

# What Orbán Knows and His Enemies Don't

BY

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Hungary's right-wing strongman owes his success to his diagnosis of the country's ailments: economic liberalization has failed many of its citizens.

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To many, Hungary looks like a capitalist success story. It handled the transition from a dictatorship with a centrally planned economy to a democracy with free-market capitalism smoothly and has enjoyed constant economic growth, thanks to help from the European Union, which it joined as a full member in 2004.

Budapest shows plenty of signs of this renaissance. The eclectic nineteenth-century architecture, once filthy and dilapidated, is shining again; construction sites are springing up everywhere; and tourists flood the city center. Wages are rising, and foreign capital is flowing. All this certainly looks like evidence that open-market democracy and economic liberalization work.

But something is off. The far-right Fidesz party, which took power in 2010, rules the country in an increasingly authoritarian fashion. Prime minister and party leader Viktor Orbán secured a two-thirds parliamentary majority in 2010, allowing Fidesz to modify the constitution and electoral law without cooperation from other parties. As a result, when Fidesz won only 44 percent of the vote in 2014, it nevertheless came close to another two-thirds majority and, with a deeply divided opposition, retained its hold on decision-making.

Throughout Orbán's reign, Hungary has made international headlines for its prime minister's divisive actions: he built a wall on the Serbian border and demanded the European Union pay for it; he vocally opposes the EU's policies and uses it as a scapegoat in domestic propaganda; he has

suppressed the free press and made the public sector less accountable to citizens; he's obsessed with "background powers" led by NGOs, all allegedly linked to billionaire George Soros; and he has openly flirted with autocratic leaders such as Vladimir Putin and Recep Tayyip Erdoğan.

Fidesz identifies as conservative but has been increasingly classified as "extreme right" by international observers. Meanwhile, the fragmented opposition ranges from technocratic centrists and liberal elites to the extreme right Jobbik. Is present-day Hungary torn between the Right and the far right? Why would a small country with an open economy, which seems to have profited immensely from joining the European Union and opening its markets, experience such an extremist turn?

Of course, Hungary isn't the only post-socialist nation to suffer from these symptoms: Poland and Russia have taken similar regressive and authoritarian turns. And the conservative wave isn't limited to the post-socialist context, as Brexit and the recent elections in Italy, Germany, France, and the United States have shown.

But Hungary's case seems even more extreme, showing signs of slipping toward an autocratic system like Turkey's. Its conservative-nationalistic turn has been around longer, preceding rather than following Western trends, and it may have begun a dangerous cycle: the Western media and public opinion initially ignored or ridiculed Orbán's nationalistic, xenophobic, and autocratic measures, but now they greet similar moves elsewhere as legitimate thanks to being "mainstreamed" by Hungary's ruling class.

These are the symptoms, but what is the illness?

## A Polanyian Story

The insights of Hungarian economic sociologist Polányi Károly (1886–1964), better known as Karl Polanyi, help us understand his birth nation's political developments. In *The Great Transformation*, Polanyi explains how economic elites are incentivized to advance the interests of capital against those of labor and nature. As utility maximizers, capitalists have a vested interest in transforming the greatest possible share of social relationships into market relationships, even at the cost of social cohesion and stability.

These market relations make it so that survival depends on access to capital. Those without their own share of capital must earn it, selling their labor as a commodity. Polanyi deems labor a "fictitious commodity," and it's clear that we cannot treat it like other products in the marketplace.

Labor can't be stored when demand is low, nor can it be easily moved if there's greater demand elsewhere.

Polanyi called these opposing viewpoints “double movement.” Capitalist forces try to open economies and make self-interest the basis of all social processes, while workers push for social protection. This theory sheds light on the modern welfare system, which allows for the (partial) decommodification of what the market has taken over.

Importantly, however, decommodification isn't always progressive. Polanyi argued that the rise of Italian fascism represented society's attempt to protect itself from the excesses of the market, writing, “the victory of fascism was made practically unavoidable by the liberals' obstruction of any reform involving planning, regulation, or control.” It is this regressive decommodification that we see in Hungary today.

## A Terrible Hangover

During the transition to capitalism, Hungary suffered from unregulated liberalism, sharing the fate of many neighboring countries. Major elements of economic restructuring are nicknamed “shock therapy,” and the patient has still not recovered.

To boost competitiveness and reduce the country's crushing debt, the nation hurried to privatize state-owned companies, which also seemed like a way to “adopt” capitalism and attract foreign investment. In time, Hungary not only became liberalized — it became more liberalized than most “old capitalist” countries.

Opening the markets was so successful that outsiders now dominate a large share of Hungary's economic life: the biggest banks are Austrian, German, and Italian, as are the supermarkets and the IT and telecommunication companies. The same goes for production: the biggest companies are Audi, General Electric, Mercedes Benz, and Bosch, turning Hungary into a sort of neoliberal colony.

In the race for investors, successive governments cut corporate tax rates to 9 percent, as opposed to 35 percent in the United States, a liberal market economy *par excellence*. Hungarian politicians, like politicians everywhere, praise small business owners, but the true drivers of economic growth are foreign-owned corporate giants. Hungarian workers have little access to the means of production, but, in all fairness, neither do Hungarian capitalists.

Taxes on consumption provide most state revenues, and Hungary has one of the highest value-

added taxes in the world. The economy is completely export oriented. These changes have lowered wages and incentivized tax evasion. As a result, many public services, including health care and education, are severely underfunded; investments in these programs have been stagnant or shrinking for years, and their diminishing quality regularly stirs public debate.

Initially, Hungary maintained socialist-era welfare provisions, but the government continuously cut them, citing budgetary restraints. Now, a modest unemployment benefit is available for only three months, and social provision is meager.

Hungarians now have little control over their economic life; in fact, they have become commodities themselves. In an open economy dominated by international companies, the vast majority of Hungarians make a living by selling the only thing they can: their labor. This puts people in a constant state of alienation as all the surplus wealth they produce during their long days is siphoned away.

Hungarians increasingly compare their salaries with those of Western Europeans. The disparity not only creates a feeling of injustice but has also prompted a growing number of workers to leave in hopes of establishing a more secure living elsewhere. Why would anyone stay in Hungary when they can earn three times their current pay, with better public services and higher unemployment benefits, just three hours away?

The recent wage increases are offset by a controlled devaluation of the Hungarian forint, designed to keep exports cheap on the world market. Politicians often cite the country's record low unemployment, but Hungary will soon face a severe labor force shortage in its underfunded public services, especially health care.

To really understand the national mood, one must leave the thriving capital and its metropolitan area, which is home to about 20 percent of the country's population but provides 40 percent of the country's GDP. Quality of life improved in some smaller urban centers, but wage levels outside Budapest lag behind not only the European Union but Hungarian averages as well. And the more rural the location, the worse access people have to services and basic welfare provisions.

Fidesz's media dominance follows the opposite pattern: Budapest's residents have access to internet-based outlets critical of the ruling party, while rural populations are significantly more likely to consume only state-run media, where Fidesz warns them about the dangers of international migration, George Soros, and Brussels, and reminds them of their government's heroic efforts to protect them from these threats.

With this history in mind, rural Hungarians' and the urban poor's strong preference for someone who claims to stand up for them is perfectly rational: the post-transition elites left them behind, and they sense this fact very clearly.

## What Orbán Understands — and Liberals Don't

Prime Minister Orbán's personal history is curiously intertwined with that of his nation. He began his political career in 1988 in the ranks of Fidesz (then short for Fialat Demokraták Szövetsége or the Alliance of Young Democrats), a newly formed liberal party hailing capitalist and democratic transition.

But, as a rising number of Hungarians began to see the drawbacks of a liberalizing transition, Fidesz — led by Orbán's iron hand — turned away from its original ideology. It slid first toward conservatism; then, when its vision of a "bourgeois" Hungary failed to secure victory in 2002, it moved toward right-wing authoritarianism. Its leader skillfully reads the feelings of the population, understanding especially the needs of those often referred to as the "losers of transition."

After forming a government in 2010, Orbán fought against what he called "the Western financial crisis"; he greenlit an "unorthodox" economic policy and eventually shared his vision of an illiberal society, which, he promised, would "bring a nation to success." Since 2010, his government has implemented "crisis" taxes on sectors dominated by Western European companies and imposed one of Europe's highest banking levies on mostly foreign-owned banks. When accused of corruption, he responded that Hungary needed to establish a "national capitalist class," which requires keeping Hungarian capital in Hungary, allowing internal investments, and encouraging the development of an internal economy. His government has tried to nationalize utility companies and much of the banking sector in the name of "economic patriotism." These measures were often hasty and poorly planned, but they otherwise could be seen as an attempt to heal the wounds left by the shock-therapy liberalization of the 1990s.

Much like Polanyi described, Orbán has won the support of disgruntled and alienated citizens. Meanwhile the opposition has nothing to offer than more liberalism. Opposition parties (apart from Jobbik, of course) promise to make Hungary "more European," but, for most Fidesz voters, the past decade's efforts to advance toward Europe have been disastrous — slashing the welfare state, endangering their jobs, and making their lives more uncertain. For these Hungarians, voting for Fidesz makes perfect sense.

## Orbán Is a Consequence, Not a Cause

We do not mean to write a hagiography of the man. A lot of his illiberal narrative is a publicity stunt. He belongs to the elite, after all; he was — and is — part of the liberal transition that wracked the country. But he's used his outstanding communication tactics, including playing the victim of the liberal order, to position himself as the underdog struggling against evil globalist forces.

His “economic patriotism” is just crony capitalism, a redistribution of wealth among his acolytes. There is no indication that his cronies will keep profits within the country rather than send them to offshore investments. This basic confusion between national interest and corruption is even being institutionalized, as a prominent Fidesz sympathizer put it in an interview:

What I mean is that the government set such goals as the formation of a class of domestic entrepreneurs, the pillars of a strong Hungary both in agriculture and in industry. . . . That is what people call corruption, which is a political point of view. The word “corruption” becomes something mythical.

Orbán owes his success to his understanding of popular sentiment and his ability to address the disenfranchised, marginalized, and alienated losers of globalization. He's a liberal smart enough to see that liberalism failed Hungary.

So, where is the opposition? In Budapest, mostly, where it suffers from an acute case of false consciousness. The urban intelligentsia aims its refined messages at its highly educated voters, splitting the vote among fifty shades of liberal: liberal greens, third-way socialists with no socialist program, and just plain liberals, like George Soros. Youth movements are mostly liberal as well.

Budapest mimics life in Western European capitals, with hipster bars and overpriced coffee shops, and the opposition forgets that a silent majority around them, with no access to power and limited access to media, sees Orbán as someone willing to listen to them and address them.

Much like the Italian left under Berlusconi, the Hungarian opposition is obsessed with Orbán but not really interested in why he's so popular. They love to hate his flamboyant rhetoric, his obvious lies, and the absurdities of the government-managed mass media. Many people recognize all this as a dangerous swing toward authoritarian rhetoric, but no one seems to wonder why it was so successful.

It makes sense that the old Hungarian elite is liberal: they experienced the dictatorship first hand, and they want to distance themselves from it. But it's worrisome that young elites are also liberal: they live in a world of relative stability — with the illusion that their modest wage increases amounts

to real wealth — and enjoy a “European lifestyle.” Most of them, however, are just information-age “burger flippers”, whose competitiveness lies precisely in their inexpensive labor, and whose identity as members of the European middle-class is largely illusory. The neoliberal colonization of Hungary extends past supermarkets and car manufactures; it is a colonization of the elite’s minds as well.

There is an immense opportunity for a young, genuinely anti-capitalist left in Hungary. Paradoxically, Orbán paved the way. Like him, the opposition needs to actually listen to and address the rural and working poor, rather than imagining that liberalization can pull them out of the poverty economic restructuring created.

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