

KÁDÁR'S PEOPLE-
Post-socialist legacy and economic populism in Hungary

By Zsófia Bajnay

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Supervisor: Attila Fölsz

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I am interested at the effects that legacy of the Kádár-system had or still has on Hungarian political culture and economic policies. My hypothesis is that post-socialist legacies in the Hungarian political culture might be a fertile ground of economic populism. The theoretical background of this research is the literature on populism and political culture. I base my work on value surveys and the analysis of the economic policies of the post-transition Hungarian governments.

My main findings are that the post-socialist condition is present on the demand-side of economic populism. On the supply side I found the lack of cultural and behavioral consolidation of political elites and a social-institutional structure in which populist policy choices seem rational for politicians. External impacts, such as Hungary's EU-accession, both mitigated and enabled economic populism.

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1. Introduction

Hungary used to be regarded as one of the most advanced reformers of the Central and Eastern European region. There were expectations that the early reforms and economic liberalization attempts of the Kádár-regime will make the transition period easier and help the legitimization of the new system. Yet from the mid-2000's, Hungary has been falling behind its neighbors in terms of economic growth and productivity. Has the relative prosperity of the 'goulash communism' been a disadvantage after all?

I am interested at the effects that legacy of the Kádár-system had or still has on Hungarian political culture and economic policies. Inglehart had described political culture as "having major political and economic consequences" (Inglehart, 1988, p1203) – post-socialist legacies in the Hungarian political culture might be a fertile ground of economic populism. The theoretical background of this research will be the literature on populism and political culture. I will base my work on value surveys and the analysis of the economic policies of the post-transition Hungarian governments, to see whether they can be classified as populist policies.

2. Research design

The structure of the thesis will be the following. After briefly describing my research question, hypothesis and choice of methodology, I aim to give an overview of populism in my literature review chapter, as well as summarize the different approaches to the phenomenon. Although the concept of populism is used very often, there is little agreement among political science scholars on the actual definition of populism. I will introduce the three main contemporary approaches to populism. I will argue that populist economic policies can be understood as a subtype of populism and that these policies may or may not accompany populist ideology, style or strategies. These populist economic policies can be linked to the post-socialist heritage in Hungary's political culture, which appears to be prone to populist tendencies. In the later chapters, I discuss the post-socialist phenomenon and the particularities of the Kádár-system, with a particular focus on the linkage between populist tendencies and the system of "goulash communism". Then I proceed to analyze the economic policies of all post-1989 governments while looking for familiar traits of left- or - right-wing populist policies. I finish with the discussion of the demand- and supply-side of economic populism in Hungary, conclusions and suggestions for further research.

2.1 Defining the research question

My research question is the following: How did the Kádárist legacy on Hungarian political culture affect the post-1989 transition to market economy? In particular, I am interested at whether the post-1989 Hungarian governments' economic policies can be classified as populist, since I consider the post-socialist, Kádárist political culture of the country as a possible ground for populist policy-making.

2.2 Hypothesis

Hungary's political development was largely affected by the reform-communist Kádár-regime. The reflexes that Hungarian society had learnt in the years of the soft dictatorship still influences the way Hungarians think about public matters, such as economic policies. The Kádárist welfare social contract managed to create social peace during the years of the socialist dictatorship, but became an obstacle after the transition and contributed to the emergence of populist economic policies.

3. Populism

This chapter serves as a literature review of the populist phenomenon. In the following, I will summarize the main works of the field. The literature review starts with exploring how populism has been studied so far and identifying the main conceptual tracks. Then I summarize the different definitions of populism, and afterwards I analyze the existing research on populism in the Central Eastern European region. Next, I look up the theories of economic populism to have a more complete analytical background to support my hypothesis.

3.1 Main concepts in studying populism

Although populism has been known as “one of the most controversial and fuzziest terms used in ... political sciences” (Skolay, 2000, p1), there have been many attempts to build frameworks for definition. Gidron and Bonikowski (2013) differentiated between three approaches towards populism in the political science literature. The first describes populism as a political ideology, the second as a discursive style and the third as a political strategy.

According to Mudde and Kaltwasser (2012), populism should be understood as a ‘thin-centered ideology’, which can be attached to other, more comprehensive ideologies, either left-wing or right-wing, depending the needs of the populist actors. This is an explanation to the appearance of populism on both sides of the political spectrum. Instead of looking for a unifying grand ideology behind populism, the antagonism between the people and the elite is the common denominator. Within this approach, populism is not a complete ideology in itself, rather than a ‘set of ideas’. Pankowski (2010) defined this as a mental framework, which serves as a structure of interpretation of reality for the populist actors. Pankowski’s populism is also largely dependent on political culture: it is successful when the populist actors can relate themselves to the traditions of the political community. Research of

this approach builds on party publications (such as party programs) to identify the populist political actors.

The second major conceptual approach identifies populism as a political style and stresses the importance of rhetorical elements. This discursive style of populism is defined by de la Torre (2000) as the rhetorical construction of a moral struggle between the people and the oligarchy. Apart from highlighting the clash between the people and the elites, this approach emphasizes the moral struggle in political conflicts (Hawkins, 2009). Kazin (1995) and Laclau (2005) define the political style approach as a strong differentiation between ‘us’ and ‘them’, where the ‘us’ represents the social construct of the people and ‘them’ is the oppressive establishment. Gidron and Bonikowski (2013) add that this approach to populism is more of a form of political rhetoric and style used by the political actors than their identity and thus it is more flexible than the ideology approach.

The populist discourse, as identified by Hawkins, features a strong dualist worldview: everything is either right or wrong. It also refers to history frequently, using the past as a justification of contemporary populist ideas. The moral good is embodied in the will of the majority; the evil is represented in a minority, which uses its power to abuse the interests of the majority of ordinary citizens. Pluralist discourse, however, is characterized by a tendency to focus on narrow issues, the acceptance of differences in opinion and a broad and legalistic understanding of citizenship. Whereas populism treats political relations as naturally antagonistic, pluralism views them as an opportunity of cooperation. (Hawkins et al., 2012) It avoids conspiratorial accusations and treats the opposition as a legitimate political actor. (Hawkins, 2010)

The third approach to populism featured in Gidron and Bonikowski’s article (2013) was populism as a political strategy, which can be about either policy choices, political

organization or political mobilization. The policy choices literature will be featured later more in detail in the economic populism chapter, but here I outline some major points of it. Madrid (2008) described this kind of populism as one that “takes the form of particular economic policies and repertoires of mass mobilization”. (Madrid, 2008, p482) These particular policies target economic redistribution and the protection of natural resources by nationalizing them. According to Acemoglu et al (2011), this populism should be understood as “implementation of policies receiving support from a significant fraction of the population, but ultimately hurting the economic interests of this majority”. (Acemoglu et al, 2011, p772) Within this political strategy, the populist economic policies are meant to give the impression to voters that their interests are more important than big business’. Populism as an act of political organization was described by Weyland (2001) as a strategy of the personalistic, populist leader, who aims to govern with the “direct, unmediated uninstitutionalized support” (Weyland, 2001, p14) of his supporters. Levitsky and Roberts (2011), who conceptualized populism as the top-down political mobilization of the supporters, also emphasized the personalistic character of the populist leader. Taggart (2000) also characterized populist leaders as strong and charismatic. Pappas (2012) further highlighted the importance of populist leaders –he described them as political entrepreneurs- who construct the cleavage between the people and the elites. Similarly, Jansen (2011) understood populism as a political project, aimed to mobilize the previously marginalized groups of society. This sort of populism can thrive because of the weakness of democratic institutions, similarly to the political organization and mobilization concepts.

The three approaches towards populism outlined above based on Gidron and Bonikowski’s (2013) literature review are not necessarily distinct concepts. Certain scholars (Pappas and Hawkins for example) argue that the ideology-based and the discursive style approach are overlapping in their dualistic worldview of the struggle between the people and

the establishment. Filc (2010) points out the similarities between all the three approaches. He differentiates between three levels of inclusion and exclusion, noting that the ‘us’ and ‘them’ dichotomy requires the differentiation of the people and the elites. Material inclusion divides the political community on the policy-level, symbolic exclusion takes place on the rhetorical level and political exclusion operates on the party-level.

Gidron and Bonikowski (2013) also summarized whether the populist phenomenon is beneficial for democracy or not. Some scholars have argued that populism might actually be good for democracy, since it encourages the participation of groups previously left out from the political process and thus leads to a better representation of the will of the people. (Mudde and Kaltwasser, 2012)

Others however emphasize the negative effects of populism. According to Urbinati (1998), in the framework of populist politics institutions do not serve as checks and balances anymore, instead they are employed as tools to serve the majority will. Populists in the government aim to undermine democratic institutions, the separation of power, principles of deliberation and minority rights – Mudde and Kaltwasser (2012) found this process particularly harmful to the quality of democracy in unconsolidated democracies, while the effect was less prominent in consolidated democracies. Levitsky and Loxton (2013) explained this behavior of populist actors with their special understanding of political mandate: they consider themselves to be chosen by the people to fight the establishment, not hindered by democratic institutions.

This introductory part of the literature review chapter introduced the main concepts of populism research which look at populism either as an ideology as a political style or as a political strategy. Furthermore, the overlaps of these three approaches have been discussed, and also the question whether populism distorts or betters the quality of democracy.

3.2 Populism as a political strategy

The second part of this chapter focuses on the different understandings of populism within the political strategy framework, now that the main concepts and approaches are cleared. I will introduce articles by Weyland, Mudde and Jansen, focused on one the political strategy aspects of populism.

Based on Sartori's (Sartori, 1984) differentiation between cumulative, radical and classical concepts, Weyland (2001) aims to create a classical concept of populism. These concepts differ in their scope and domain: a cumulative concept only qualifies the cases as populist that include all the major characteristics of populism. In contrast, radical concepts include all the cases that carry at least one populist feature. The classical concepts identify one core element that is required to be defined as populist, while the other characteristics are considered less important and as supplementary to the main element.

Weyland (2001) argued for a classical definition instead of the radical one in order to avoid confusion between researchers using the same term, although with different meaning. His classical definition leans towards a political understanding of populism, based on the notion that populism is a political strategy, rather than a political style. He described populism as: "a political strategy through which a personalistic leader seeks or exercises government power based on direct, unmediated, uninstitutionalized support from large numbers of mostly unorganized followers." (Weyland, 2001, p14) Another part of this strategy is the disregard of traditional institutions of politics, as the charismatic leader is in charge of representing 'the people' and protecting them from the corrupt elites.

The question whether the new populist movements (with many of them applying neoliberal economic policies) qualify as populists was partly answered by Roberts' theory (Roberts, 1995) of the radical concept of populism. Gathering the five most important

characteristics of populism: personalistic and paternalistic leadership; a multi-class support base, top-down mobilization to avoid institutionalized forms of conflict mediation, mixed ideologies and redistributive and clientalistic economic policies, he classified the cases where all six attributes were present as full populism and other cases as subtypes.

Jansen's Populist Mobilization (Jansen, 2011) understands populism as a mode of political practice. This approach was contextualized in the context of Latin-American neopopulism, characterized by charismatic leaders (such as Fujimori, Chávez and Morales). These populist leaders gained "legitimacy and support by mobilizing marginalized social sectors into publicly visible and contentious popular action, while articulating an anti-elite, nationalist rhetoric that valorizes ordinary people". (Jansen, 2011, p75) Jansen's populism is a political practice, limited in space and time to executed projects of populist mobilization. This political project is constituted of both social mobilization and discursive practices. These political tools can be used by challengers and incumbents and are not bound to a certain political and economic agenda.

The populist rhetoric highlights the social homogeneity and the 'virtuousness' of the people, while the elites are portrayed as immoral, corrupt and antagonistically different to the people. The ordinary citizens are contrasted with the enemy of the people, the elites – in contrast with them, the people have high moral worth. Apart from the specifics of the rhetorical and ideological features, it was also noted by Jansen that populist mobilization is limited to certain historical moments in a regional context, making his definition highly contextual.

The articles quoted in this part introduced the key concepts of populism as a political-institutional approach. This understanding of populism focuses on the institutional

aspects of the concept, personalistic and charismatic leadership, top-down political mobilization and on the populists' low esteem for non-majoritarian institutions.

3.4 What are populist economic policies?

One of the three main approaches to populism was the understanding of populism as a political strategy – namely as policies, organization or mobilization strategies or as a certain leadership style. In this chapter I will analyze economic populism, both from the left- and right-side of the political spectrum. Williamson defined economic populism as “the phenomenon where a politician tries to win power by courting mass popularity with sweeping promises of benefits and concessions to ... the lower classes”, (Williamson, 1992, p347) while he also noted that “populist leaders lack a coherent program for social change or economic reform”. (Williamson, 1992, p347) Populist policies can be rather harmful on the long run: Rioja and Glomm (2003) found that albeit in small, open economies single reforms rarely have large effects on economic growth, a set of non-populist reforms could increase the country's economic growth by 0.3 percentage point in each year. Rode and Revuelta's (2015) quantitative study identified the reduction of economic freedom as the main effect of populist policies.

What do scholars understand as 'populist' economic policies? The answer is often not straightforward: as Andersen et al. (2017) have noted, the word 'populist' is often used by politicians to discredit opponents or to undermine ideas they dislike. Andersen and his co-authors define populist economic policies as short-sighted and in denial of budget constraints. Populist economic policies target people who “fear to lose status in society and who have been abandoned by the political establishment.” (Andersen et al., 2017, p53) The populist political agenda overplays the negative effects of migration and globalism and blames

foreigners and international institutions for economic hardship. Populist policies tend to offer simplistic solutions and bypass checks and balances.

Dornbusch and Edwards (1991, p9) described economic populism as “an approach to economics that emphasizes growth and income redistribution and deemphasizes the risks of inflation and deficit finance, external constraints, and the reaction of economic agents to aggressive nonmarket policies.” The two authors also highlighted the common features of ‘populist episodes’ as experienced by Latin American countries. The traditional populist episode usually started with a general dissatisfaction with the state of the given country’s economy both from the general public and from the populist politicians. Many times there was an economic crisis in the background, with the involvement of the International Monetary Fund: the IMF stabilization package had reduced growth and lowered the standards of living, thus creating a source of the general dissatisfaction with the country’s economy. Funds were, however, available at least on a short term due to the preceding stabilizing measures. The improved budget and trade balance enabled the populist governments to raise public-sector expenditures and engage in monetary expansionary politics.

When in power, traditional populists’ economic policies are successful at the first glance. Economic growth, real wages and employment are high, while price control mechanisms take care of inflation and exports mitigate the domestic product shortages. The growing lack of foreign exchange will, however cause inflation problems and a budget deficit. Continued populist policies lead to further shortages, extreme inflation, dramatic fell in real wages and a capital flight. The new governments end up having to cut the previously generous subsidies and finally resort to orthodox stabilization measures.

Sachs (1990) also analyzed the phenomenon of economic populism in the Latin American context, highlighting the region’s weakness at moderating social conflict. He

defined the populist political cycle as a “particular type of Latin American policymaking, characterized by overly expansionary macroeconomic policies which lead to high inflation and severe balance of payment crisis.” (Sachs, 1990, p5) Sachs also highlights that populist political cycles are mostly relevant in the Latin American context, with populist movements based on the support of the urban proletariat, led by charismatic leaders.

Sachs’ macroeconomic framework of economic populism is highly similar to Edwards and Dornbusch’s description of traditional populists: due to the redistributive nature of the populist political cycle, populist governments tend to avoid fiscal austerity, because they fear that austerity would cause social unrest. In the macroeconomic framework described by Sachs, the monetary expansion (paired with capital controls and fixed exchange rates) will lead to lowered domestic interest rates and expanded domestic demands, while the domestic prices remain unchanged. Thus the rise in domestic demands will cause a rise in demands for labor, which will boost nominal wages. The expansion is, however, financed by foreign reserves or foreign debt and will burst in a balance of payment crisis when the national economies exhaust their borrowing capacity and foreign reserves. Sachs warns that the (traditional) populist political cycles rarely cause long term economic growth and political success – he underpins the statement with the examples of Peron in Argentina, Allende in Chile, the Cruzado Plan in Brazil and Garcia in Peru.

In the 1990s, a group of Latin American populist leaders (Presidents Menem in Argentina, Fujimori in Peru and Collor in Brazil) who became known as neopopulists started to pursue liberal economic policies. Although at first glance this new type of populism seemed incompatible with the economic policies attached to it, Weyland (1999) noted that neoliberal economic policies and populist strategies are in fact compatible with each other. Examples from both Latin America and Eastern Europe show that both neoliberalism and populism have the individuals in focus and are directed against interest groups with large

political influence. The concentration of power and the notion of a crisis are also shared similarities. However Weyland also notes that the alliance of populist politicians and neoliberal reformers is more of “a marriage of convenience, and less than true love” (Weyland, 1999, p383), and the cooperation is more likely in presidential systems, where strong, directly elected presidents can carry out austerity measures in democratic circumstances.

Compared to ‘traditional populism’, neopopulism would allow populist leaders to use neoliberal policies in order to strengthen both the state and the market. In this political-economic strategy, neopopulism serves as a structure that limits social resistance to market-oriented reforms (Armory, 2001). Weyland (2003) drew parallel between neoliberalism and neopopulism at highlighting how both strategies reject trade unions and professional associations - neopopulists view these groups as threats to their power, while neoliberals see them as rent-seeking special interests. Instead, neopopulist leaders appeal to the rural poor and the unorganized informal sector and offer them anti-poverty programs and targeted social transfers.

In a more recent paper, Aytaç and Öniş (2014) analyze the differences between the economic policies of left-wing and right-wing populist governments, using Argentinean and Turkish examples. Left-wing populist policies were introduced through the example of the Kirchners in Argentina. Their economic policies aimed mostly at reducing social and economic inequalities with increased state expenditure, the extension of social welfare coverage and direct state interventions into the labor market. The left-wing populists of Argentina placed a large emphasis on competitive exchange rate in order to boost employment and support the development of domestic industries. Furthermore, they also supported labor movements and actively and frequently intervened in the economy through social programs and extensive subsidies. Nationalization was also a common phenomenon the

Kirchners' Argentina: the private pension system, the main national airline and the largest Argentinean oil company all became state-owned enterprises. Inflationary pressures were dealt by price controls. Redistributive policies manifested in various forms of social programs, state subsidies and utility rate freezes. State intervention in the economy resulted in a series of regulations and periodic limitations on exports to support domestic employment.

On the other side of the political spectrum, the Turkish AKP party initiated right-wing populist economic policies. According to the authors (Aytaç and Öniş, 2014), populist economic policies from the right-wing emphasize the stability of the national economy and physical security instead of reducing inequalities. The AKP's economic reforms featured extensive privatization of state-owned enterprises, pro-capital policies and the general improvement of the conditions for foreign investments. The Turkish state was less prone to intervene into the markets than its Argentinean counterpart and followed a more conservative macroeconomic policy. Workers' rights were taken into consideration far less than in Argentina: the authors characterized the labor policies of the AKP as an "overall deterioration in the institutional rights of the working class" (Aytaç and Öniş, 2014, p50). Redistribution, however, played an important role at establishing the AKP's "broad-based, cross-class electoral coalition" (Öniş, 2012, p3). While a large part of the redistributive measures benefitted the party's supporters through informal channels, formal redistribution also took place and the country's good economic performance resulted in rising standards of living for the whole citizenry. In an earlier article, Öniş (2012) highlighted how the AKP utilized redistributive politics for broadening its circle of supporters. The author also noted that Turkey's growth under the Erdogan government was largely helped by the international economic environment at the time.

Although both the Argentinean and Turkish governments employed populist patterns of rule, the Kirchners pursued a left-wing set of economic populist reforms while Erdogan's

AKP introduced more right-wing economic policies. Apart from ideologies, the difference can be accounted for the legacies of the previous regimes, the different perceptions for the causes of the preceding economic crises, the divergent strength of labor organizations and last but not least, the different dynamics of the global and regional economy. Important common features of left-wing and right-wing economic populism were that both regimes used redistribution as a tool of winning elections and both have opted for a strong state in terms of regulations and domestic economic policies. Populist economic policies, as defined by Aytaç and Öniş, collide with the understanding of Edwards and Dornbusch in many ways. All authors stress the redistributive aspect of populist policies and the fact that populist governments usually come to power after various economic and political crises. However the populist episodes, as defined by Edwards and Dornbusch, resemble the left-wing set of populist economic policies much closer than the right-wing ones, especially regarding expansive monetary policies, labor politics and raises in public-sector expenditures. Meanwhile, the right-wing version of economic populism echoes the policies of the more recent phenomenon of Latin American neopopulism as described by Weyland and Armony.

Table 1 summarizes the differences and similarities of left- and right-wing populist policies based on the Argentinean and Turkish experiences of economic populism. The difference between economic populism and ‘plain’ left- or right-wing policies is that economic populism is short-sighted, often irresponsible and will ultimately hurt the interests of the majority of the people.

LEFT	RIGHT
reducing social and economic inequalities with increased state expenditure, expansive monetary policies	stability of the national economy
the extension of social welfare coverage	physical security instead of reducing inequalities
direct state interventions into the labor market and the economy (extensive subsidies, utility rate freezes, price controls)	
boost employment and support the development of domestic industries	general improvement of the conditions for foreign investments
supported labor movements	pro-capital policies
nationalization	extensive privatization of state-owned enterprises
redistributive policies as a tool to win elections	
strong state in terms of regulations and domestic policies	

Table 1

Source: Comparison of left- and right-wing economic populisms by Aytaç and Öniş (2014), Own editing

The understanding of populism in the framework of economic policies has received a wide criticism, the most recently from Aslanidis (2017). The author argued that seeing populism as a destructive type of policy-making “suffers from both methodological and empirical inconsistencies” (Aslanidis, 2017, p276). The core problem with the concept of economic populism is, according to Aslanidis that economic policies can only be labeled as populist after they have been enacted – thus, it is impossible to study economic populism of parties in opposition. The author also notes that despite the electoral success of populist parties, no populist policy cycles materialized in Europe in the last three decades.

Regarding methodological inconsistencies, I aimed to create a framework that allows me to place Hungarian economic policies in the last 28 years in the context of populism. I agree to the critique of Aslanidis to the extent that this research can only be executed

retroactively and can only analyze the governing parties' policies. In Chapter 5.3, I will thus mostly focus on the economic policies of Hungarian post-transition governments. Regarding the lack of populist policy cycles, I think it is important to note that in the case of Hungary, external funds, especially the European Union's Cohesion Funds have played a large role at sustaining the economic growth. (European Commission, 2016)

I view the concept of economic populism as one of the possible understandings of a complex phenomenon. As it was argued earlier, populism can be studied as a political ideology, as a discourse style or as a political strategy, and each of these three understandings requires different methodological and empirical tools. I believe that analyzing the situation of Hungary in the framework of economic populism will add a new perspective to the already existing, vast amount of studies on populism in Hungary. Understanding populism as a particular set of economic policies does not rule out the other, ideological, discursive or strategy-based approaches to the multi-faceted phenomenon of populism. My perception is that these different approaches strengthen each other and allow researchers to study the interplays between them and build stronger cases.

In chapter five, I will interpret the economic policies of Hungarian governments after 1990 and attempt to identify the populist economic policies characteristic for post-transition Hungary. I think that these populist economic policies originate (at least partially) from populist tendencies created by the post-socialist experience. The next chapter will describe these particular populist tendencies, and the later chapter 4.2 will outline the post-socialist phenomenon in Hungary and in the CEE region.

3.3 Populism in the CEE region

In this part of the chapter, I explore the characteristics and specific subtypes of populism in the Central Eastern European region. The studies reviewed in this section deal

with the post-socialist legacy and how the simultaneous transition contributed to the emergence of populism in the region. After the transitional era, the effects of the CEE region's Western orientation (and strong early dependency) and the directions of the legal democratic institutions are examined. The authors of the following articles have also studied whether populism in peripheral the Central and Eastern European states is any different from the core Western European variation; and what factors played a role at strengthening the populist politics and policies.

The article of Bugaric (2008) analyzed the threat that populists pose to the institutions ensuring the rule of law in the Central and Eastern European region. Due to the strong majoritarian element of populism, the legal institutions of liberal democracy are seen as obstacles of the will of the people. With cases from Poland, Slovakia, Hungary and Slovenia the author underpins his theory of threatened institutions, which are the independence of mass media, the professionalism and neutrality of civil service, the independence of the judiciary body (especially the constitutional courts) and the anti-corruption commissions. Bugaric also points out that disdain of the institutions protecting liberal democracy is not only a characteristic of populist parties, but it is shared by the other parties in the system.

Cas Mudde's article on Eastern European populisms (Mudde, 2002) describes three different types of populism present in the region and places them in the postcommunist context. The first one is agrarian populism, which originates from the late 19th century. Agrarian populism placed peasants and agricultural life in the centre; peasants symbolized morality against the urban elites and their traditional way of life was seen as the true foundation of society. Anti-elitism also played a great role in agrarian populism, centralization and capitalism (threatening the local communities) were linked to the urban elites. Agrarian populism was mostly present in Eastern Europe before World War II. The

region had several peasant parties and movements, encompassing both intellectuals and peasants. The movements were diverse in the background of their supporters, and also in their ideological background; right and left wing ideologies were also present, together with anti-capitalist and anti-liberal sentiments. Capitalism and liberalism were derived from the antinational elites (whom were also considered of Jewish origin). Despite their significant electoral success (Pirie and Held, 1997), the agrarian populist parties lost their momentum after authoritarian leaders took over the region. After the end of the communist rule, many of these peasant parties and movements participated in the first free elections (some countries even saw the formation of new peasant parties instead the reappearance of the historical parties), yet they prove to be unsuccessful. The reason behind the loss of support for the peasant movement was that their earlier voters became “rural proletarians” (Mudde, 2002, p14) after the industrialization and collectivization processes. These parties only remained significant in countries where the collectivization process was hindered or mitigated by reform-socialist policies.

Economic populism originates from Latin America, where charismatic leaders took control in the 1920s. The personalistic leadership style is matched with a certain set of economic policies, with a special emphasis on economic growth and the redistribution of wealth. Protective tariffs and the expansion of domestic consumption are also essential characteristics of economic populist policies. Although communist economic policies do overlap with the populist economic policies in many ways, during the 1990s economic populism was marginal in most of the region. The lack of widespread populist economic policies can be traced back mostly to the large influence of neoliberal economic theories during that era. (Greskovits, 1998) However, it is important to note that since the postcommunist electorates were mainly socialized under communism, they have grown to expect the state to provide for them and to protect them. These societies also tend to support

state involvement more than the Western ones (Rose and Haerpfer, 1998). Parentalism, alongside the notable social polarization that emerged after the introduction of market economy enhances the likelihood of populist economic measures – something similar had happened in Hungary after the political and economic transition.

Political populism, the third type of populism present in the CEE region has been earlier described as a political style focused on the special connection between the populist leader and the homogenous people. Mudde also notes the contrast between the people and the corrupt elites. Political populist actors prioritize politics as the will of the majority and reject international or economic pressures. Right wing, national populist parties are both present in Western and Eastern Europe, although in the West they are not considered being potential partners in government. In parallel with the development of the national extremist parties, an intellectual version of political populism has also evolved in the East, turning the populist strategy a common phenomenon. The postcommunist legacy played a great role at the creation of political populism: the egalitarian, nihilistic and fragmented societies provided a fertile ground for the populist ideas. The notion that the transition and the revolution were stolen by the new elites (Weyland, 1999), of whom the majority has to be protected from also resonated well in the former socialist countries. The influence of populist political strategies was limited by both the type of the political system and by the maturity of the system.

It is important to note, as Mudde mentions it in the conclusion that during the first decade after the fall of communism, most of the Central Eastern European countries depended on the material support of the International Monetary Fund and the World Bank. Thus, the countries of the former Eastern Bloc had to comply with strict economic and fiscal policies, which did not allow for economic populism. Western rules were also adopted in the political arena, leaving populist political strategies to the extreme right parties, given that CEE

countries aimed to become members of the European Union and the North Atlantic Treaty Organization.

Skolkay's article (2000) highlights the common features of postcommunist legacy in the Central and Eastern European region, namely the citizens' risk-avoidance, the aversion to pluralism and fair play (Tismaneanu, 1996), the pessimism accompanied with passivism, the unrealistic expectations for economic performance and the depolitization of society (Schöpflin, 1992). Another major legacy of the long-lasting authoritarian regimes is paternalism – both the elites and the citizens tend to wait for a popular savior.

Populism in the Central Eastern European region shows traces of the region's troubled history. Paternalism is an inheritance of the socialist past, as well as the support for state involvement. The simultaneous transition and the inequalities it caused contributed to the emergence of both economic and political populism in the CEE region; however, the Western orientation and dependency have mitigated its consequences. The semi-peripheral existence of the Central and Eastern European states, their authoritarian past and the doubled transition process they went through all differentiate these countries from their Western European counterparts. CEE populism is more prone to economic populism and is often addressed to the rural proletarians. The new democratic institutions and mechanisms are not that deeply embedded into the local societies and thus easier to attack for populist politicians. The region's postcommunist past is a popular scapegoat. In a later chapter, I will further explore the post-socialist phenomenon within the CEE region.

4. The Kádárist legacy of Hungary

The following chapter will summarize what I understand as the ‘Kádárist legacy’ of Hungary. After an introduction to the history and the structure of the state-socialist system from 1956 to the 1990s, I will look at theories on post-socialist legacies to identify the specificities of the post-socialist political culture. Later, in the part on transition and expectations from democracy, I will analyze how the former socialist era affected Hungary after the transition. Finally I will draw a comparison between Kádárism and populism.

4.1 An introduction to the Kádár-system

The Kádár-regime was established after the 1956 revolution was suppressed by the Soviet army. The major demands of the revolutionary youth were the continuation of the reforms of the government of Imre Nagy, regarding especially the reversal of the collectivization and forced industrialization. Although the revolution has failed, the former Stalinist government was removed from power and János Kádár succeeded Nagy as the Chairman of the Council of Ministers of the People's Republic of Hungary.

After the initial punishments (many revolutionaries were imprisoned or executed), the memory of 1956 became silent and the Kádár-regime offered a new compromise, based on mutual reconciliation to the citizens of the Hungarian People's Republic: the policy of “those who are not against us, are with us”. (Gough, 2006, p135) The chaos within the communist party and the weakness of the Stalinist hardliners allowed Kádár to develop this policy of broad co-optation, which later came to be known as “goulash communism”. The policies of the “goulash communism” were characterized by a certain institutional dualism. While economic reforms were enacted to balance the effects of the state-planned economy, social liberalization also took place, creating a ‘second society’ (Hankiss, 1990) where the individuals were allowed to have a private, depoliticized sphere for autonomous action.

Additionally, on the margins of the party-state, alternative activity was accepted, and the social and economic reforms were used to maintain the fragile support of the regime by compensating for the built-in defects of the socialist order. (O’Neil, 1996) However these liberalizing measures had to remain in the framework of the socialist, planned economy.

The political and economic liberalization after 1968 was described by Professor Chikán (2018) as an attempt to create ‘market socialism’, which allowed individual interests to play a role in the system. Reformers started to work on the New Economic Mechanism (NEM) in 1966, and the reforms (described in detail in Chapter 5.1) were launched in 1968. With reforms aimed to improve the citizens’ wellbeing, the political elite offered a slow, but constant rise in the standards of living. This welfare-based social contract did not challenge the very principles of state socialism – prosperity was waiting a few years less for a new car.

While in Hungary it marked the introduction of the NEM, 1968 was a largely significant year in the West, too. With the political liberalization that accompanied the economic reforms, party elites and a few intellectuals gained access to Western criticisms of classical Marxism and articles on the New Left. Universities in Budapest had an active student life, new student circles were allowed and several political debates took place.

The liberalization of public life reversed by the second half of the 1970’s: students and intellectuals found themselves once again confined. As party hardliners became more powerful, debates and criticism of the nature of the Kádár-regime were pushed back to the ‘small circles of freedom’. (Chikán, 2018) By the middle of the 1980’s the decay of the system became obvious for all citizens. Apart from inner attempts of reformist members of the Party, there were several peace- environmentalist and student mass movements demanding change. These movements were, however, all short-lived and led by intellectuals –

that may have anticipated the weakness of autonomous civil society organizations after the transition. (Lomax, 1997)

4.2 The post-socialist phenomenon

In this part of the chapter, I will explore if there are any shared widely characteristics within the post-socialist countries and whether they are still significant today. Stenning and Hörschelmann described post-socialism (or post-socialisms) as “everyday experiences of post-socialism” as a condition rather than a culture. The two authors pointed out in their critical literature-review article that the post-socialist condition is spread over more than 25 states and that “any attempt to produce a single, theoretical framework for this diverse space would be doomed.” (Stenning and Hörschelmann, 2008, p317) They also highlighted that the 25 countries are divided by differences during their socialist period – the different regions and countries had vastly different relations to the centre, and were characterized by different local debates and issues. Thus, viewing the post-socialist countries as a “homogenous, monolithic totalitarian and pan-Slavic bloc” (Stenning and Hörschelmann, 2008, p318) would be largely incorrect. The 1989-1991 transition period also played out in various ways and with different results (peacefully or through violence, ending up in democracies or authoritarian regimes). These experiences with the transition also added up to the post-socialist condition, as well as the varying pre-socialist histories of the 25 countries of the former Eastern Bloc.

Stenning and Hörschelmann state that the post-socialist condition still remains an important feature of the former socialist countries, despite the EU-accession and the generational shift that has taken place since the transition – these events only transformed the post-socialist condition. It is still relevant due to the fact that the socialist past serves as a nostalgic reference point and influences identities and patterns of consumption. The way political and social institutions were developed under socialism affects the process of

institutionalization today. (Stark and Bruszt, 1998) Stenning and Hörschelmann also note that these “everyday experiences of post-socialism” should not be reduced to be matters of culture alone, as they are a result of a “complex interplay of different historical and cultural processes”.

While differentiating between variables that defined the success of post-communist transitions, Pop-Eleches (2007) described historical legacies as major factors. Cultural and religious heritage, economic legacies, social conditions and institutional legacies have defined the failure or success of democratic transitions, as Pop-Eleches had concluded; ethnically homogenous and Western-Christian countries had the best chances to develop democratic regimes. Most of these countries are to be found in the CEE region, and where characterized as Western in terms of culture and Eastern in terms of their political system by Kundera. The Czech writer described Central Europe as “boxed by the Germans on one side and the Russians on the other”. (Kundera, 1984, p5) In his essay, he highlighted how the region has been part of the Western cultural heritage and was “lost” after the Iron Curtain fell. In his words, the countries of Central Europe are connected through “the same memories, the same problems and conflicts, the same common tradition” (Kundera, 1984, p7).

Kuzio (2001) was also focused on the CEE region and argued that all of the regions’ states had to undergo at least a double transition –building democracy and free market capitalism at the same time- but some countries underwent a triple or even a quadruple transition, creating democracy, free market, a state and a nation at the same time. Hungary’s transition, similarly to Poland’s, belonged to the first group. Holmes (1997) identified high expectations from leaders, cynicism and mistrust of political institutions, and a presence of an ideological vacuum and moral confusion as shared characteristics of these Central and Eastern European post-communist countries. Schöplin (1979) had written about the political “infantilism” of these societies, by which he meant that during the communist era, there were

no possibilities to make decisions in the public sphere – thus fear of responsibility, expectations that somebody else will make decisions are typical post-communist characteristics. Tismaneanu (2002 and 2014) described nine post-socialist threats of young CEE democracies, nationalism and communist nostalgia being the most prominent. He also identified the notion of populism both on the left- and the right-wing of the ideological spectrum and the idea of “waiting for a savior” as potential dangers for the region’s democratic development.

4.3 Transition to democracy: A change in the political culture

This part summarizes the most important concepts in the democratization of political culture. Understanding the nature of democratic change in political culture will help the examination of the current relevance of the post-socialist condition. In Juan Linz and Alfred Stepan’s definition, regime consolidation occurs when democracy becomes “the only game in town”. (Linz and Stepan, 1996, p5) In their 1996 book, *Problems of Democratic Transition and Consolidation* the authors defined three major characteristics that mark the end of democratic consolidation. First, cultural consolidation means that the majority of citizens accept democracy as the best form of government, and the majority of parties and politicians act in accordance with the democratic values and principles. The second condition is constitutional, and requires the institutions to operate with democratic practices. Behavioral consolidation is the last of Linz and Stepan’s characteristics; it means that there are no relevant political actors aimed at reversing the democratization process or seeking to separate territories from the state.

Almond and Verba’s civic culture (1963) is another essential concept of democratization. Citizens in a civic culture have an understanding of the political process and have a generally positive opinion of the government and the main political institutions.

Similarly to Linz and Stepan, Almond and Verba also highlight the importance of the public's support for democratic values and processes. Political cultures where the citizenry would refuse to engage with politics were characterized as 'parochial cultures' by Almond and Verba.

Based on data from the World Value Surveys, Dalton and Shin (2014) compared contemporary political cultures to the ideal of Almond and Verba's civic culture. Their main finding was that citizens nowadays show less support for the democratic institutions and principles - both in established democracies and in more recently democratized countries. The phenomenon is even present in the former socialist countries – contrary to the civic culture model, which predicted democratization to increase support for democratic institutions.

Although the transition era was difficult for all these countries, the rise in the standards of living and political freedoms is undeniable – yet citizens trust their parliaments less and less. As Linz and Stepan have noted, the democratic transition is finished when most citizens accept democracy as 'the only game in town', but a shift of value-systems is required in order to achieve that state, which might be a longer and slower process than what scholars have previously expected.

The experience of the post-socialist countries may be explained through the notion that the sweeping enthusiasm of the early 1990s was replaced by a more realistic approach. Dalton and Shin also noted that there is a similar process ongoing in the advanced industrial democracies, thus paradoxically it might be a sign of catching up to the Western European democracies. In the authors' words, this seems to be "the irony of modern democracy: dramatic gains in democratic development go hand-in-hand with a more skeptical and assertive public – even when social and economic conditions are improving." (Dalton and Shin, 2014, p13)

For the purpose of my research, two important conclusions can be made from the political culture literature. First, democratization is a long process, it involves the commitment of political elites to the democratic values, constitutional changes and a shift in the general public's values towards democratic norms. Secondly, trust in political institutions does not explain the post-socialist political culture alone, other factors and explanations are also necessary.

4.4 Defining 'Kádárism' after the transition

The socialist regime has left a wide legacy in Hungary and largely affected the attitudes and opinions towards politics and the ideal governments. The Hungarian political culture – by which I mean the Hungarian citizens' attitudes, knowledge, feelings and judgments about politics – is in a large part a byproduct of the socialist past. During early the reigning of the communist dictatorship, the state did not only monopolize political power, but also took over all the institutions of society. Those who did not share the belief in the ideology of the communist state had to leave the public life and keep themselves to their families and 'small circles of freedom'. The family and private life became the only sphere without politics. (Körösenyi et. al, 1998)

As the economy became more liberalized (within the framework of the New Economic Mechanism), a "second society" came into being. Doubled values allowed the "everyday people" to go around rules and laws to provide themselves a higher standard of living. Even years after the transition to a capitalist market economy, many citizens were highly tolerable with criminal offences such as tax evasion, rent-seeking or practicing of "fusi" /system d. (Körösenyi et. al, 1998)

Apart from the informality of the economy, the 1970s and -80s were characterized by a certain kind of "political infantilism". According to a survey of Hankiss (1989, p83), even

though citizens did not feel that they can influence politics or protect themselves from the decision-makers, they still trusted them with representing their best interests (in line with the idea of the state as a ‘benevolent planner’). As the political and economic transition unfolded in the 1990s, the infantilism was replaced by a strong sense of nostalgia towards the previous regime and cynicism for politics. After the transition, citizens have trusted in the competence and goodwill of their elected leaders and in their subjective political competences even less than they did during the years of socialism. The process brought about a still lasting political alienation and apathy.

State paternalism has also been a central feature of the socialist system, as János Kornai argued in his well-known book, the *Economics of Shortage* (1980). Due to the permissive character of the system, state owned enterprises are allowed to spend beyond their financial limits as they can count on a bail-out from the central authorities. According to TÁRKI’s research (Róbert and Nagy, 1998), Hungarian citizens have shown high expectations of state intervention and redistribution even in cases where the free market could have produced more efficient or cheaper outcomes.

In his article, Nyysönen (2006) connects goulash communism and Hungarian political culture through examining welfare and progress during the different stages of the Kádár era. Nyysönen sees the importance of Kádár at uniting Hungarian politics by the homogenization of the country under a relative prosperity and by the time said prosperity came to an end; Kádár became a symbol of the system’s mistakes in the late 1980s. The author employs the definition of Brown to capture the meaning of political culture: “The subjective perception of history and politics, the fundamental beliefs and values, the foci of identification and loyalty, and the political knowledge and expectation of nations and groups.” (Brown, 1979, p7) It is also important to add that political cultures are in constant change and that there can be differences between the officially accepted political cultures and between

what is dominant among the citizens.

After the 1956 revolution, the party leaders tried to achieve unity and compromised from above. The official political culture was inclusive and open for everyone who did not oppose the system publicly. ‘Socialist patriotism’ required obedience for the system but offered step-by-step reforms and a relatively high standard of living. Society and state did, however remain alien in the dominant political culture. Rules were not to be changed, but to be sidestepped, similarly to the widespread bureaucracy: they could be overstepped through unofficial networks, and a system of ‘small gates’ that provided the individual ‘small liberties’ of the Kádár-system. It is also noteworthy that Hungary had a long tradition with paternalist, centralist rule in the official political culture as the key historical figures of the last 150 years were Franz Joseph, Horthy and Kádár.

After the peak of socialist consumerism in the 1970s, in 1985 standards of living fell for the first time since the state could not provide enough goods. The party accepted a legislation which enabled a second economy, thus people were able to maintain their relatively high standards of livings, while working two shifts, one of them at the workplace and the other one in private small businesses. Hankiss (1989) defined the evolving system as two societies, one of them being the official socialist state and the other a second, unofficial society, ‘alternative principles’ challenging the official ideology. Memory and identity politics have played a major role at the dismantling of the Kádár-system. The taboos of the soft dictatorship were the repression of the 1956 revolution and the Trianon Treaty – both of them were strong symbols in the dominant political culture, powerful enough to trigger demonstrations.

In a series of life-history interviews, historian Eszter Bartha explored how the (supposedly) main beneficiaries of the Kádár-system, the members of the skilled, large

industrial working class experienced the regime change and the following years (Bartha, 2014). The interviewed workers perceived the transition as ‘the business of the elite’ – which they had little to do with. Their worsening financial situation made them disappointed in the new regime, and many of them expressed nostalgia for the years after Kádár. A 67-years old, former manager of Rába told Bartha that he “had a more relaxed life under socialism, and I think the majority of Hungarian people lived better under the Kádár-regime”. (Bartha, 2014, p12) Democratic institutions were associated with corruption, which the workers linked directly to the privatization process.

The self-declared anti-communist interviewees also had a negative picture on privatization and capitalism, but they criticized Communist functionaries, who, in their opinion, were still ruling the country and became wealthy during the transition period. “The Communist gang, which was close to the fire, gained fortunes after the change of regimes” – declared a 51-years old interviewee. (Bartha, 2014, p13) Many of the interviewed workers expressed opinions that free parliamentary elections were not very important for their everyday life. Facing corruption directly during the privatization of their former workplace made them doubting the merits of democratic institutions and market economy, while they simultaneously experienced a stagnation or decline in their standards of living and growing material inequalities. The workers all recognized the need for a strong government that can confront global capital.

The workers described the post-transition years in a ‘narrative of decline’ and mostly blamed the local management, the competing multinational companies and the government. The privatization process was one of the key sources of resentment. In the interviews, the workers often used the dichotomy of ‘us’ and ‘them’, the latter describing the exploiting elites. Bartha warns that these grievances can be easily interpreted in a populist discourse – as it was mentioned earlier, the dualistic worldview and the ‘us’ versus ‘them’ understanding are

core features of the populist rhetoric. The author identified the notion of socialist nostalgia as criticism of the new capitalist regime, and argued that this dissatisfaction can make the workers more receptive to a nationalist-populist discourse. Bartha also pointed out the lack of class-based, alternative critiques of the new regime.

According to Simon's research, the democratic transitional process left Hungarian citizens feeling like they live in a more closed and exclusive system, as opposed to their Portuguese and Spanish counterparts. The notion of an "unjust and elitist system" (Simon, 2013, p2) is accompanied by high expectations for a paternalistic, interventionist state. The paternalistic attitudes were linked to the strategies of the political parties, who placed social justice in the center of their campaigns. Simon also found differences in trust levels within the country, as the Eastern part showed lower levels of trust in political institutions than the Western and central regions. (Simon, 2013)

The value surveys of the TÁRKI Social Research Institute show similar results. First carried out in 2009 (TÁRKI, 2009), the survey on the Hungarian society's values indicates four particularly important characteristics of the Hungarian value system. The first is the particularly low levels of trust, regarding both interpersonal-horizontal trust and trust in democratic institutions. The second aspect is how Hungarians perceive corruption: although corruption is recognized as a key problem, most Hungarians have accepted it as a "part of life". Besides, they rarely view themselves as part of the problem; corruption is always done by someone else. Social inequalities are perceived as unfairly high and many believe that success comes from good connections and the "smart" use the "small gates" in the system, instead of hard work. Given this mentality, social inequalities seem especially unjust, since getting ahead does not depend on good achievements. Additionally, the market economy is viewed as a zero-sum game. The last finding of the 2009 TÁRKI study was that even almost twenty years after the democratic transition, Hungarian society was still largely dependent on

the state. Hungarian citizens have shown significantly higher support for central redistribution and state intervention than for market-based methods.

In 2013, the TÁRKI Institute repeated the value survey (Keller, 2013) and found the tendencies described in the 2009 study were still relevant. The most important new finding of the 2013 value survey was that institutional trust and the perception of corruption is directly linked to political preferences. Practically that means that supporters of the governing parties will show higher trust in democratic institutions and tend to believe that there is less corruption. A more recent, 2016 TÁRKI study (TÁRKI, 2016) also found that even fewer citizens believe that the Hungarian society is based on meritocratic values than they did back in 2009. Success is more and more perceived as a factor of being well-connected as opposed to a result of individual ambitions and efforts.

What explains this value set? Why do Hungarians think this way? The head of the TÁRKI Social Research Institute, István György Tóth explains this particular set of values through the institutional structures and the specific nature of Hungarian society in a recent article (Tóth, 2017). The author originates the specific lack of trust in democratic institutions from bad historical experiences on the personal and societal level. The years of state-socialist rule have brought an unresolved conflict between the first society and economy (the ‘formal narrative’) and the second society and economy (‘the private, informal narrative’), where cheating the system was seen as a smart way to get ahead. The drawbacks of the soft transition were felt only later, as it became clear that the new democratic institutions are ‘uninhabited’ – Hungarian society does not feel that the institutions act in their interest.

4.5 Populism and the post-socialist condition

The Hungarian political system has been recently described as a “political environment (so) polluted by populism” by Csigó and Merkovity (2016, p2). The authors

reviewed the works of Hungarian political scientists and found two main narratives, one on ‘empty populism’ and other on ‘welfare populism’. The empty populism narrative identifies “populism as a systemic failure in Hungarian politics itself, rather than an attribute of particular political actors” (Csigó and Merkovity, 2016, p2). In the empty populism framework, the mainstream parties are considered as populists – in fact, populism is “the natural mode of politics” (Csigó and Merkovity, 2016, p3). Mainstream parties are focused on an “irresponsible race for popularity”, political campaigning and communication by using “clear, understandable, and overstretched messages to address electoral groups who are highly sensitive to social issues but are less interested in politics and lack a stable party preference” (Juhász & Szabados, 2005, p303).

The welfare populism narrative is more focused on economic policies instead of political communication. Bartha and Tóth defined economic populism as “the phenomenon when political elites increase social privileges in a way that definitely decreases the chance of fiscal sustainability” (2013, p178). Bartha and Tóth argue that both the socialist party and Fidesz have turned to expansive populist policies before elections, only to be followed by austerity measures after the elections. As a reason behind this logic, Bartha and Tóth identified the legitimating function of these policies: “the Hungarian political community has been socialized in the atmosphere of ‘welfare populism’” (Bartha and Tóth, 2013, p7). Gál (2011) noted the high proportion of state-dependent citizens (public sector employees and recipients of social transfers). Gál also highlighted the expectations of Hungarian citizens towards the state, which he characterized as paternalist and etatist, alongside with distrust in the markets and support for state-ownership. Csigó and Merkovity concluded that “in Hungary most research on populism defines it as a systemic feature of mainstream establishment politics” (Csigó and Merkovity, 2016, p8).

Since of the narratives on populism were linked back to the post-socialist condition of

the political culture by the authors, I finish this chapter by comparing the features of the Kádár-regime and populism. It is important to note that the socialist regime in Hungary was an undemocratic one, without free and fair elections and political rights, and that it cannot be classified as a case of populism. However the regime displayed many populist features: it proclaimed the homogeneity of people, was anti-elitist and people-centrist, and in my opinion it left a long-lasting effect on political culture and voters' expectations. The Kádár-regime also showed the signs of economic populism - the next chapter will explore these economic reforms and policies in order to compare them to the post-transition governments' policies and to have a better understanding of what populist economic policies are in the Hungarian context.

5. Economic populism in Hungary

In this chapter I will introduce and review Hungarian economic policies from the 1990s onwards and analyze them in the framework of economic populism from Chapter 3.4. In order to have a better understanding of Hungary's history with economic populism, I also present an overview on the economic reforms of the Kádár-era.

5.1 An overview of the economic policy during the socialist years

Benczes (2016) provides an overview of the Kádárist economic policy in the context of historical institutionalism, and describes 1968 as the major juncture for Hungarian economic policies. Hungary had a unique position within the communist bloc: after the 1956 revolution the Kádár-system built its legitimacy on the material wellbeing of the citizens and the persistent increase of the standards of living provided the popular support for the regime. As Gough had noted, after the economic slowdown at the beginning of the 1960s, the Hungarian Central Committee accepted a resolution in 1964, which required “a comprehensive, critical analysis of the present economic mechanism ... and a modification of it appropriate to the situation”. (Gough, 2006, p152) A reform committee was formed within the party, which 2 years later delivered the 1968 economic reforms, as known as the New Economic Mechanism (NEM). The reforms were very much needed, since the existing system had created incentives for company managers to cover their actual production potentials from the central planners in order to be given production targets that they could easily reach. The allocation of the already produced goods was also a problem; unsold goods were stocked up, while other products were in shortage, causing difficulties at satisfying the popular demand.

In 1968 the regime launched its first cycle of economic reforms, which allowed factories to make economic decisions on their own, for example to decide on wages and investments. After the decentralization of the central planning system, companies could

operate more freely within the framework of market incentives and domestic regulation. The NEM partially opened up the Hungarian economy to Western trade, as the excessive output was sold abroad, in exchange for input imports. Although central planning was still an important element of the Hungarian economy, it remained on the macroeconomic level. A price liberalization also took place, as some products were priced based on their market value both in trades between factories and in retail. Other products were given a price ceiling, but within that the prices could follow market dynamics. Services, energy prices and the prices for basic food products (such as flour, bread or milk) were centrally fixed at a particular level with no increases allowed. A year earlier agricultural reforms were also introduced, improving the position of the local-level agricultural co-operatives: their debts were rescheduled or written off. Due to the change in their financial situation, the co-operatives could buy their own equipments. The 1967 Co-operatives Law also allowed for private plots, and their crops could be freely sold in the markets (not only to be used for family needs).

After the 1973 oil crisis a second cycle of reforms was initiated, that contained quasi-market incentives and legalized the already existing small private firms and informal economic activities. As the Hungarian economy had opened up more and more for Western cooperation, the country has become dependent on Western exports (for hard currency) and imports to support the internal demand. This resulted in a growing increase of Hungary's external debt. From the 1980s on, further market reforms were carried out in order to keep the relatively high standards of living. Alongside the market reforms, the regime also compensated the losers of marketization, leading to a pre-born welfare state (Kornai, 1992). Before the economic and political transition, the system was built on an “excess consumption financed mostly by rising external debt” (Benczes, 2016, p151).

Bartha (2011) argued that the Kádár-system should be characterized stay as a ‘welfare dictatorship’, based on a social compromise between the ruling Party and the

working class - the Party offered a steady increase in the standard of living in exchange of political demands and freedoms. This increase of the standard of living, and in the consumption levels became the main objective of the government and the guarantee for social peace. Despite the official ideology of a ‘workers’ state’, the Party had no intentions to co-opt the working class into political power: the decisions were made centrally by the Party elite. Thus, rising standards of living became the major source of the regime’s legitimacy and “workers essentially measured the popularity of the government against their standard of living” (Bartha, 2011, p1603).

A 1976 survey (among Party members in the Győr-Sopron County, working in machine-manufacturing enterprises) pointed out the contradictions of the standards-of-living policy (MSZMP Győr-Sopron Megyei Bizottsága, 1976). While 48% of the respondents stated that they worked in their free time to earn a better living, 22% said that performance on the job and the actual wages showed little or no connections. Even though workers received an increase in real wages, they weren’t satisfied with the system - growing material inequalities between managers and workers were a key source of grievances. During the 1980s real wages started to stagnate, and the economic decline became a source of dissatisfaction with the Party and the system. Many of the industrial workers felt that they were the group most affected by the deteriorating economic conditions. A ‘mood report’ from 1987 mentions disintegration, decline of the Party’s authority and loss of trust in the government.

The standards-of living policy initially held many advantages for the Party: it contributed to the regime’s political stabilization and increased the regime’s popularity amongst the working class. On the long run, however, the consumption-oriented policies contributed to the deterioration of the communist regime, since these policies legitimized consumer demands that the socialist economy was unable to provide. The standards-of-living

policy proved to be a large pressure on the planned economy and pushed Hungary towards the culmination of debts. Establishing the regime's legitimacy on consumption-oriented policies was also politically dangerous for the Party: workers judged the socialist system based on their material conditions, and as these conditions started to stagnate or fell, they quickly became unsupportive of the regime. Essentially, the official narrative of socialism was "undermined by the wide gap between the practice of welfare dictatorships and the egalitarian socialist project" (Bartha, 2011, p1608): turning workers into consumers was contradicting the system's egalitarian principles.

At first glance, Kádárist economic policies appear to be coming from the leftist populists' handbook. However it is important to note that the 'goulash communism' was realized in a state-socialist, centrally planned economic structure, accompanied by an authoritarian, repressive political regime. Thus the populist nature of the system is rather questionable, although it fulfills all the dimensions of left-wing economic populism mentioned in Table 1. The economics of the post-1956 socialist Hungary were built upon expansive monetary policies, full employment and the extension of social welfare and public consumption (albeit both in low qualities). Price liberalization is the exception to the rule, however it was necessary (along with other market-oriented reforms) to satisfy the domestic demand for consumption.

5.2 An overview of the economic policies after transition

The transition that started in the late 1980s offered no window of opportunity for structural reforms. Compared to the other CEE countries, the standards of living had no sudden decrease and the extensive welfare system was able to protect the losers of the transition. By 1995 the large external and internal indebtedness threatened with a serious economic crisis – the government has imposed austerity measures in a stabilization package.

The reduction of social entitlements and the privatization process resulted in a decrease of the debts and a decent economic performance. Hence the crisis was over, the 2002 elections saw generous spending promises from both the incumbents and the opposition, starting a vicious circle of election economics (Csaba, 2011). By 2006, an austerity package was needed once again, partially leading to the failure of the government. The 2008 social referendum was, according to Benczes “one of the most important branching points in the post-communist history of Hungary” (Benczes, 2016, p156), since it showed that the citizens refuse to resign of social privileges. In the same year, the economic crisis had hit Hungary hard, and the caretaker government had to turn to the International Monetary Fund and the European Union for help. The international organizations helped on the conditions of austerity packages, and after the 2010 election of the Fidesz government the consolidation had partially stopped. The two-third majority did not engage in structural reforms, yet it turned to start a ‘freedom fight’ against the IMF and the EU. Its unorthodox economic policies contained (among others) special taxes on foreign banks and service providers, the nationalization of private pension funds and fight against utility providers.

5.3 Analysis of economic policies after 1989

In this part, I will provide an analysis of the economic policies of all post-transition Hungarian governments and place them in the dimensions of left- and right-wing economic populisms. To give a quick overview, these groups of policies are the again the following in a chronological order: the Antall-government’s reforms and privatization measures in the early 1990s, followed by the Horn-government’s austerity measures and further privatization, especially after 1995. The 1990s ended with the first Orbán-government’s consolidating measures. The Medgyessy-government began its term with the well-known 100 days programme of redistributive reforms and continued to extend welfare benefits during its term. The following Gyurcsány- and especially the Bajnai-governments imposed austerity measures

to stabilize the economy after the 2008 financial crisis, in cooperation with the International Monetary Fund. After the 2010 election, the second (and later the third) Orbán-governments declared the politics of “unorthodoxy”.

5.3.1 Antall- (1990-1993) and Boross-governments (1993-1994)

The first democratically elected government after transition was led by József Antall. The conservative Hungarian Democratic Forum government's program of 1991 included several reforms that helped creating the Hungarian market economy. The most notable of these reforms were the reductions of subsidies, the improvement of the private sector's position, liberalization of foreign trade, freeing prices and starting the privatization process. (The Economist Intelligence Unit, 1994)

The transformation program that began in 1991 exercised a gradual approach. The original program promised the complete liberalization of trade by 1992, an end to the transformational crisis by 1993, the reduction of inflation to a single digit by 1994. Although this transformation program has brought generally positive results, it failed to achieve several of its initial goals, and, what is even more important, the results had very high social costs. The main problem of the economy was the increasing budget deficit, despite tax increases and the reduction of government investments. The decline of demand and production, the increase in unemployment and in the number of pensioners and last but not least, the huge foreign and domestic debt contributed to the budget deficit. (Adam, 1999)

The greatest economic shock arrived in 1991 with the collapse of the CMEA. The real GDP was reduced by almost 20% from 1990 to 1992. The government decided not to cut public expenditures in order to avoid social tensions, but by 1993, the dramatic increase in trade deficit became a major problem. (Halpern & Wyplosz, 1998)

The privatization of state-owned companies and other assets started first as the so-called spontaneous privatization, which was based on the 1988 corporate law. This legislation (and later the 1989 transformation law) enabled managers of state-owned enterprises to make the SOEs autonomous, and in some cases managers were also able to privatize these companies. This law was abused in many cases, as several managers used spontaneous privatization to build their personal wealth. (Adam, 1999) In 1989, the State Property Agency was established to manage privatization. SOEs were transformed into joint-stock companies and sold to private bidders. The companies were sold piece by piece, but the privatization process had a slow start: at the end of 1993, only 14% of state-owned companies were privatized. As domestic resources were scarce, the big companies and factories were mostly bought by foreigners. FDI (Berend & Berend, 2009)

Social expenditure, measured as percentage of the GDP, had actually increased after 1989. This was the result of the unexpectedly large growth in the number of disabled and retired people and the upsurge of unemployment (Adam, 1999). (However, it is important to note that real GDP had significantly reduced.) Social policy, as it was noted by Csaba and Semjén, “was used as an instrument of managing the social problems caused by economic recession” (Csaba and Semjén, 1998, p301). While public transfers were important at containing poverty and legitimizing the new economic and social system, the generous welfare programs caused macroeconomic and fiscal imbalances. (Csaba and Semjén, 1998) Allison described Hungary as “an extreme welfare state” (Allison, 1998, p346) and mentioned that early retirements and disability pensions were used to substitute unemployment benefit. The welfare benefits were also universal (90% received some sort of assistance from the state), and poverty and unemployment made life hard for many, but the “weak correlation between ‘need’ and benefit level” (Allison, 1998, p346) made the situation even more difficult. (Allison, 1998)

Maintaining universal and generous welfare programs in times of the transformational crisis may be classified as short-sighted policy-making, in denial of budget constraints. The excessive use of early pensions and disability pensions as means of social transfers points to a similar direction. While these measures are key examples of economic populism, it is important to take into account that the Antall- and Boross-governments had the difficult task of creating legitimacy for the new political and economic regimes – ‘buying support’ may have been unavoidable.

5.3.2 Horn-government (1994-1998)

After the 1994 elections, the Hungarian Socialist Party won the opportunity to form a government, in coalition with the Alliance of Free Democrats. Their programme included the liberalization of the foreign exchange regime and the continuation of the privatization process. The main reform of the Horn-government was the “Bokros-package”, a tough stabilization programme. Introduced in 1995-1996, the package included various austerity measures in social spending and the devaluation of the forint. Alongside the cuts in social spending, structural changes were also introduced from the further privatization of state-owned commercial banks and enterprises to the reduction of the size of the public sector, in order to reduce the budget deficit. (The Economist Intelligence Unit, 1997) The most important cuts in social spending were related to family allowances, health care services and tuition fees in higher education. (Adam, 1999) Before the 1998 elections, the government softened its policies. (The Economist Intelligence Unit, 1999)

The Bokros-package meant a significant improvement for the growth and the competitiveness of the Hungarian economy (and also helped balancing the trade deficit), but it came with high social costs. Real wages declined by 12.2% in 1995 and by 5.4% in 1996. The austerity package had an effect on private consumption too, and it led to rising income

inequality. The weakening social safety net contributed to Adam's conclusion: "the ordinary people will pay the bill for the economic crisis" (Adam, 1999, p64).

Apart from the austerity measures, the Horn-government also sped up the privatization process, which was still privatization by sale. During the rapid cash privatization utilities, oil and communication companies and banks were sold, mostly to foreign owners, which led to a large increase in foreign direct investments. Due to the austerity measures and the successful privatization process, economists considered Hungary as one of the most advanced reformers in the post-socialist region. (The Economist Intelligence Unit, 1999) and predicted that the country will continue its path of economic growth.

The Horn-government's economic policies can hardly be described as populist – due to the large trade deficit and the high levels of indebtedness, the second post-transition government had little room to experiment with populist policies. Not surprisingly, Hungarian society had a very negative reaction to the Bokros-package, which (initially) meant a sharp fall in the standards of living.

5.3.3 The first Orbán government (1998-2002)

In 1998, Fidesz won the elections for the first time. The program that the Young Democrats were elected on pledged for anti-austerity measures; restored welfare benefits and increased social spending. Despite the "anti-Bokros" sentiments, the Fidesz-government's exercised monetary and fiscal discipline in order to meet the EU accession goals. Although they made plans to accelerate economic growth through stimulating domestic demand, the economic leadership of the party decided to preserve macroeconomic stability and contain fiscal imbalances in the run up to the European Union accession. (The Economist Intelligence Unit, 2000) In the years of 2000 and 2001, the budget deficits were continually reduced, from 3.8% of the GDP in 1999 to 3.5% in 2000 and 3.4% in 2001. The higher than planned

inflation and the solid economic growth of the first half of the Fidesz's term enabled the governing party to continue with the fiscal deficit reductions without engaging with further structural reforms. (The Economist Intelligence Unit, 2002)

However as the 2002 elections draw on, the government (similarly to its predecessors) started to loosen up on the fiscal rigor. Pensions and public sector workers' wages were raised (The Economist Intelligence Unit, 2002) and large scale infrastructure projects and road building began. The Széchenyi Plan, a national development program was launched and there was a huge raise in minimum wage right before elections took place. (The Economist Intelligence Unit, 2003) Regarding electoral promises, the Fidesz aimed at developing public infrastructure and services, proposed further tax cuts and opposed privatization, while the MSZP supported privatization and advocated for tax reduction, which made the party particularly attractive for childless or one-child middle class households. (The Economist Intelligence Unit, 2002)

Apart from the increased welfare spending before the elections, a global economic slow-down and the longstanding structural problems looming over the economy have also contributed to the ballooning fiscal deficit in 2002. (The Economist Intelligence Unit, 2004) While several economic policies of the first Fidesz-government can be defined as populist, strong external constraints, such as the upcoming EU-accession limited the government's opportunities to pursue populist policies. The populist policies that did government did manage to pursue were the establishment of the Széchenyi-plan and the redistributive measures (including the raise in the minimum wage), all of which came right before the elections.

5.3.4 Medgyessy-government (2002-04)

As mentioned before, a vicious circle of election economics started before the 2002 elections. The governing Fidesz party had raised government spending, among others they raised the wages of public servants and introduced state-subsidies for mortgages and promised further welfare measures, as well as grandiose public investments. The Hungarian Socialist party, the most popular party of the opposition had opted for further spending promises to win the elections and announced the 100-days program a couple weeks before the elections. In the name of a “transition to social welfare” (*jóléti rendszerváltás*) the socialists have promised a 50% rise for wages in the public sphere, an extra month of pension to all retired Hungarian citizens (as known as the 13th month pension), tax-free minimal wages, a 30% rise in university scholarships, a doubled payment of family allowances in August in order to help families with the start of the school year and a one-time payment of 19.000 forints for all pensioners to compensate for the pension-policies of the Fidesz-government.

The MSZP ended up winning the 2002 general elections with a slight majority over Fidesz after the generous promises and the socialists had to start the implementation of the 100-days program. The government was unwilling to back out from the 100-days reforms because politicians feared that the party would lose in the upcoming municipal elections. The 100-days program was very important for the MSZP, since they no longer wanted to be associated with the Bokros-package – the generous welfare transfers were supposed to convince voters that the socialists no longer pro-austerity. (The Economist Intelligence Unit, 2005)

The new government, led by prime minister Medgyessy, began its welfare extension program with giving up to 50% wage increases to a large share of public sector employees and declared minimum wages free of personal income taxes. (The Economist Intelligence

Unit, 2003) Apart from the implementation of the redistributive reforms, the Medgyessy- and later the Gyurcsány-governments also raised public expenditure for infrastructure-investments: from 2000 to 2005 264 kilometers of highway roads were built. Combined with the fiscal effect of the previous government's pre-election welfare initiatives, the 100-days program of the government significantly contributed to the massive budget deficit of 9.7% of the GDP in 2002. (The Economist Intelligence Unit, 2003)

Although the aims of the 100-days reforms were not inherently wrong (rising social inequality was a large problem since the transition), the reforms were a result of a wrong policy. Similarly to goulash communism, the redistributive measures were financed by foreign debts instead of economic growth. The 100-days reforms can be regarded as an example of leftist populism because the main goal of the short-termist program was to win elections with the redistributive policies, aimed at reducing social and economic inequalities.

5.3.5 The Gyurcsány- and Bajnai-governments (2004-2010)

Although the government denied it, the tradition of election-spending continued in the next round of general elections. In the 2006 budget, the public sector deficit went up to 9.2% of the GDP. Worried about the fiscal imbalances, the coalition of the socialist and liberal parties engaged with austerity measures right after their reelection. The stabilization program started with the 'Gyurcsány-package', a set of austerity measures implemented in the second half of 2006. The tax increases and the further reforms of the 'New Balance 2006-2008' program were supposed to reduce the budget deficits. (The Economist Intelligence Unit, 2007)

The austerity program aimed to prepare Hungary for joining the eurozone. Apart from macroeconomic corrections (such as the introduction of new taxes and raising the VAT), the 'Gyurcsány-package' contained several cost-saving initiatives. Public workers were laid

off and fees were introduced for visiting doctors and staying in hospitals. These reforms were meant to limit the burden that the healthcare system put on the general budget. Meanwhile, the government tried to spur economic growth by large-scale infrastructure spending, mostly by building highways. (Cardais, 2008)

The opposition, led by Fidesz, pushed for a social referendum to revoke some of the government's austerity measures. The proposal included the withdrawal of the newly introduced healthcare fees and higher education tuition fees. With a turnout 50.51%, 82% voting in favor of canceling the healthcare and higher education reforms, the opposition succeed at stopping some of the austerity measures. (The Economist, 2008)

The Gyurcsány-government had to face a strong opposition during its entire term. Shortly after the elections, a leaked speech was published in which the prime minister confirmed that his party made adjustments before the elections to present better numbers for economic growth and budget deficit. The demonstrations that followed and the prime minister's continued unpopularity pressed him to resign before the 2008 economic crisis hit Hungary with full force. (The Economist, 2009)

After the resignation of Gyurcsány, Gordon Bajnai became prime minister. The Hungarian economy was already in a bad shape before the global crisis of 2008 hit the country. Hungary was less competitive than its neighbors, as the Gyurcsány-package hit enterprises with several new taxes, while the other countries have lowered the tax burden. The economic crisis was particularly painful for Hungary given the large number of citizens with Swiss franc credits and the large amount of public debts. Before their resignation, the Gyurcsány-government started negotiations with the EU, the IMF and the World Bank to secure loans for Hungary.

To meet the international creditors' expectations, Bajnai's caretaker government followed up with further austerity measures, including cuts in state workers' wage, raising retirement age to 65 years (planned to be enforced from 2012), cancelling the 13th month pensions and other welfare cuts. The VAT was raised further (up to 25%) and wealth and real estate were subject to taxation. The austerity reforms had severe human costs and contributed to the unpopularity of the socialist government. (Ténytár, 2013)

Regarding economic populism, the second Gyurcsány- and the Bajnai-governments had little room to use redistributive policies to maintain their popularity, although the 2006 budget was tailored for the elections. The leaked speech of Öszöd of Prime Minister Gyurcsány also revealed how important 'proper' economic growth numbers were in order to win the election. Apart from the electoral promises and budget, the most severe case of economic populism from this term came from the opposition: the social referendum that cut back some of the government's austerity measures.

5.3.6 The second and third Orbán-governments (2010-2018)

The second Fidesz-government was elected with a large, two-third majority in 2010. The broad mandate gave the party many opportunities to reform, and Fidesz used the chance to launch an unorthodox economic program, a mixture of neoliberal and left-wing measures. Regarding neoliberal measures, the main goal of the second and third Orbán-governments was to stabilize the budget deficit. They have managed to consistently keep the budget deficit below the 3 percent threshold since 2012, while inflation remains below 1 percent. (Oblath, 2016) The Fidesz-government also introduced the flat personal income tax rate and aimed for the "broadening the tax base", by imposing extraordinary taxes on large multinational companies. The general social policies of the government are in many ways similar to Reagan's and Thatcher's conservatism: the Orbán-government favors middle and upper-

middle class families. A shift took place from direct state welfare transfers to reduced taxes benefitting large families (with more than 3 children), while other welfare benefits have been largely cut (for instance the unemployment benefit). Following the ‘work instead of aid’ slogan, the government introduced public work programs for the permanently unemployed. (Szikra, 2014)

Parallel to the neoliberal measures, there were some left-wing reforms pursued by the second and third Orbán-governments. The infamous fight against high utility prices (*rezsiharc*) resulted at a 25,19% cut at gas prices, a 24,55% cut at electricity and a 22,63% cut at distinct heating services from 2012 to 2014. (Világgazdaság, 2014) Apart from the lowering of utility prices, private pension funds were permanently nationalized as early as 2011 in the second term of Orbán and the government spent “a large part of the nationalized capital of the pension associations for tax cuts.” (Simonovits, 2011, p7) Special taxes on the finance, banking, energy and media-sectors were used to maintain the stability of the national economy. (Illés and Körösenyi, 2017)

Economic populism was a permanent fixture of the second and third Orbán-governments, but not in the form of unsustainably high fiscal deficits or overly expansive monetary policies. The Fidesz governments’ economic populism stemmed from policies that ended up hurting the economic interests of the majority of the people. Hungarian citizens did pay the price for the leftist populist measures (extra taxes, nationalization and subsidized prices). The deterioration of the rule of law and the presence of systematized corruption will also hurt the economy on the long term, as investors prefer stable political environments. With the especially broad mandate of the supermajority, the Fidesz government had the opportunity to engage in much-needed structural reforms and help the country’s competitiveness problem, but missed the chance.

To summarize this chapter, there are several important findings that I want to highlight. Populist economic policies seem to be an integral part of post-transition Hungarian politics, given that the Horn- and Bajnai-governments were to only ones where I did not identify any populist measures. However the post-transition governments did not pursue populist economic measures to the same extent: the most common populist policy was redistribution in order to win elections. I found the Medgyessy- Gyurcsány- and the second and third Orbán-governments the most problematic in the aspects of economic populism. The Medgyessy-government's 100-days program and the promise of a 'welfare transition' were short-sighted policies, used as means to win elections and maintain the party's popularity. The economic governance of the Fidesz since 2010 is a mixture of both left- and right-wing populist measures which will hurt the economic interest of the majority on the long run.

6. Discussion and conclusions

In the previous part I examined the economic policies of post-transition Hungarian governments and identified certain traces of populist policy-making. This final chapter of my thesis consists of the discussion of the links between populism and the post-socialist condition in Hungary and some brief conclusions that summarize my work.

6.1 Discussion

In the following part I will discuss the interplays between the Kádárist legacy and economic populism. In Chapter 4 I argued that the post-socialist condition is still relevant when it comes to understanding Hungarian political culture. Hungarian citizens have a certain set of expectations, values and ways of thinking about politics – I believe that these all have been shaped by the recent history of the country. Beside the demand by voters, there has also been a supply for populist economic policies.

Demand-side explanations of populism are usually based on either the economic inequality thesis or on the cultural backlash theory. To explain the Hungarian situation, I believe that one more aspect is necessary to be taken into account: the post-socialist condition. Additionally I will draw on the rational choice theory presented by Acemoglu et al.

In short, the economic inequality thesis assumes that people are willing to support populist parties because of rising social inequalities. The free flow of labor, goods and capital, alongside the shrinking manufacturing industry and the erosion of organized labor all contributed to this phenomenon in the post-industrial economies. The ‘losers of globalization’ are low-skilled and often unemployed poorer white people - opportunist politicians channel their resentment into anti-establishment and nativist votes (Norris & Inglehart, 2016).

The other common explanation offered by Norris and Inglehart (2016) was the cultural backlash thesis, which encompasses a counter-reaction to the post-materialist, progressive movements, such as the environmental protection, human rights or gender equality movements. Mostly members of the older generation and the less educated are receptive to narratives against progressive cultural change, protesting for familiar, traditional norms.

I argue that in Hungary there is a third possible explanation for the demand-side – the post-socialist condition. Besides the economic inequality and the cultural backlash thesis, the Kádárist legacy of Hungary could serve as a third explanation for the demand for populist policies. As I already described in the fourth chapter, the post-socialist condition is still relevant in Hungary. Despite the generational shift and the EU-accession that took place after the transition, value surveys still find low levels of trust in institutions. At the same time, there are high expectations for state paternalism, accompanied by political alienation and apathy. The sense that ‘somebody else should make decisions’ is still strong in many citizens. The perceived lack of meritocracy and rising social inequalities create tensions, as inequalities are considered especially unjust when success comes from good connections, and not from achievements.

Part of the post-socialist condition is the weakness of civil society, which should be able to hold decision-makers accountable. As Lomax (1997) described, there were expectations that civil society will contribute to the stabilization and legitimization of the democratic regime. According to the author, these expectations were not met: the transition was more of a process of ‘elite replacement’. Lomax quoted Körösnéyi (1993, p384) characterizing post-transition civil society organizations as “highly dependent on the state or on support from Western foundations”, typically led by small elite groups.

To explain why there is a demand from voters for populist policies (and, related to that, populist rhetoric and mobilization) one should look for the economic inequality theory and the closely related post-Kádárist political culture. Post-materialist, progressive movements are less dominant in Hungary than in the West, and thus the cultural backlash argument of Inglehart and Norris has less explanatory power for the Hungarian case.

Acemoglu and his co-authors (Acemoglu et al., 2013) examined the demand for populist policies from a rational choice perspective, stressing the role of elites and institutions. While the authors believe that rational-behaving citizens should generally support checks and balances, they conclude that in certain political settings it is rational for voters to support populist parties. Weakly institutionalized polities with well-organized elites are an example for such a political setting. With checks and balances in place, politicians' rents are very limited. The organized elite can exploit this situation by bribing and lobbying the incumbent politicians – to avoid this situation, poor voters are willing to give up on checks and balances limiting the politicians' rent-seeking. By giving more executive powers to politicians, voters think that they are less likely to be bribed by the rich elite. According to the theory of Acemoglu and his co-authors, under strong institutions voters will prefer maintaining checks and balances.

This theory of Acemoglu et al has only limited applicability for the case of Hungary. Although Hungarian society is highly polarized, political conflicts are rarely class-based and poor voters can be found in both camps. While it is not the case anymore, Hungary used to have strong institutions constraining the executive powers. Until the 2010's, there was a system of checks and balances in place and the country also had well-organized elites and weak civil society.

Why do politicians choose populist economic policies? Several rational choice-based explanations try to answer this question, highlighting the importance of strong and independent institutions, political polarization and the role of elites. Kaufmann and Stallings (1991) argue that high political polarization is a key factor at enabling populist policies. First, political polarization creates high uncertainty and difficulties in making economic decisions on the long-run. Thus political polarization shortens the time horizon for politicians, since they know that once they are out of office, they are not likely to have any influence. Announcing austerity measures, which may take time to bring results, despite the imminent social costs, would not be “worth it” under such conditions – instead, politicians turn towards redistribution and borrow from abroad, leaving the debt burden for the next government. Andersen et al. (2017) also stressed the importance of timing and short-termism of populist policy-makers, noting that the consequences of growing debts are not necessarily immediate and could be passed down to future governments.

Bittencourt (2012) described the importance of the right institutional setting in avoiding populist policies. To have a well- functioning democracy, executives have to be ‘appropriately constrained’ and economic institutions should be able to raise the costs of populist policy-making. Among economic institutions central bank independence and responsible fiscal authorities are particularly important.

Another explanation for pursuing populist economic policies is the signaling theory of Acemoglu et al (2011). Although these policies are harmful on the long run, it is rational for politicians to choose them if they want to convince voters that they are acting in the interest of ‘the people’. Redistributive and interventionist policies serve as a signal that the decision-makers are not captured by the elite.

Although most of these explanations for the supply of populist policies were originally constructed in the framework of Latin American economic populism, I find them to a certain extent generalizable for the Hungarian situation. In my opinion the high level of political polarization was one of the key factors of the start of the election spending-cycles in 2002 and also contributed to maintaining the welfare social contract. Signaling may also have played a role at the redistributive and anti-elite measures of the second and third Fidesz-governments, for example the reduction of utility prices and the introduction of extra taxes on banks, telecommunication- and media companies. The lack of an independent central bank and fiscal authorities after 2013 has also contributed to the continuation of economic populism.

Apart from explanations based on rational choice theories, the supply of populist policies can also be linked to the political culture. As I have mentioned earlier in Chapter 4.3 Transition to democracy, Linz and Stepan (1996) identified three dimensions of democratic consolidation that mark the end of the democratic transition process. Cultural consolidation means that the majority of citizens and political actors accept democratic values and principles. Another dimension is constitutional consolidation, which means that the institutions also operate in a democratic framework. Last but not least, behavioral consolidation means that politicians do not attempt to reverse the democratization process. I find this theory crucial in understanding the supply-side of economic populism - in my opinion the cultural and the behavioral consolidation were both unsuccessful.

This part set out to discuss how the socialist legacy of Hungary contributed to the emergence of populist economic policies. The Kádárist social bargain – giving up political rights for the steadily rising standard of living – has returned after 2010, but this time with nationalist undertones. Apart from the rule of law issues, the major problem of this model is

that it is not sustainable on the long run due to lack of structural reforms and problems with competitiveness.

Kádár's 'welfare dictatorship' during the state-socialist years had a large impact on citizens' expectations. To quote Horváth and Szakolczai (1992, p162): "Communism left behind an enormous burden in terms of built-in expectations, forms of behavior and frames of mind ... that will be with us for a long time to come." These factors have all helped the demand-side of populist policies, while the weakness of civil society limited the control over the executive power. Besides, the cultural and behavioral consolidation of political elites remained an unfinished process, boosting populist policies from the supply-side. The post-socialist legacy created a social and institutional structure (with weak institutions and high levels of political polarization) where populist policies appeared as the rational choice for politicians.

To a certain extent, external impacts did limit the possibilities for populist policy-making. As it was summarized by Bohle (2010), joining the European Union provided greater legitimacy for the political and economic transformation and forced a lengthened time horizon on politicians. The strict conditions of the EU accession contributed to better governance in the region, where 'returning to the West' was a strong desire. The increased inflows of FDI and EU-funds have largely helped the economies of the CEE countries. Transnational influences had, however, also continued to enable the welfare social contract. The EU-membership legitimizes populist political actors on the national and international level, while external resources help to maintain populist economic policies.

6.2. Conclusions

My thesis aimed to examine how the legacy of the Kádár-system affected Hungarian political culture and economic policy in the post-transition years. My hypothesis was that

there might be a relationship between the post-socialist political culture and populist economic policies, as the former may provide a fertile ground for the latter.

The third chapter served as a literature review on populism, by introducing the main concepts of this complex phenomenon and describing populism as a political strategy in detail. This chapter also presented the key definitions and ideas on economic populism, as well as their criticism in the literature. Apart from the traditional understandings of economic populism, it introduced the concepts of neoliberal neopopulism and left- and right wing economic populisms.

Chapter four described the Kádárist legacy of Hungary. In addition to a brief review of the Kádár-regime's timeline, it contained a short literature review on the current understandings of the post-socialist phenomenon in the context of the CEE region. The last three parts of this chapter examined how political cultures change after a transition to democracy, what Kádárism means after the transition in terms of values and expectations by citizens' and finally it linked the concept of economic populism and the post-socialist condition by a short review on the related Hungarian literature.

The fifth chapter went through the economic policies of the socialist and the post-transition years. The Kádár regime's standards-of-living-policy fitted well into the economic populism framework: overly expansionary macroeconomic policies leading to high inflation and a balance of payment crisis. Nevertheless, given the authoritarian and repressive character of the regime, it does not classify as a case of economic populism.

Regarding the post-transition governments, there have been examples of populist economic policies under almost all regimes. The Antall- and Baross-governments attempted to maintain the standards-of-living-policy despite the severe, both internal and external economic pressures. The Horn-government proved to be an exception to populist policy-

making as it hit by a severe balance of payment crisis and had to pursue costly austerity measures. Before the 2002 elections the first Orbán-government's economic policies were mostly disciplined, preparing the country for the EU-accession. However as elections came close, the Orbán-government pursued several welfare measures to convince voters. Despite these policies, the socialist party won the 2002 elections by outbidding Fidesz, using the promise of further redistribution as means to win elections. The increased government spending led to a series of austerity programs under the Bajnai-government. The second and third Orbán-governments displayed an 'unorthodox' mixture of left- and right-wing populist policies.

The previous part of this last chapter discussed the demand and supply of populist policies, seeking to answer why citizens vote for, and why politicians decide to pursue them. The main conclusions of the discussion could be summarized in one short sentence: history and institutions matter. The demand side for economic populism is constituted of the interlinked economic inequality explanation and the post-socialist condition. On the supply side I found the lack of cultural and behavioral consolidation of political elites and a social and institutional structure in which populist policy choices seem rational for politicians. External impacts, for example Hungary's accession to the European Union did mitigate the possibilities for economic populism by constraining inflation and budget deficits and lengthening the time horizon of the decision-makers. Yet the EU-membership also served as enablers of the welfare-based social contract by channeling external resources into the country and legitimizing populist political actors on the national and international level.

Undoubtedly there are several limitations to my findings. Economic populism as a theory has, in itself several limitations and received wide criticism. Even the notion of populism lacks full conceptual clarity. Nevertheless, my goal was to link the Kádárist legacy to concrete post-transition policies, thus I still had to rely on the economic populism theory.

There are also limitations on the applicability of the Latin American economic populism literature for the case of Hungary, given the different institutional and historical setting.

Due to time and space constraints, there were limits on the issues that I was able to discuss. For further research, I would suggest exploring how the Hungarian post-transition experience of economic populism is different from the other Central Eastern European countries' and whether Hungarians have vastly different expectations from policy-makers, given the long experience with standards-of-living-policy. I would also be interested to find out whether values and expectations of Hungarian citizens differ from region to region, or on a basis of class or age. My last suggestion for further research would be related to the relevance of the Kádárist legacy – how long are the Hungarians Kádár's people? How could the process of democratic value change be faster?

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