

Capitalism with populist characteristics in Hungary and Poland

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Motivation

- Hungary and Poland, two EU member states, **once the leaders of the market transition away from the Soviet-type economy**, now move gradually towards **authoritarianism** with little respect for constitutional rules.
- Despite this, both Hungary and Poland are understudied cases.
- Economic side: what type of economic system they build?
- What are similarities and differences between the two countries?



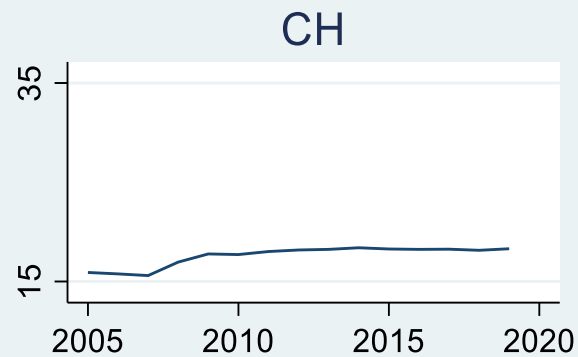
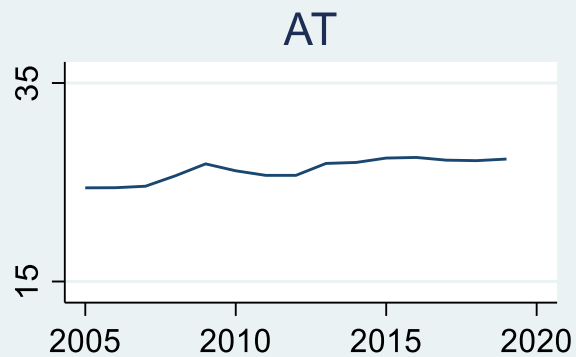
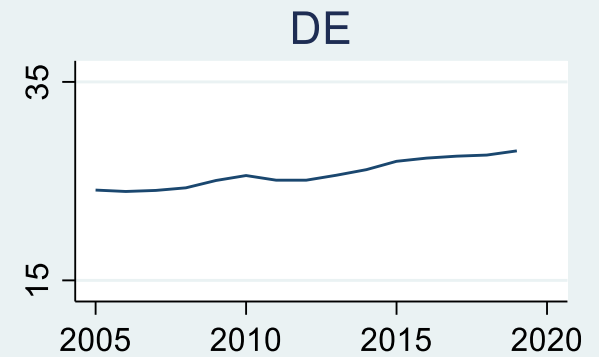
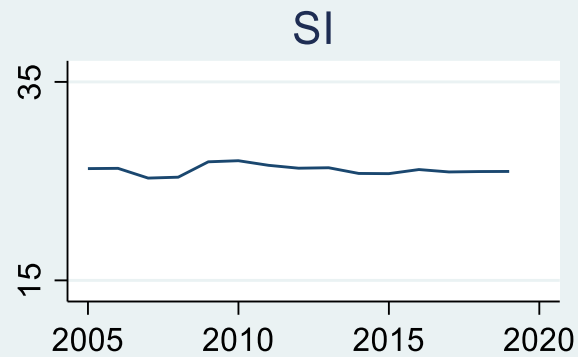
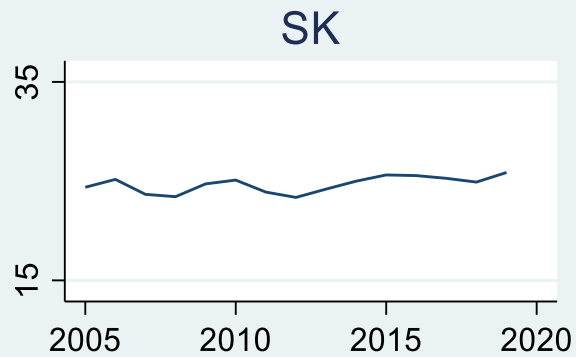
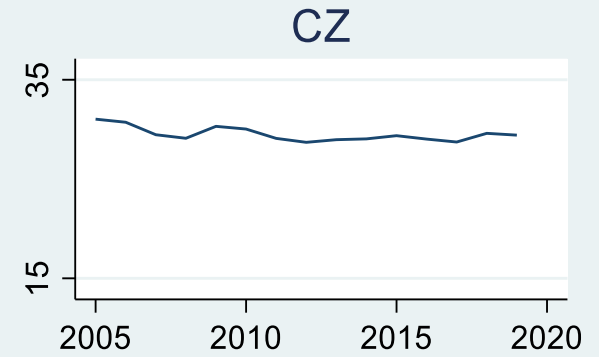
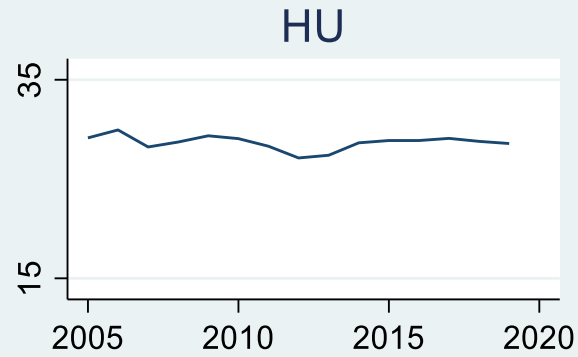
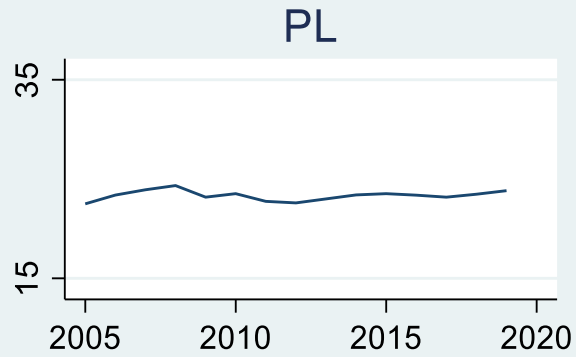


The size of the state:
a Central European
comparison.

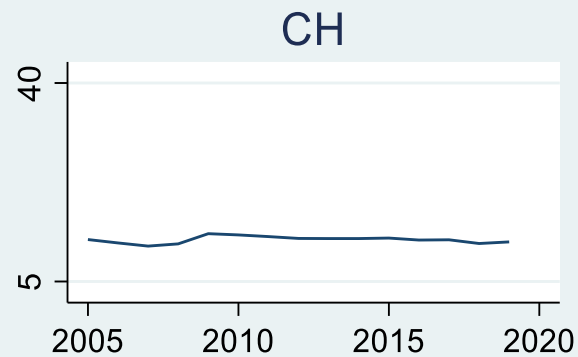
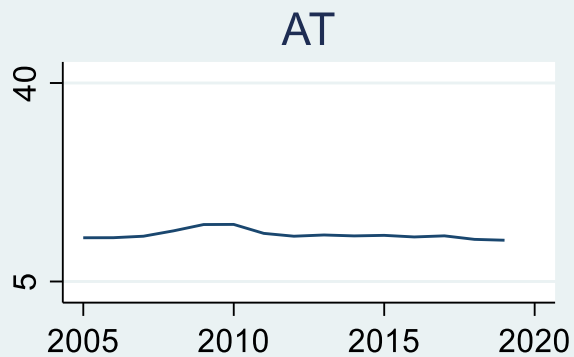
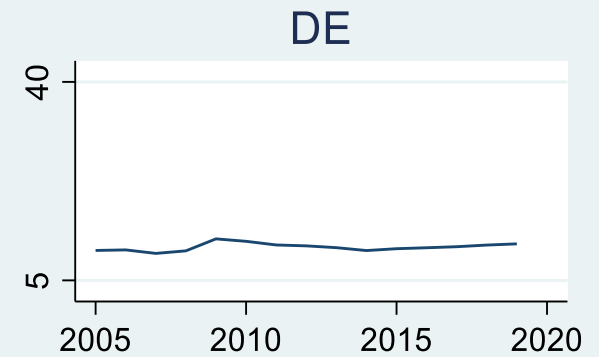
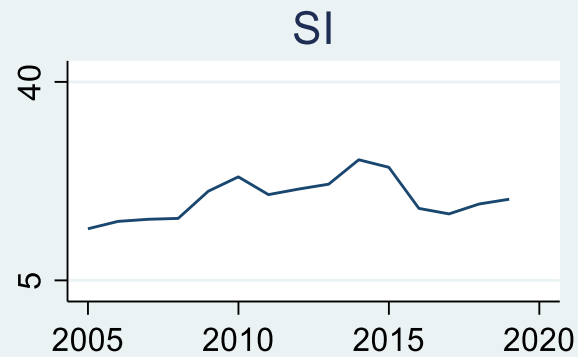
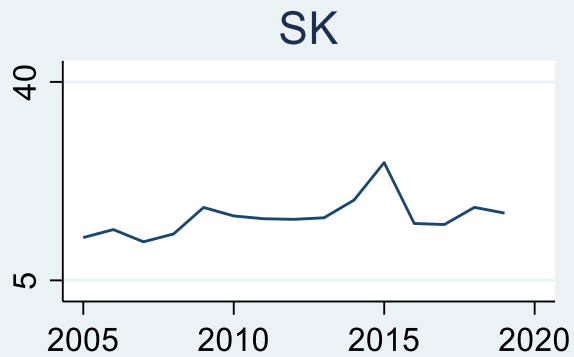
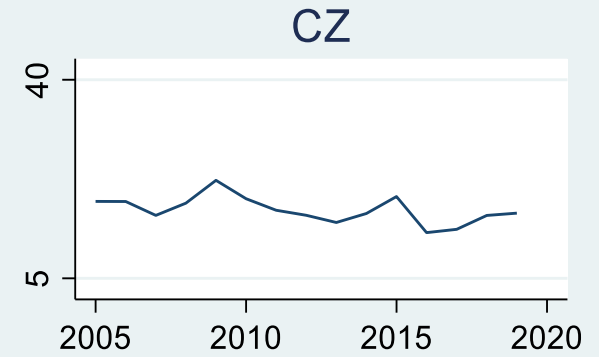
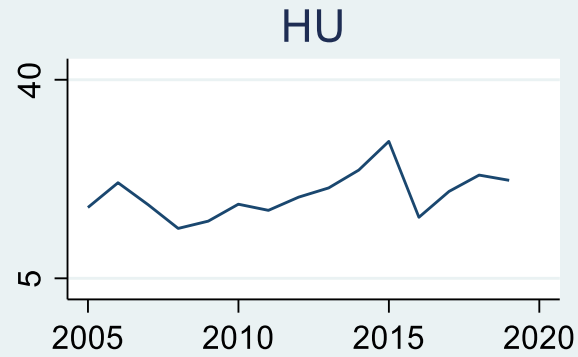
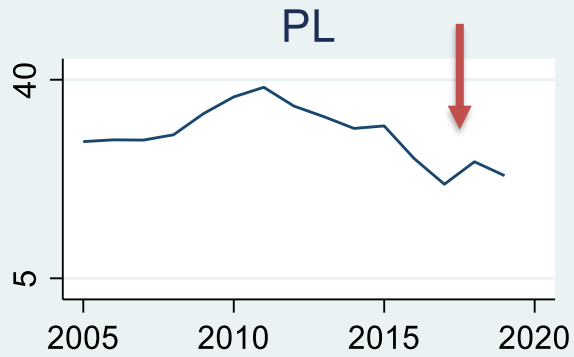
Is the state shrinking
in Hungary in Poland?

By design, or as an
unintended
consequence?

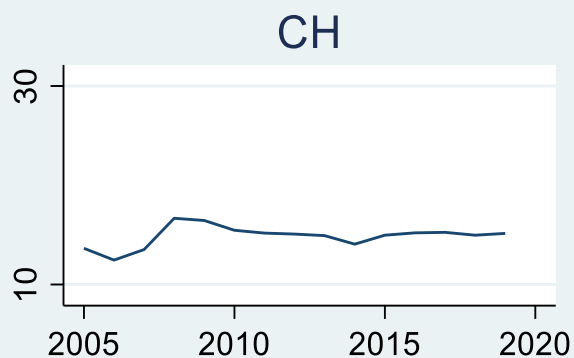
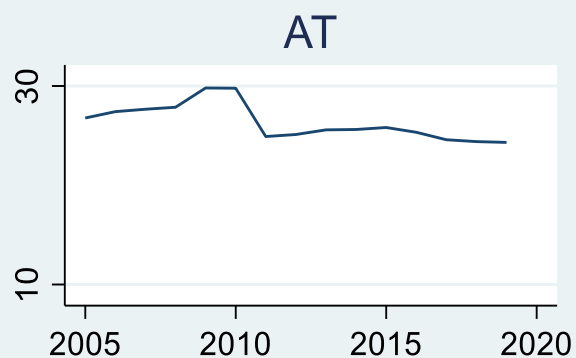
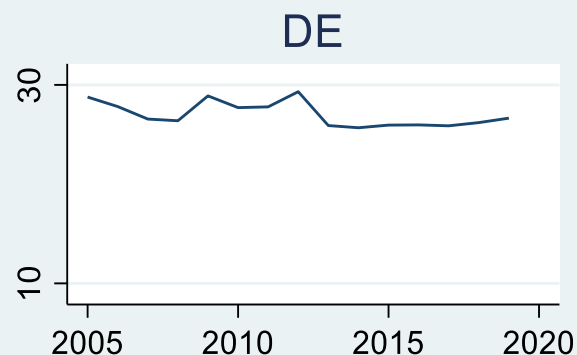
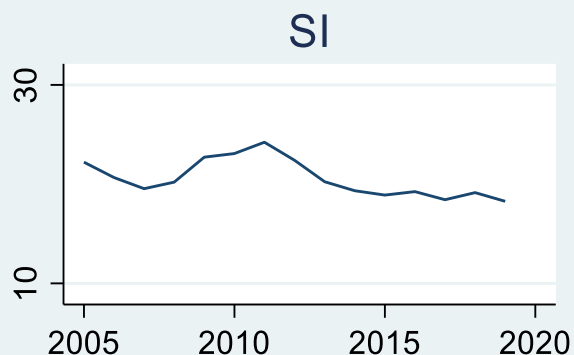
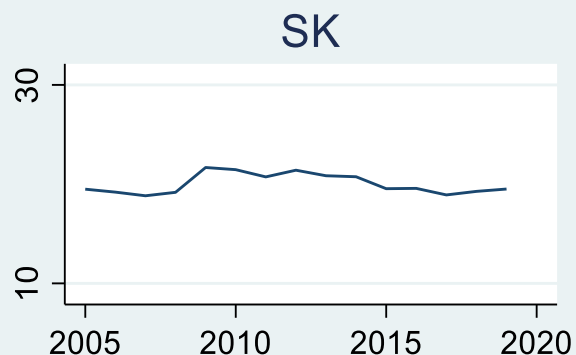
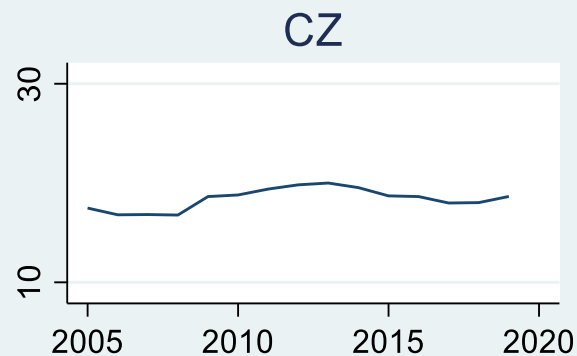
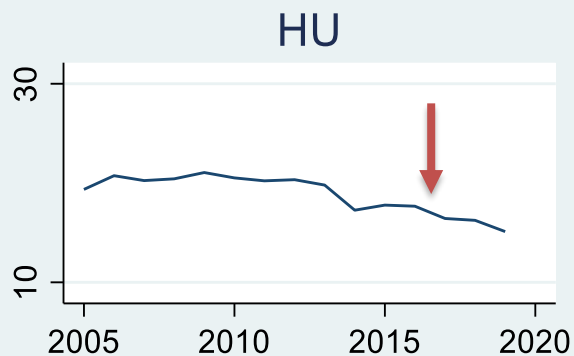
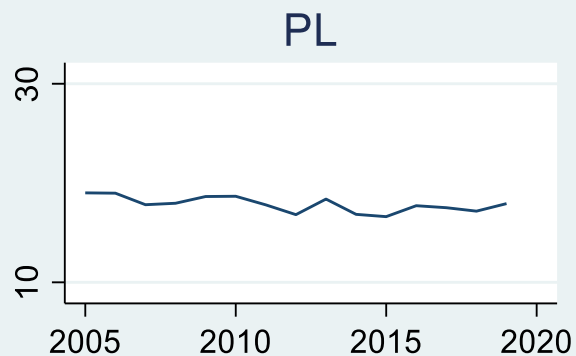
Government consumption to GDP



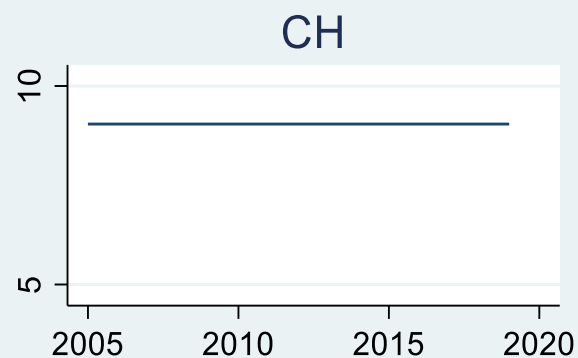
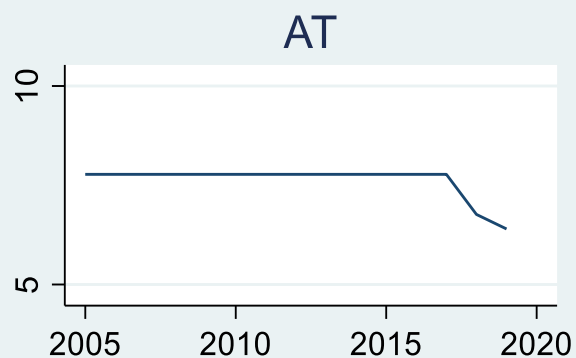
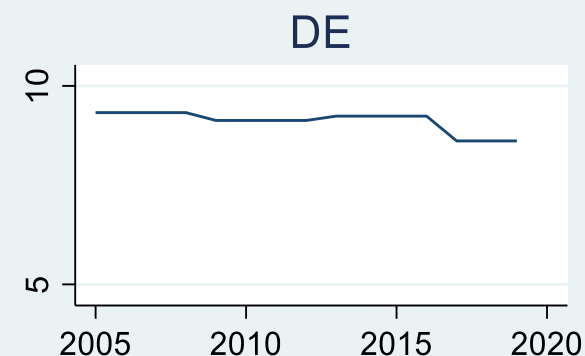
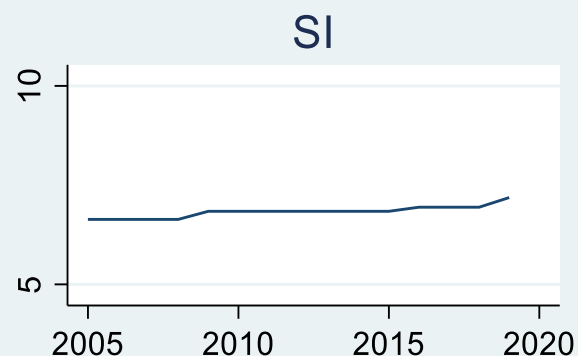
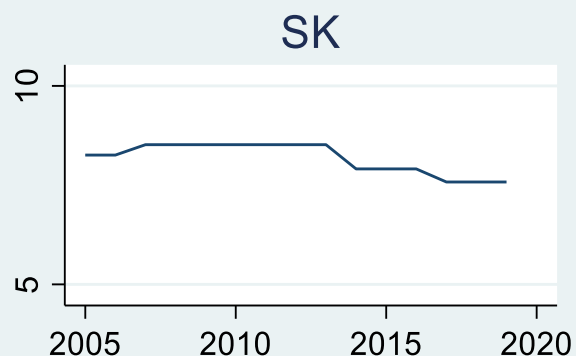
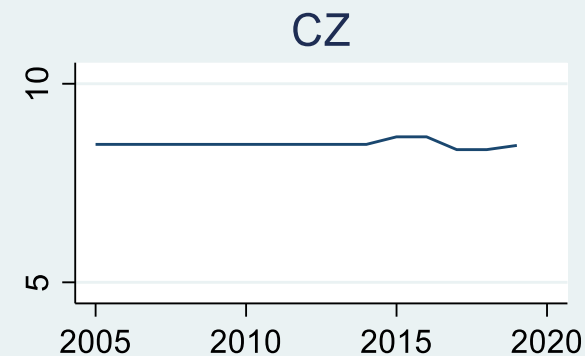
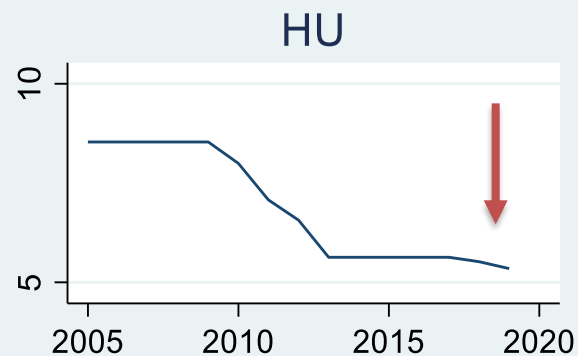
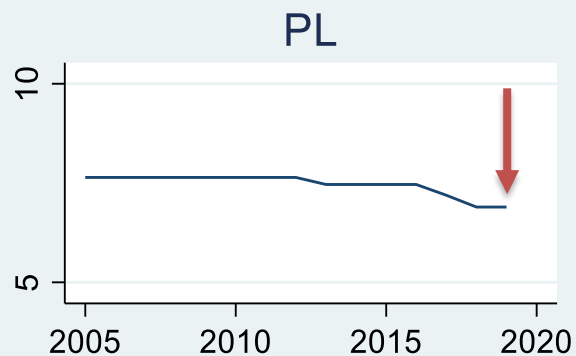
Government investment to GDP



Government transfers and subsidies to GDP



State ownership of assets index (Frazer)



unintended consequences...

Buying assets for the state ...

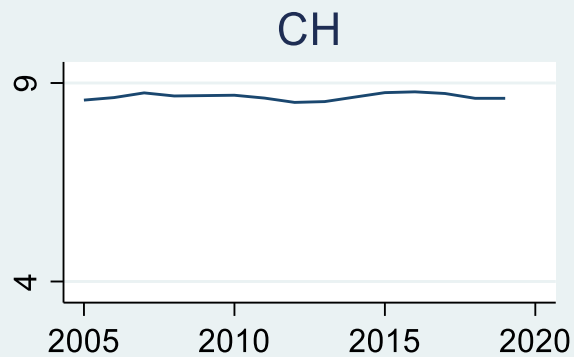
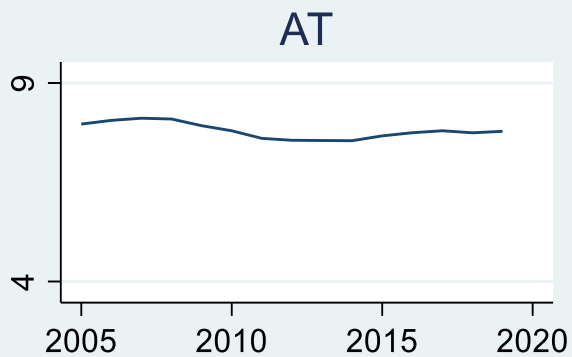
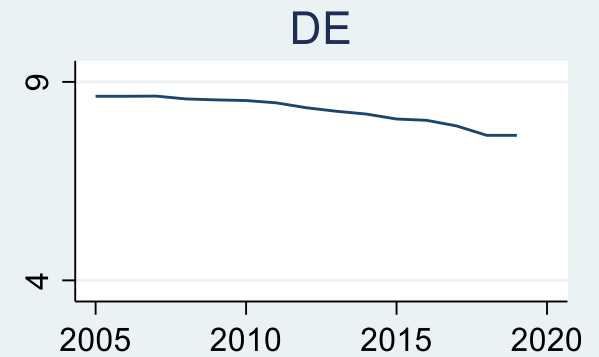
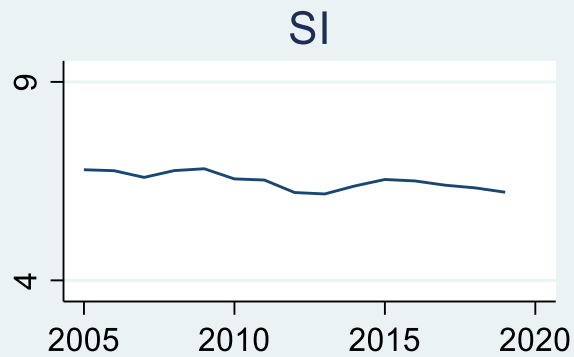
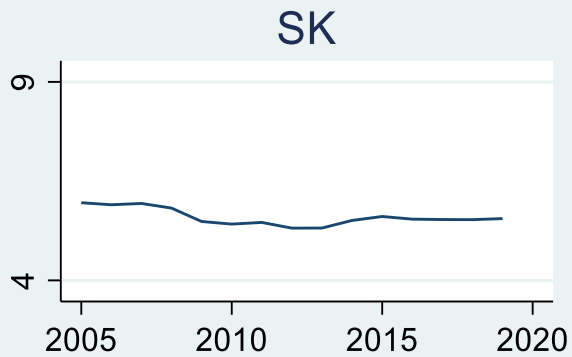
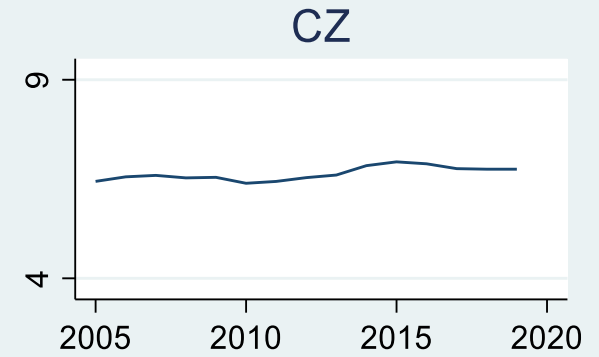
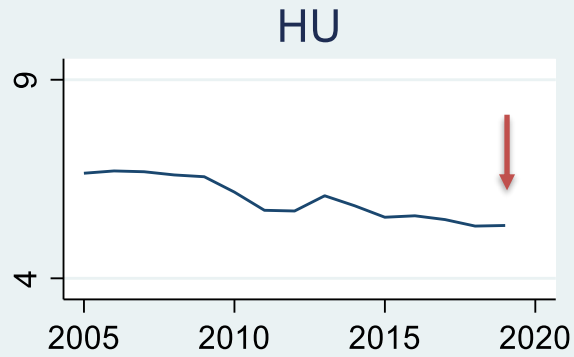
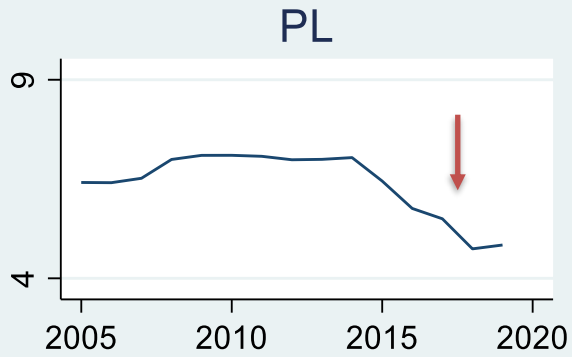
... combined with a mix of political objectives
and incompetence of state firms' managers ...

... results in a shrinking state sector



While the state is shrinking in both countries, it become more arbitrary...

Judicial independence (Frazer)



Legacy?

Soviet system legacy & transition

- **Before 1990:** tight, hierarchical relationship between the state officials with the state-owned enterprise sector. State firms were effectively part of state administrative hierarchy taking orders from sector-defined ministries.
- Tangible *contestable* private sector, open foreign trade, and convertible currency were absent. These were replaced by the **formal command-and-control administrative mechanism** of the state.
- Thus, in some ways, the old system was **arbitrary**, but paradoxically **in some other ways politicians faced specific systemic constraints of the planning administration**.
- The scale of administrative involvement of the state in the economy have decreased in the **transition period**, though at varying pace.
- Yet elements of the old system survived and the creation of the market infrastructure was not completed. **Institutional voids** persisted.
- The shift from **steering the economy** to **regulating the economy** was not fully completed.

Analytical framework:

Who are the beneficiaries of political capitalism with populist characteristics?

Capitalism with populist characteristics

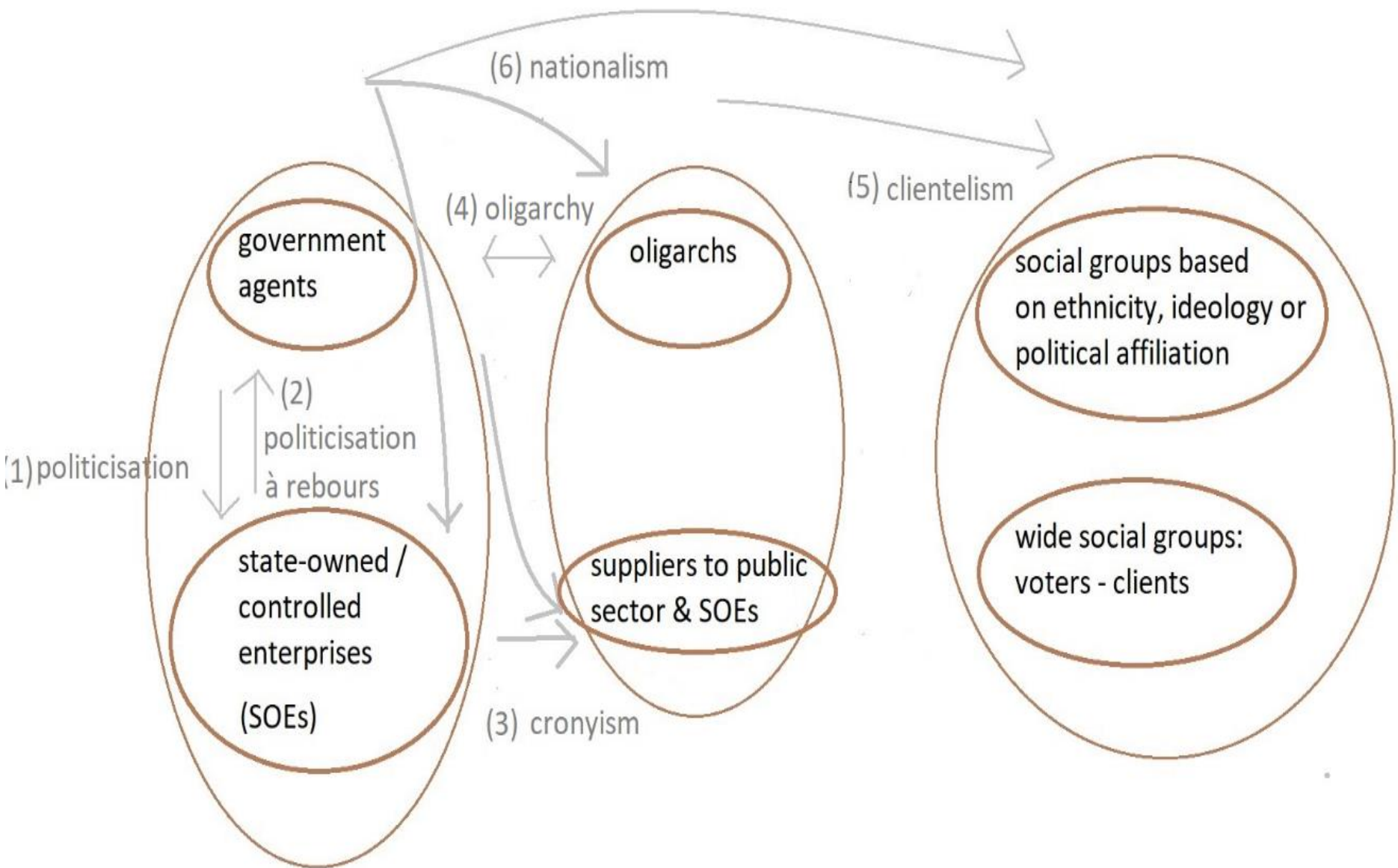
beneficiaries 1/2

- **Politicisation of SOEs:** the state-owned companies are treated by the **government agents** as a **source of rents and a device to entrench their political power**.
- **Politicisation of SOEs à rebours:** **SOEs are the beneficiaries**. **Organised labour within state enterprises and their senior executives**, exert pressure on politicians and the government in order to preserve their privileges.
- **Cronyism:** **beneficiaries from outside the state sector**. For example: 'crony' private entities receive **contracts**, usually without a tendering procedure or with a fictitious one in place, to provide services to the public sector, based on **transfer pricing**.

State capitalism with nationalist characteristics: general framework 2/2

- **Oligarchy**: more consolidated form of cronyism; **larger, more concentrated scale of benefits reaped by private agents; persistent patterns**. Beneficiaries of cronyism are specific, dispersed private agents, whereas enterprises controlled by oligarchs are among the largest. **Oligarchs display close relations with the ruling elites, and have a significant influence on the economic policy.**
- **Economic populism**: beneficiaries of some type of government transfers are **dispersed, wide groups of voters**. In contrast to the systemic, rules- and entitlement-based social policy, these transfers are channels of **patronage**: ruling politicians hand out goods to their clients, expecting reciprocity in support (**clientelism**).
- **Economic nationalism**: the state exerts impact on the economy which has a declared objective to enhance the state's political capacity, military power, 'international importance' or national unity. It links with constructing **cleavages based on 'us' and 'aliens'**. **Beneficiaries / clients are based on: ethnicity, ideological or religious beliefs, political party affiliation, sexual orientation, family status.**

Political transactions of state capitalism and their beneficiaries



Applying the framework to Hungary and Poland

Features of political capitalism in Hungary and Poland

	Features	Poland	Hungary
1.	Politicisation of SOEs	+++	++
2.	Politicisation of SOEs à rebours	++	+
3.	Cronyism	++	+++
4.	Oligarchy	—	+++
5.	Economic populism	+++	+++
6.	Economic nationalism	++	++

Hungary and Poland: similarities

- **Fast and comprehensive transition reforms** implemented after the implosion of the Soviet system 1990 onwards
 - significant role of **FDI**
 - high degree of integration with the **EU** achieved
- **Recent change of policy paradigm**
 - domestic capital declared to be the vehicle of development
 - increasing arbitrary interventionism
 - crawling re-nationalizations (yet combined with the erosion of state assets, so net effect opposite to the one intended)
 - cronyism
 - populist income policy, oriented at maximising vote not at maximising social solidarity (e.g. people with disabilities neglected)
 - gradual destruction of democratic institutions
 - nationalist rhetoric

Poland and Hungary: differences (1/3)

- Poland experienced more dynamism in terms of new private sector creation after transition. Some of those new firms became the largest Polish corporations listed on stock exchange. This new private sector remains relatively independent from politicians.
- In Hungary, there were more foreign companies among the largest corporations, the new private domestic sector has been much weaker.
- On the other hand, Polish privatisation was slowed-down and then terminated much earlier compared to Hungary. In Poland, the state sector remains much larger. Poland has been a dual economy, with both large state sector and strong new entrepreneurial domestic private sector.

Poland and Hungary: differences (2/3)

- The role of the state sector:
 - In Poland, the state sector is the main vehicle of the interventionist design of the economic policy
 - In Hungary: essential role of control over selected private companies / sectors
- Ownership changes within the new policy:
 - Poland: “repolonization” = substitution of FDI with state control, especially of banks
 - Hungary: substitution of one type of private capital with another with political linkages

Poland and Hungary: differences (3/3)

- Type of Political Capitalism:
 - Poland: elements of “classical” state capitalism, as in Musacchio, Lazzarini, Aguilera (2015)
 - Hungary: crony capitalism, oligarchization and *capture of oligarchs* (Mihalyi, Szelényi 2017).
- Sources of political rents in the enterprise sector:
 - Poland: almost exclusively from state-controlled sector
 - Hungary: mostly from private sector
- Types of political capitalism:
 - Hungary: closer to the “straight” political capitalism model, where rent seekers abuse the public (and private) sector
 - Poland: political capitalism both “straight” and “à rebours”, as the state sector is itself a rent seeker

Conclusions

- The next step in the analysis would be to add **dynamics**. Does the **emergence of high inflation signal that the populist cycle runs its course?**
- Related to this: managing the tension between the task of **entrenching power**, and **economic performance** is critical for staying in power.
- Membership in the **EU** as a stabilising brake:
 - Economic areas of public state aid (especially with regard to SOEs), public procurement, public-private partnership, or protection of competition and consumers
 - In the long run, even more important are the decisions coming from the EU that could slow down the erosion of the rule of law.
- **Historical persistence: incomplete transition fed into state capitalism**. Some similarities with **post-war statist Italy** which inherited economic structures from fascism.
- Yet, this historical persistence has been also present in other Central European Countries. **Cultural factors: radical nationalism supported by unreformed Catholicism has been particularly strong in Poland, but also Hungary.**

Drawing upon:

- Maciej Bałtowski, Piotr Kozarzewski, Tomasz Mickiewicz (2020), **State Capitalism with Populist Characteristics: Poland and Hungary**. In: Mike Wright, Geoffrey Wood, Alvaro Cuervo-Cazurra, Pei Sun, Ilya Okhmatovskiy, Anna Grosman (eds). *Oxford Handbook on State Capitalism and the Firm*. Oxford: Oxford University Press. Forthcoming.
- Tomasz Mickiewicz (2020). **Authoritarian Populism in Comparative Perspective**. In: Elodie Douarin and Oleh Havrylyshyn (eds.) *The Palgrave Handbook of Comparative Economics*. Cham: Palgrave. Forthcoming.
- (both available on Research Gate)