): 567-576.
Orenstein, Mitchell A. 2001. *Out of the Red*. Ann Arbor: University of Michigan Press, 2001.
Pethő, András. "Inside the Fall of the Oligarch Who Turned against Viktor Orbán." *Direkt36* (blog). January 14, 2019.
https://www.direkt36.hu/en/feltarul-simicska-bukasanak-titkos-tortenete/.
Pethő, Andras, and András, Szabo. 2018. "Orbán's Game." *Direkt36* (blog). March 12, 2018. https://www.direkt36.hu/en/orban-jatszmaja/.
Peto, Andrea, "Hungary's Attack on Gender Studies: A threatening online message and institutional inaction exposes the official illiberalism" *Public Seminar* November 29, 2018.
http://www.publicseminar.org/2018/11/hungarys-attack-on-gender-studies/?fbclid=IwAR12WA4C0rAUWVglaivJiA0242jC8lTawOrIG7k-7KrSMrihvp2mc%E2%80%A6

Polanyi, Karl. 1944. *The Great Transformation: The Political and Economic Origins of Our Time*. Boston, MA: Beacon Press, 1944.
Przeworski, Adam. *Capitalism, Socialism and Democracy*, Cambridge: Cambridge University Press, 1985.
Przeworski, Adam. *Democracy and the Market*. Cambridge University Press, 1991.

Robinson, Cedric. *Black Marxism: The making of the Black radical Tradition.* Chapel Hill: UNC Press, 1983.

Sachs, Jeffrey D. *The End of Poverty.* Penguin Random House, 2006.

Scheppele, Kim Lane. 2015. "Understanding Hungary's Constitutional Revolution." In *Constitutional Crisis in the European Constitutional Area*, 1st ed., 124–37. Hart Publishing.

Schumpeter, Joseph A. 1942. *Capitalism, Socialism, and Democracy*. 1st ed. London: Harper & Brothers.
Scott, James C. 1998. *Seeing like a State: How Certain Schemes to Improve the Human Condition Have Failed*. New Haven, CT: Yale University.
Sen, Amartya. "Democracy as a Universal Value." *Journal of Democracy* 3 (1999):3-17.
Shleifer, Andrej and Robert W. Vishney. *The Grabbing Hand: Government Pathologies and their Cures.* (Cambridge: Harvard University press, 1998).
Siegle, Joseph T., Michael M. Weinstein, and Morton H. Halperin. 2009. "Why Democracies Excel." *Foreign Affairs*, January 28, 2009.
Simionescu. Mihaela "What Drives Economic Growth in Some CEE Countries?" The Journal Studia Universitatis "Vasile Goldiş" Arad. Economic Science 28:1 (2018): 46-56

Smith, Adam. 1982/1776. *The Wealth of Nations*. Penguin Random House.

Stiglitz, Joseph (2016), The Euro: How a Common Currency Threatens the Future of Europe, New York: W.W. Norton

Szabó, Máté. 2018. “Hungary’s Fidesz Government Will Be Able to Hand Pick Judges.” Liberties.Eu. November 26, 2018.

Than, Krisztina. 2018. “Civil Organizations in Hungary Brace for Government Crackdown on NGOs.” *Reuters*, April 25, 2018.

Than, Krisztina, and Marton Dunai. 2013. “Hungary, Defying EU, Limits Powers of Top Court.” *Reuters*, March 12, 2013.

Tóth, István János, and Miklós Hajdu. n.d. “Intensity of Competition, Corruption Risks and Price Distortion in the Hungarian Public Procurement – 2009-2016,” 143. http://www.crcb.eu/wp-content/uploads/2017/12/eu_hpp_2016_report_170616_.pdf.

Weingast, Barry R. “The Economic Role of Political Institutions,” The *Journal of Law, Economics, and Organization,* 7:1 (1995)”: 1-31.

Weingast, Barry R. “The Political Foundations of Limited Government: Parliament and Sovereign Debt in Seventeenth- and Eighteenth-Century England.” In The Frontiers of the New Institutional Economics, edited by J. N. Brobak and J. V. C.

World Bank 2019: Exports of goods and services (% of GDP) - World Bank national accounts data, and OECD National Accounts data files. https://data.worldbank.org/indicator/NE.EXP.GNFS.ZS?end=2017&start=1960