

# Greenwich papers in political economy

## The Transformation of Post-socialist Capitalism – From Developmental State to Clan State?

Dorottya Sallai  
University of Greenwich  
D.Sallai@greenwich.ac.uk

Gerhard Schnyder  
Loughborough University London  
G.Schnyder@lboro.ac.uk

### Abstract

Various characterisations exist of the model of post-social capitalism. While most typologies underscore the prominent role of the state in post-socialist capitalism compared to Western economies, the literature is less clear about what exactly this role consists of. For the case of East Central Europe, some authors underscore the weakness of the state and its 'capture' by business interests, while others attribute to the state a benign role in successful industrial restructuring. We show that both views are of limited use to understand the phase of 'backsliding' that these economies are currently experiencing. We draw on anthropological models of post-socialist states that focus on elite dynamics within the state and show that this focus allows us to interpret backsliding in Hungary as a reversal of the developmental state into a clan-state.

[133 words]

No: GPERC57

**JEL Codes:** P16, P26, H13

**Key words:** State capitalism, political ties, corporate strategies, clan-state, post-socialism, autocracy

**Corresponding author:** Dorottya Sallai, [d.sallai@gre.ac.uk](mailto:d.sallai@gre.ac.uk)

## 1. Introduction

After a decade of transition, the East Central European or Visegrad countries – the Czech Republic, Hungary, Poland, and Slovakia – had emerged as the most successful examples of post-socialist transition. They managed to modernise their economies through foreign investments, became economically integrated in the world markets through relatively highly value-added economic activities, and politically assimilated in the European polity (Nölke and Vliegenthart, 2009). While the initial attempts to establish neo-corporatist social partnerships failed, a relatively successful balance was struck between marketization, privatisation and the maintenance of social cohesion based on an ‘embedded neoliberal’ arrangement (Bohle & Greskovits, 2007).

This successful model of post-socialist transition has to an important extent been attributed to the inflow of foreign direct investment into relatively high-value added sectors of the economy (Bandelj, 2008; Nölke and Vliegenthart, 2009; Bohle and Greskovits, 2012; Martin, 2013). The high levels of inwards FDI during the 1990s – rivalling those of China– have led Nölke and Vliegenthart (2009) to suggest label the emerging East-Central European (ECE) model of capitalism Dependent Market Economies (DMEs). This classification stresses the dependence of these economies on investment decisions made in the headquarters of MNCs outside the country’s borders.

However, since the turn of the century, most of the Visegrad countries have entered a phase that has been called ‘democratic- and institutional ‘backsliding,’’ both in terms of democratic political institutions and in terms of open, liberal market-based economic ones (Orenstein, 2013; Sedelmeier, 2014; Bandelj, Finley and Radu, 2015; Greskovits, 2015). While the timing and extent of these trends differ across countries, in all of them have more autocratic political parties and anti-Western, anti-liberal discourses and policies gained in influence. These trends have resulted in the emergence of more authoritarian regimes where the government intervenes more directly and resolutely in society and the economy to extend its control (Sedelmeier, 2014; Bandelj et al., 2015). This development makes a focus on the nature and role of the state in post-socialist economies crucial.

The comparative capitalism literature considers post-socialist capitalism to be characterised by a rather prominent role of the state (Bohle and Greskovits, 2007, 2012; Lane, 2005; Nölke and Vliegenthart, 2009; Cerami & Stubbs, 2011; Myant & Drakophil, 2012; Martin, 2013). Yet, it is less clear what exactly this role is.

Some authors have argued that after the first decade of transition the power relation between the state and business was skewed towards the interests of businesses. Thus, Martin (2002) coined the term

‘politicised managerial capitalism’ to describe a model with where close links between companies and the state existed, but where the state was delegitimised and hence vulnerable to state capture by powerful business interests. Conversely, a second perspective argues that a capable and relatively benign state was an important aspect of the DME model, because political stability and high levels of state capacity played an important role in attracting FDI in the first place (Negoita 2006). Negoita (2006) draws on development studies and argued that the type of states that have emerged in these successful post-socialist cases resemble in some respects the developmental state model (Gerschenkron, 1962; Johnson, 1982; Evans, 1995). From this perspective, Negoita (2006) argued that Hungary’s successful transition can at least partially be attributed to two characteristics of the developmental state, namely the ‘embedded autonomy’ of the state bureaucracy, and the recruitment of civil servants based on meritocratic and technocratic criteria, rather than political loyalties.

Both accounts give rise to a puzzle, however: If the state was weak and captured by the business elite at the end of the 1990s, what made possible the aggressive strategies that characterise economic backsliding and allowed the government to wrestle back control from the managerial elite? Conversely, if a benign, business-friendly and public-good orientated state was crucial for DME success, what made possible the rapid and stark departure from that path? Answering these questions will allow us to further our understanding of the nature and role of the state in post-socialist capitalism.

In this paper, based on interviews with business leaders in Hungary – one of the most extreme cases of ‘backsliding’ in ECE –, we focus on the battle grounds between the state and businesses to investigate the economic aspects of ‘backsliding.’ We investigate the transformative mechanisms that allowed the government to wrestle back control from private sector actors and move Hungary from a quasi-developmental to a ‘clan-state’ (Wedel 2003). We identify different mechanisms by which the capacity of a business-friendly developmental state was turned against the private sector to the benefit of a narrow clan around Prime Minister (PM) Viktor Orbán.

Our results suggest that the Hungarian state is far from captured and powerless, as suggested by Martin (2002, 2013), but rather that a clan of people connected to Viktor Orbán have successfully used a capable state bureaucracy to reshape the economy in their own interests.

In theoretical terms, this suggests that the interpretation of post-socialist state in ECE as a form of developmental state is more useful than Martin’s account of state capture. On this account, ECE states had inherited considerable administrative and infrastructural power from the communist period and developed during the post-socialist period new ‘deliberative capacities’ (Negoita, 2006). These capacities were at first used to provide a politically stable and economically attractive institutional environment that succeeded in attracting very large amounts of FDI, leading to a quick modernisation

of the industry (Iankova, 2002, Negroita, 2006, Bohle and Greskovits, 2007, King, 2007, Martin, 2008, Swain, 2011, Martin, 2013). Yet, in this paper we argue that it was precisely the fact that the state had considerable capacities that allowed a new elite to use the state apparatus during the backsliding phase to very effectively implement illiberal (Hajnal and Rosta, 2014, Kornai, 2015a.), authoritarian, and business-unfriendly changes.

This in turn suggests an in-built weakness of the Dependent Market Economy model that emerged in the ECE countries (Nölke and Vliegenthart, 2009), which may have made it particularly prone to this type of backsliding. Namely, that the combination of a capable state bureaucracy with an economic model that relies on an equilibrium between high levels of social transfers, low corporation taxes, and relatively low wages for relatively skilled work (Bohle & Greskovits, 2012) may quickly fall prey to nationalist, illiberal political movements, which then also have with the capable state a potent tool to impose their dominance over the economy and society.

Our study contributes to the literature on developmental states, post-socialist transition, and varieties of emerging capitalisms. We argue that the benign developmental state model needs to be extended to acknowledge its ‘dark side,’ namely that the same capacities that allow the state to contribute to economic development, can also be used to achieve de-development and de-democratisation. This suggests that beyond state capacity, scholars also need to pay close attention to elites and their preferences, because in the context of a capable state the latter considerably influences whether state policy has a benign or adverse impact on economic development. Indeed, the state’s capability is a double-edged sword depending on who holds it in their hands. Applied to the concept of the DME, this view explains how a very successful model of capitalism seems to have quickly turned into a dysfunctional one.

The paper is structured as follows: The next section reviews the literature on the role of the state in post-socialist economies. After presenting our method, we present our empirical evidence from interviews with top-level managers in Hungary. We analyse the mechanisms that the Hungarian government used in its attempt to regain some of the authority it lost during the early phase of transition. A final section concludes.

## **2. Post-Socialist Capitalism in East Central Europe in the 21<sup>st</sup> Century**

The comparative capitalism literature has debated the nature of post-socialist capitalism for a long time. Some authors see ECE countries following the coordinated patterns of Germany (Lane 2005). Others have noted the weak coordination in industrial relations, which they characterised as ‘fake corporatism’

(King 2007 p: 309). From this perspective, the ECE model is considered much closer to the LME than the CME (Cernat 2002; Crowley 2005: 3). Still others have argued that due to the ongoing process of transformation in ECE economies need to be conceptualised as a variety of capitalism *sui generis* (Hancke, Rhodes et al. 2008; Hancké, Rhodes et al. 2009). Indeed, they may not evolve into fully-developed market economies (Schneider 2008) and should be classified as a distinct variety of capitalism (Myant and Drahokoupil 2010; Vliegthart 2010; Cerami and Stubbs 2011; Nölke 2011).

The most influential classification stems from Nölke and Vliegthart (2009) who labelled ECE states as 'Dependent Market Economies' (DME). The key feature of the DME model is the strong dependence of these economies on FDI for investment, technology transfer, and industrial modernisation. Relying on FDI inflows has permitted the rapid and successful modernisation and reindustrialisation after the fall of socialism, but it has also created a strong dependence on Multinational Corporations (MNCs) headquartered abroad whose investment decisions determine the success of the DME strategy. As a result, in DMEs the internal hierarchy of the MNC provide the main coordination mechanisms (Noelke & Vliegthart, 2009; similarly Drahokoupil 2009; Myant and Drahokoupil 2010).

Another key feature of ECE economies is the more prominent role the state plays compared to other models of capitalism. This role was important to achieve the 'embedded neoliberal' compromise that consisted of the combination of advantageous investment conditions for foreign investors through low taxes with generous welfare payments to the population in order to compensate for increasing market pressures on employment and wages (Bohle & Greskovits, 2007; also Bandelj, 2008). Thus, Eastern European states and the Baltic countries have been termed 'state-led' (Lane 2005: 245) or 'state-enabled market economies' (Cerami & Stubbs 2011: 24).

Therefore, a key tension emerges in DMEs between powerful MNCs, an emerging, domestic managerial elite, and the post-socialist state in search of legitimacy. The literature reaches contradictory conclusions regarding the outcome of this situation. Martin (2002: 833) interprets Hungary and other central European states as 'politicized managerial capitalism.' On this account, the decline of the state's influence over companies meant that by the beginning of the 21<sup>st</sup> century, corporate managers were the dominated actors in their relationship with politicians and the state.

Others, however, interpret the states' role in the 1990s in a more positive light. Rather than the state being dominated, delegitimised, and lacking expertise as in Martin's (2002) account, Negoita (2006) sees the Hungarian state as enjoying considerable autonomy from businesses and using its infrastructural and deliberative power successfully to achieve economic growth and development. On this account, the

combination of technocratic guidance, the state's infrastructural power, and deliberative capacity were necessary conditions for the successful transition in ECE countries (Negoita, 2006). The meritocratic bureaucracy in Hungary and the relative autonomy from business interests also leads Negoita (2006) to classify the Hungarian state as a developmental state.

The developmental state model stresses the positive role that the state has played in cases of late industrialisation such as Germany (Gerschenkron, 1962) and Japan (Johnson, 1982). Based in particular on the experience of Asian late industrialisers, a key feature of the developmental state is the 'embedded autonomy' of the state bureaucracy vis-a-vis businesses (Evans, 1995). Meritocratic selection of civil servants and high levels of expertise are key elements in making this autonomy and technocratic guidance possible (Negoita, 2006; Block and Negoita, 2016). More specifically, Negoita (2006: 230) identifies two key elements of the post-socialist state that are necessary for successful development. He states that 'late post-communist development is possible when the state has developed significant infrastructural and deliberative capacities' (Negoita, 2006: 230). Negoita (2006) defines infrastructural power as the state's ability to 'penetrate civil society' and to implement its decisions. Whereas deliberative capacity is the state apparatus's ability '[...] to maintain a healthy dose of critical judgement in the face of internal and—especially—external pressures exerted by international entities' (Negoita, 2006, p. 214). According to Negoita (2006), both these features were present in the Hungarian case, and explain its successful economic development throughout the 1990s, compared to less successful cases such as Romania.

In short, the important role of the state in post-socialist economies is generally accepted, but there are contrasting views about the precise nature of post-socialist states and the exact role the state plays in the economy. In Martin's (2002) account the state becomes an instrument for the business elite, while on Negoita's (2006) account the Hungarian state managed to maintain its autonomy and positively influence socio-economic development in the public interest.

### *The return or reversal of the state?*

Compared to the analyses from the early 2000s reviewed above, the situation has dramatically changed since the mid-2000s. In several ECE countries, governments have started departing from the neo-liberal Western reform path and have increasingly become authoritarian and illiberal (Orenstein, 2013). This evolution is sometimes associated with a broader trend around the world that has been termed the 'return of state capitalism,' which sees governments adopting a more hands-on role than in the immediate post-socialist era that was characterised by neo-liberal, regulatory state approaches (Bremmer 2008, Kurlantzick 2016,).

This development in the economic sphere was accompanied in the political sphere by a move away from the emerging democratic political structures towards more authoritarian ones, which has been termed ‘democratic backsliding’ (Greskovits, 2015) or democratic U-turn (Kornai, 2015a). Declining economic conditions made it difficult for governments to uphold the embedded neoliberal arrangement that combined low corporation taxes, low wages, with generous compensatory welfare payments (Bohle & Greskovits, 2007). This led in turn to a disillusionment of local populations with the Western style ‘capitalism-cum-democracy’ model due to declining living standards (Orenstein 2013). Consequently, many voters turned to a ‘strong man’ to come to the nation’s rescue. Several post-socialist countries saw such ‘strong men’ emerging – albeit at different points in time and not always in democratic fashion: Alexander Lukashenko in Belarus, Leonid Kuchma in Ukraine, Vladimir Putin in Russia, Viktor Orbán in Hungary, and – to a lesser extent – Robert Fico in Slovakia. Such strong men came to play the crucial role of ‘linchpin’ that coordinates different powerful informal groups within the elite (Sharafutdinova 2010: 176).

Taken to the extreme, this increasing personalisation of the state in post-socialist countries may lead to what Wedel (2003) has called– with reference to Russia – a ‘clan-state’. The term ‘clan’ is used to designate an informal group of people spanning the areas of politics, economics, and law that are tied together through formal and informal relationships and perceive themselves as being part of a group.

Hungary has arguably moved, since 2010, from what Wedel (2003) calls a ‘partially appropriated state’ ‘in which informal groups [...] take over from the state, or privatize, certain functions [and] informal groups work with relevant state authorities or what is left of them, but the group as such is not synonymous with the authorities’ (Wedel 2003: 433) to a ‘clan-state’ where ‘‘certain clans [...] are so closely identified with particular ministries or institutional segments of the state that the respective agendas of the government and the clan become indistinguishable’’ (Wedel 2003: 434).

The anthropological concept of the clan-state is more precise and therefore more useful to analysis ‘backsliding’ than vaguer notions such as ‘the return of the state.’ Focusing on the preferences and actions of specific elites, this approach allows us indeed to understand backsliding as a fundamental transformation of the state, rather than a simple ‘return’ to a state-dominated economy through a policy reversal. We therefore analyse the Hungarian case from this perspective by looking at the interaction between the governmental elite and business leaders. Furthermore, we combine Wedel’s (2003) focus on the role of specific elite groups in partially appropriate and clan-states with the developmental state literature’s view on state capacities (Negoita, 2006; Negoita & Bloch, 2013) to explain the current phase of backsliding in post-socialist countries. We argue that combining the analysis of the preferences and behaviours of elite groups with the analysis of the practices, mechanisms, and tools that a clan uses in



its contest for control over the economy allows us to illuminate the ‘dark side’ of the developmental state and helps us to better understand the role of the state in post socialist countries in the current phase of economic and political backsliding.

### **3. Data and Method**

#### *Research design*

We focused on Hungary as a single country case and carried out interview-based qualitative research combined with research on the political context and individual companies using secondary data. We selected Hungary as a critical- or revelatory case, because it is arguably one of the most extreme cases of ‘backsliding.’ In 2005, the EBRD (2005) designated Hungary the most advanced country in its transition to a western-style liberal capitalism. Ten years later, despite some recent setbacks for the Fidesz party, Hungary is essentially controlled by a single party. Critical cases help us explore patterns that may not be easily recognisable in an average-, or typical case.

#### *Data*

Our empirical analysis is based on 60 semi-structured interviews conducted between 2009 and 2017. We chose to carry out semi-structured in-depth interviews, because they constitute an insightful method for exploring the ‘often nuanced causal factors of specific managerial action’ (Lawton et al., 2013: 231).

Given the sensitive nature of the research topic we relied on personal contacts to secure the interviews. After having obtained a first set of interviews, we used a ‘snow-ball’ sampling approach based on our interviewees’ recommendations and introductions. We targeted the largest companies in Hungary, but also included smaller ones, because we aimed to constitute a sample comprised of all categories of companies commonly distinguished in the transition economy literature, namely privatised incumbent firms, foreign new entrants, and domestic new entrants (*de novo* firms) (e.g. Martin, 2008). This sampling method may have led to a certain self-selection bias in that we only obtained access to a certain type of companies. We mitigate this possible bias by selecting participants from a wide variety of sectors and types of companies (see table 1). Furthermore, we included additional interviewees from the context

of the case (associations, chambers of commerce, trade unions, and NGOs). We used secondary data to verify interviewee's factual claims.

The final sample included 22 interviews with top managers (CEOs, vice-CEOs, board members, heads of business units) of Hungarian firms and 27 interviews with CEOs and PA directors of local subsidiaries of multinational companies (MNCs). Out of the 22 interviews with Hungarian firms, 8 were state-owned while 14 were privately owned businesses - out of which 2 were privatised incumbent firms, and 12 domestic new entrants. We obtained an additional 11 interviews with actors from the 'context' of the case.

[insert table 1 here]

The secondary data we used to check the reliability of the interview data included information available on corporate websites, journalistic sources (including the Hungarian economic weekly HVG, Bloomberg.com, the Telegraph, Reuters.com, EurActiv, and The Economist), and reports by NGOs such as atlatszo.hu and Transparency International.

#### **4. Empirical Findings: From 'Developmental' to 'Clan-state'**

This section presents our empirical results from the in-depth interviews with a view to deepen our understanding of the role of the state in the process of economic backsliding.

Since the 2010 elections, the conservative coalition of Fidesz and its junior partner, the Christian Democratic People's Party (KDNP), have held more than two-thirds of the seats in the parliament (Kovács, 2015). Following the April 2014 parliamentary elections, the Fidesz–KDNP coalition held 133 of 199 seats and in addition won the European Parliament and local elections during the same year (Kovács, 2015). Using its supermajority, the government has since engaged in actions that systematically undermined democratic institutions (Kovács, 2015: 273). Thus, it adopted a new constitution without public consultation and amended it several times since. These steps constitute signs of 'democratic backsliding' (Sedlmair, 2014; Bandelj et al., 2015).

Here, we focus on the economic rather than the political sphere and analyse the mechanisms the Orbán Governments used in bringing about 'economic backsliding'. We find evidence for four different mechanisms through which this is achieved in the economic sphere: The colonization of the state

bureaucracy by the new elite and three ways of ownership transfers from private owners to the state: through renationalisation, legal reforms, and forced buy outs (FBOs).

### *Colonization of the state bureaucracy*

Since 2010, Fidesz has used its control over parliament to ‘create a system based on the monopolization of the most important elements of political power’ (Bozóki, 2011: 650). The government introduced legal changes that centralised decision-making at various levels of the state bureaucracy (Hajnal and Rosta, 2014, Kornai, 2015b). The increasing centralisation of the state structure was accompanied by the appointment of people close to Fidesz to key state positions. This evolution considerably weakened the independence of state institutions, which previously played important roles in counterbalancing the government’s powers (Transparency 2012\_b). Some of the institutions affected by party-related appointments were the State Audit Office, the Prosecutor’s Office, the Hungarian Financial Supervisory Authority, and the Budgetary Council (Bozóki 2011: 652).

More generally, the government ‘colonised’ the state bureaucracy through political appointments to key public positions. Thus, a former Fidesz member of the parliament has become President of the Media Authority, while the spouse of a prominent Fidesz Member of European Parliament (MEP) became Head of the National Judicial Office (Bozóki 2011). The Constitutional Court’s jurisdiction has been reduced substantially when the justices appointed by Fidesz–KDNP obtained a majority in the court in 2013 (Kovács, 2015: 273).

Newly introduced legislation made it possible to dismiss public officials without cause, which in turn made ‘the cleansing of the entire government apparatus’ possible (Bozóki 2011: 652). These changes violate if not the letter, so at least the spirit of the Civil Service Act of 1992, which according to Negoita (2006:225) ‘separated central policy from service delivery functions and clearly distinguished between political appointees and professional career employees’ and constituted thus a key element of the developmental state. Indeed, one key element of the rise of the Orbán clan in Hungary is the undermining of the previously – for post-socialist standards – exemplary technocratic and meritocratic bureaucracy (Negoita 2006). Indeed the elimination of a meritocratic civil service and the worsening employment/retirement conditions of public servants (Hajnal and Rosta, 2014) have created an atmosphere in which public administrators became servile to the governing elite rather than wedded to professional standards.

Our respondents' perception of the declining autonomy of the state apparatus from Fidesz reflects this trend. From the company's perspective, the main change implied that civil servants now act mainly following political and private motives, rather than technocratic ones.

'[P]ublic administrators are very much threatened – today they can be fired without a reason. It is not necessary [for Fidesz politicians] to even give them a mandate to do this or that, because they are so scared that they want to please politicians.'<sup>i</sup>

Consequently, public sector career paths have dramatically changed. Instead of a meritocratic, long-term career progression, based on formal competences and experience, political loyalties and uncertainty now prevail.

'I know somebody, who used to work for a ministry two years ago, and since then he cannot find a job. Just because he worked there at the time of the other government.'<sup>ii</sup>

The job insecurity for civil servants and demand for political loyalty is combined with an increasing centralisation of decision-making in the hands of the inner circles of power. Even top-level civil servants and ministers' decision-making abilities are limited, because many powers are concentrated in the PM's hands. As an example, a representative of a subsidiary of a foreign MNC was present at a meeting with a ministry involved in the introduction of so-called 'crisis taxes' in certain industries. The so called 'crisis taxes' were introduced in 2010 by the Orbán government on the energy, retail, and telecoms sectors in an attempt to control the budget deficit without imposing spending cuts on the population. However, they were also used by the Orbán government to put pressure on companies. During the meeting it became clear that even the Secretary of State needed higher level approval to meet with industry representatives:

'When the crisis tax was introduced a Secretary of State met us – in our role as representatives of the trade association - in the Ministry of Economy and he said to us that he had been 'authorised' to meet us.'<sup>iii</sup>

Another respondent stated that:

‘I believe that today the power is in one hand – Orbán’s. Not even his ministers know which way to go. So, this adds to the uncertainty. People do not know what they can or cannot do. People cannot operate.’<sup>iv</sup>

### *Reallocation of ownership through the power of the state*

Besides the colonisation of the state bureaucracy and its use for the benefit of clan members, the second set of mechanisms used by the Orbán clan to extend its control over the economy was more direct and involved the transfer of corporate ownership to clan members. Our empirical material shows three ways in which this was achieved, namely through legal reforms, the re-nationalisation of companies, and forced buy-outs (FBOs). We discuss each one of these mechanisms in turn.

### *Legal and tax reforms*

Legal and tax reforms allow the government to change the ‘playing field’ via legal reforms in ways that existing companies cannot cope with. Thus, various legal changes forced existing companies in different sectors out of business and paved the way for entry of new, politically connected companies (cf. Kovács, 2015). Targeted sectors were mainly those focused on the domestic market in particular in the services sector, because foreign investment in these areas were considered ‘bad FDI’ by the government (Sass, 2017: 6).

One of the most notable instances of the government driving out foreign investment was the 2013 re-regulation of the tobacco market. The cabinet introduced a law that guaranteed state monopoly for retail sales of tobacco products (Econews, 2012), withdrew all previously existing retail licenses, and handed out a more limited number, mostly to people close to prominent Fidesz members (Kovács, 2015, Nagy and Szabó, 2013). This step drastically disadvantaged major multinational tobacco companies and small family-owned retail shops. In December 2014, the government further restricted the market at the wholesale level, stipulating that the newly licensed retailers will only be permitted to purchase from state-owned wholesale corporations or those that the state contracted (Kovács, 2015: 287). Due to the monopolisation of tobacco products, the number of retail outlets dropped sharply from the previous 42,000 to 5,415 (JM, 2013, Piac és Profit, 2013).

One of our respondents commented:

‘[T]hey are killing the economy with indirect tools, like tobacco legislation. They turn the retail trade of tobacco products into a state monopoly; and then they turn the retail of alcohol and lotto sales into a state monopoly as well. So, all private tobacco firms, alcohol firms, and Toto-lotto firms go bankrupt. This is how they create a market for their own economic empire.’<sup>v</sup>

The tobacco case also showcases how regulatory decisions were enforced in an authoritarian fashion regardless of appeals to courts. When the government introduced the monopolisation of tobacco retail sales, amendments were introduced after the closing date for applications for retail licences and the concession was awarded without an open tender process (OECD, 2016). Furthermore the 2015 Freedom of Information Act abolished the government obligation to share information and data used in the decision-making process (OECD, 2016). While petty corruption has been a longstanding problem in Hungary, it is a new phenomenon that the ruling clan – through the party and the state – directly influences companies’ position in the market, restructures industries, and appoints or eliminates the dominant players in the Hungarian economy (Kovacs 2015).

Beyond pecuniary objectives of the ruling clan, these changes also had the more fundamental effect of reshaping the power relations within the Hungarian economic elite. One interviewee stated:

‘As a result of this economic policy, a new oligarch circle has been created who took over a few sectors, like retail, media and construction.’<sup>vi</sup>

A similar reshaping of an industry in favour of the new elite at the expense of foreign companies took place in the retail sector. A ‘special tax’ was introduced in 2010 with a retroactive effect. The tax required all retailers operating in Hungary with annual revenue over 500 million HUF (\$2.2 million) to pay the tax on their consolidated revenues. In February 2014 the European Court of Justice ruled that the special retail tax puts companies from other EU member states at a competitive disadvantage as many of the largest retail groups were exposed to the highest rate of 2.5 percent of the progressive tax system, while domestic, smaller retailers pay the tax at a rate of maximal 0.4 percent (Gulyas, 2014). Yet, in December 2015, the parliament passed a series of laws that directly targeted international retail chains operating supermarkets in Hungary. The new legislation required non-family-owned retailers of a certain size to remain closed on Sundays, and the other forces stores to close if they reported losses for two consecutive years. The combination of these laws was considered to put multinational corporations such as Tesco, Auchan, Spar, Lidl, and Aldi in an even more disadvantageous position, while benefiting Hungarian

competitors, including the CBA supermarket chain, which was established in 1992 and has since grown to become Hungary's largest supermarket chain (Budapestbeacon.com, 2016).

According to our interviewees, the ultimate goal of these changes is once again to reshape the ownership of firms in key domestically orientated sectors in favour of Hungarian owners:

“Sectoral taxes, financial crisis tax, legislation on Sunday opening times, they all served the goal to bring into position Hungarian chains and force the change of ownership in the sector. This has not happened yet. We feel that this goal is still there and we constantly have to pay attention to see how the government will try to force this change of ownership with legislative changes or other ways, so in this respect the role of the state is absolute dominant.”<sup>vii</sup>

These examples illustrate how the government has been using its legislative power to try and change the playing field in different sectors to reallocate property to members of the clan. The role of legal reform in this process is important. The use of legal reform constitutes a qualitatively new string to the ruling party's bow. Indeed, while re-allocation of property took place through informal networks and opaque clientelism in the early years of post-socialism (Sajo, 1998), it is now done quite openly – albeit indirectly – through legislation. This open, top-down rent-seeking together with the centralisation and politicization of state action constitutes a new phenomenon in Hungary, which has consequences beyond the specific cases.

Indeed, the instrumental use of legal reform as strategy of control by the government has led to the managerial elite fearing the exposure to the arbitrariness of the legal system, which – in turn – makes the legal strategy even more effective from the government's point of view. Thus, a Transparency International report found that ‘if the authority makes a mistake, there are required legal procedures in place to resolve the issue. [However,] the fear of exposure [to the arbitrariness of the legal system] is so high that firms would rather choose other means than to file a lawsuit against the authorities’ (Transparency International, 2012: 239). The conscious refusal of actors to use the legal system due to the states arbitrariness is known in the legal literature as the “Kyrby effect” (Berkowitz et al. 2003). In Hungary, this effect is fostered by the government as a means of control.

Where tensions arise between public authorities and a company, managers are often threatened with financial assessments (mostly by the tax authorities) or other types of state investigations in order to

keep them in line. Thus, our interviewee from a large Hungarian company described the situation where the company was owed money by a SOE and the state authorities intervened to settle the conflict:

‘I was ordered to go to the Ministry to see the Secretary of State [...]. He was very rude and told me that whatever will happen he will sit in his chair for the next eight years and therefore he advises me not to go ahead [with the lawsuit against the debtor SOE], because obviously he will make me feel the weight of my decision [...]. There were five people there [...].’<sup>viii</sup>

This type of arbitrary state intervention has created a more general fear among the business elite of the state authorities:

‘Today, there is a fear from central authority in people’s blood; a fear that they can take away anything, do anything.’<sup>ix</sup>

‘You make decisions that you would not make in a stable environment. I give work to this person,...money to that person... Just leave me alone!...People get easily threatened or blackmailed. Look at the news; how many times were people taken away in handcuffs? The news never say whether they were innocent or guilty. So, CEOs are kept in fear.’<sup>x</sup>

### *(Re-)nationalisations*

The second mechanism the state uses to ‘take back control’ concerns more direct forms of re-nationalisations of firms. After the initial wave of privatisations in the 1990s, re-nationalisations started in 2010 when the government nationalised the private pillar of the mandatory pension system (Adam and Simonovits, 2017). The first company targeted by re-nationalisation was MAL Zrt., one of the largest aluminium manufacturers in Hungary. When a red sludge reservoir burst and caused serious environmental damage as well as deaths (Dunai, 2010), the government used the accident as a pretext and made the Parliament nationalise MAL a few days after the disaster (Day 2010). A year later in 2011 the government suspended state control over MAL, but the regional environmental agency declared a HUF135 billion fine for the company (Mihalyi, 2015).

The renationalisation measures were often helped by taxation and regulation and hit not just domestic firms, but also foreign ones. One interviewee of a foreign subsidiary stated:

“They have made life so difficult and so expensive for the foreign-owned utilities companies that they forced them to sell out. Regulating gas and electricity retail prices down to loss



making levels, instituting utility tax [...]. You did not see a wave of Venezuela style nationalisation but measures were taken to seriously reduce value of these companies and then they [could buy them up]. That's what happened in the utilities and bank industries. “<sup>xi</sup>

While the export orientated sectors and industries relying on complex technology were largely unaffected by these changes, companies in domestically orientated sectors were targeted even when the owners were foreign MNCs. Besides energy, the state-ownership expanded significantly in sectors such as banking, public works, transportation, the media, and advertising (Kornai, 2015). Indeed, the Orbán government has regularly used re-nationalisation even when it affected foreign owners. Thus, in 2012 the government declared its plans to re-nationalise the gas sector by buying back E-On's Hungarian gas business (EurActiv, 2012, Than, 2012) and bought back 21.2 percent of the previously privatized national oil and gas corporation MOL from the Russian oil company Surgutneftegas (BBJ, 2012). By 2016 energy retailing has become a government-owned monopoly as the state has bought private electricity and gas retailers through the state-owned Hungarian Development Bank (MFB) and the Hungarian Electricity Company (MVM). Through these transactions the state has bought subsidiaries of the German E.On and RWE and the French GDF and EDF (Kovács 2015).

According to some studies, some of the nationalisation transactions were first initiated by the previous, Socialist-led government (Mihalyi, 2015). Under the Orbán government, these re-nationalisations were increasingly justified by the goal of creating a domestic middle-class. Indeed, (re)nationalisations are by no means illegitimate means for government to use *per se* and they may very well have a positive impact on economic development in some cases. Moreover, the government compensated the previous owners quite generously. Mihalyi (2015:1) even speaks of “sweetheart deals through which the Hungarian government tried to make favour to German and US businesses.” Therefore, re-nationalisations may be the ‘softest’ mechanism of the state taking back control in Hungary.

Nonetheless, the re-nationalisations in Hungary are – despite the rhetoric – not part of a national developmental strategy, but rather serve the governing elite to extend their power over the economy and enrich its members. Therefore, they can be considered as part of ‘economic backsliding’. One respondent described the strategy in the following terms:

“The government nationalised gas utility companies. [...] So politically the message is very good: we have chased out profit-hungry foreign multinationals. They [the state] take over these utility services, then technological standards will erode and the government will say we need to improve the technological quality, they will improve it from taxpayers’

money...oh no, before they start to improve, they will assign who will be the future buyers... their mates. Then they will sign the contract with them and afterwards the state will improve the technological quality of the companies for several billion HUFs and then these firms will be transferred into private hands close to the government. And then sooner or later they will try to sell them again to foreign multinationals.”<sup>xii</sup>

### *Forced buy-outs (FBOs)*

A final mechanism through which the Orbán government has wrestled back control over the economy from the business elite was through ‘forced buy-outs’ (FBOs). FBOs resemble what is known in the Russian case as illegal corporate raiding (*reyderstvo*) (Rochlitz, 2014), but is used in Hungary more actively by elites close to the government. Our respondents referred to many concrete cases of FBOs. Indeed, since 2010 ‘private property has become the target of frequent legal, economic and ideological attacks’ (Kornai, 2015a).

Interviews suggest that FBOs generally consist of Fidesz-related individuals approaching the owners of private companies and ‘persuading’ them to ‘sell’ their ownership rights, often without payment. Our respondents claimed that in case the owners refused to cooperate and sell part or the whole company, the ‘buyer’ threatened the targeted firms with tax office investigations, no access to public contracts, or other negative consequences.

Thus, one respondent related the following anecdote:

‘They buy up a lot of companies...They use mafia tools. They use the power of the state. [...] For example, I know of a media company, which made lamppost posters for parties during elections. They were always very careful to have 50-50 percent of Fidesz and MSZP on their posters. It is a private company. Some people went there and said ‘we would like to have 50 percent of your company for free’. As the company did not want to ‘sell’, after two months the same people went back and said ‘we want 80 percent of the company’. Then - when the owners still did not sell - after two weeks they introduced a law that forbids political posters on city lampposts. As a consequence the market value of the firm went down to 10 percent [of its previous value].’<sup>xiii</sup>

This anecdote highlights how failure to cooperate with the government leads to legal ‘retaliation’ by the state. Several other interviewees confirm that threat of government retaliation can be enough to make company owners give up their company (Local17, 16.02.2013; NGO02, 07.12.2011)

Contrary to re-nationalisations through legal means, FBOs do not transfer ownership to the state, but directly to private individuals close to the governing elite. They are hence a sign of a deep penetration of private interests into the state sphere. However, rather than constituting a sign of a weak, captured state, this illustrates how a new elite – the Orbán clan – has managed to use the tools of a very effective (quasi-developmental) state for its own private interests. Indeed, the penetration of the state into the economy and civil society is interpreted in the literature as one aspect of state power (Negoita 2006: 214). But the FBO cases illustrate that state-business relationships increasingly have become coercive and hierarchical rather than reciprocal as in a corporatist system or in a developmental state (Sallai, 2014). More importantly, the literature on state capitalism and the developmental state sees the state as an autonomous actor, which at least partially pursues public goals (such as national development). In the Hungarian case, however, the state appears to have lost its autonomy vis-à-vis the private sphere and has mainly become an instrument that serves the private interests of a small elite, or clan. This is a defining feature of the ‘clan-state’ (Wedel, 2003). Indeed, one respondent stressed the wide-spread view among business leaders in Hungary, that the current situation is characterised by a blurring of the distinction between the interests of the state and that of a clan:

‘In my view, it is not the state that competes with firms, but rather individuals who compete through the use of the state’s infrastructure. Today there is a more developed system [of politicians controlling the economy] in Hungary; they do not need moneyboxes [i.e. cardboard boxes filled with money for bribes] any more. They simply do not give public jobs to anybody, but their own firms. As a result, you cannot trace corruption any more. You only observe that there are privileged and not privileged firms. It is hard to get jobs for anybody else in the market.’<sup>xiv</sup>

Several respondents confirm this view of private interests of groups close to the governing clan prevailing over public goals and interests, such as socio-economic development.

‘It is economic profit seeking, not political. Certain elites think they have to put their hands on particular sectors, because they are profitable. [...] Behind the state there are personal interests and companies.’<sup>xv</sup>

‘The situation when the economic and political life is separated from each other and have a corrupt relationship – is over. This is not the case anymore. Today the two are the same. Nobody can enter this system.’<sup>xvi</sup>

‘The government puts itself on top of the economy. Simply put: where there is a large investment, political deals rule. Firms have to win the favours of politicians... [But] behind politics there is always private business.’<sup>xvii</sup>

## **6. Discussion & Conclusion**

This paper attempted to shed light on the process through which the business-friendly post-socialist Hungarian state of the 1990s that pursued a very successful reindustrialisation strategy after the fall of communism, has morphed over a very short period into a much more autocratic and aggressively anti-business state. This evolution seems puzzling both from the ‘politicised managerial capitalism’ perspective (Martin, 2002), which considers the state to be weak and dominated by the managerial elite, and from the post-socialist developmental state perspective (Negoița, 2006), which attributes the post-socialist state in Hungary a business-friendly public interest orientation. Similarly, the comparative capitalism perspective that classifies Hungary as a DME, for which foreign direct investment is crucial, raises the question why a government that heavily depended on foreign companies for capital and technology transfer started adopting policies that very directly went against MNCs’ interests in many sectors. Neither of these perspectives seem sufficient to understand the process of ‘democratic-’ and ‘economic backsliding’ that has taken place since the accession to power of Viktor Orbán’s Fidesz government in 2010. The ‘managerial capitalism’ perspective cannot explain how a supposedly weakened state could wrestle back power from the business elite, while the post-socialist developmental state and comparative capitalism perspectives do not allow us to understand the radical anti-business turn of the state’s economic activities in several key sectors.

We attempted to shed light on this puzzle by investigated the concrete mechanisms that the Hungarian government has used since 2010 to reclaim control over the economy. What all four mechanisms that we found have in common, is that they rely on a functioning and capable state bureaucracy. Indeed, we argued that these mechanisms can be seen as the ‘dark side’ of the developmental state, in the sense that they essentially constitute a conversion by a new elite (or clan) of state capabilities and instruments to achieve goals that are at the opposite of what the developmental state aims to achieve as its main goal, namely national development.

Our findings and interpretation have two important implications for the literature on post-socialist economies and ‘state capitalism.’ Firstly, while the strength – rather than the weakness – of the state are crucial to the current ‘backsliding’ in Hungary, it is important to note that the type of state currently emerging in Hungary is not strong in the sense usually implied in the state capitalism or developmental state literatures (Bremmer, 2008; Kulanczick, 2016; Negoita, 2006; Block & Negoita, 2016). Indeed, while the Orbán regime draws on the capabilities of the developmental state, the independence of the state apparatus from particularistic private interests is declining. This should not simply be interpreted as ‘state capture’ by private business interests, but rather a colonisation of the quasi-developmental state ‘from the inside out’ by a new, narrow elite that resembles a ‘clan.’ This distinction is important, because it hints once again at the role that the instruments of a capable state themselves play in making the ‘backsliding’ possible. ‘State capture’ on the other hand could be the result of a weak or even ‘failed’ state being penetrated and controlled by business interests.

The state’s strength in this increasingly authoritarian regime originates from the personalised and informal control of the Prime Minister and his allies. This hints at the second contribution of our study to the literature on the political economy of post-socialist economies, namely the highly personalised nature of the model of state that is emerging in Hungary. Here, the anthropological literature with its focus on the role of specific elites permits to shed light on the Hungarian case. In particular, Wedel’s (2003) concept of the clan-state is useful to understand the increasing departure of the Hungarian state from its developmental nature in the 1990s. The developmental state by definition has some element of public interest as its goal – even if that might be as a ‘by-product’ of private rent seeking as in some interpretations of the South Korean case (Kang 2006), or for purposes of legitimisation as in the early Suharto period in Indonesia (Dieleman & Boddewyn, 2012). In contrast, the type of clan-state that is emerging in Hungary appears increasingly to serve as an instrument used by the members of the governing clan to enrich themselves without regard for public goals and interests other than in rhetoric. This leads to an increasing ‘privatisation’ of the state itself which is illustrated by the increasing overlap of the governing clan, the ruling party, and the state authorities notably through political – as opposed to meritocratic – appointments.

To be sure, extensive overlaps between the public and private sector is not a new phenomenon in Hungary. From the outset, post-socialist firms were interlinked with the state through ownership structures (Stark, 1996, Stark and Bruszt, 1998, Stark and Vedres, 2006) and organisational links (Stark and Vedres 2012). However, since Fidesz’s came to power in 2010, the competitive aspect of this type

of ‘cronyism’ has increasingly given way to a deeper politicization of the economy through the use of the state apparatus. The Hungarian economy is currently not so much ‘divided into political camps’ as Stark and Vedres (2012: 712) observed; rather one clan has gained control over most of the economy, leading to a non-competitive form of cronyism akin to the type that has emerged in Russia (Sharafutina, 2010).

Our focus on the behaviour of elites and their use of state instruments adds nuance to the analysis of backsliding and leads us to a diverging interpretation from other accounts of recent developments in Hungary. Thus, Kornai (2012: 56) sees the changes in Hungary as a ‘slow, surreptitious expansion of the state sector’. In our interpretation, what we are witnessing is not just the expansion of the state sector, but the transformation of the very nature of the state itself from a developmental one into a clan-state. The most important consequence of this evolution is that the expansion of the state sector is not linked to the pursuit of any collective goals or the ‘public good,’ but rather the use of its instruments to favour the private interests of the dominant clan.

Our study contributes to the developmental state literature (Johnson, 1982; Evan, 1995, Bloch & Negoita, 2016, Negoita, 2006), by showing that it is not sufficient to classify states based on formalistic criteria of ‘embedded autonomy’ such as the existence of certain representative bodies of civil society interests for instance. Rather, the way in which important elite actors within the state use the state’s capabilities and powers is key to understanding what impact the state will have on economic development. Our study suggests that the same features that allow the developmental state to positively affect economic development, can very easily – and at a frightening speed – be turned in to instruments of reckless pursuit of private interests. This Janus-faced nature of the developmental state has not been acknowledged by the literature so far, but is key to understanding the process of backsliding. Here, combining the analysis of more structural features of states – such as the embedded autonomy of the bureaucracy – with a focus on elite groups provided explanatory leverage to understand these dynamics. Conversely, accounts of backsliding that see the latter merely as a ‘decay’ of the state, need to be corrected because they downplay the organisational capabilities needed in order to impose new, more authoritarian structures on civil society and the economy. Yet, the process of backsliding at the same time uses and erodes some of the core features of the developmental state, namely the relatively autonomous and meritocratic bureaucracy, which in turn suggests that the ‘clan-state’ may not be a sustainable form and will in time evolve into something else.

We also contribute to the varieties of capitalism literature in developing countries by providing a focus on the role of the state. This literature generally acknowledges that that role is more prominent in post-socialist countries than in established economies. Yet, the comparative capitalism stream of research usually shies away from opening the black box of the state to understand what exactly its role in the economy is. Our interview data provides a rare glimpse inside an authoritarian state and showed the mechanisms of power from the perspective of the companies concerned. This can help us start building a more complete theory of post-socialist varieties of capitalism that includes also a comprehensive conceptualisation of the role of the state.

As a single case study, our research is limited in terms of its generalisability. Some of the mechanisms we observed may be idiosyncratic. However, given that backsliding is a wider phenomenon that goes beyond the case of Hungary (Sedlemair, 2014, Bandelj et al., 2015), it is very likely that some of our findings apply to other cases too. Future studies should attempt to compare our findings to other cases of ‘clan-states’.

## References

- Adam, Z. & Simonovits, A. 2017. *From democratic to authoritarian populism: Comparing pre- and post-2010 Hungarian pension policies* In: Institute of Economics, , C. F. E. A. R. S., Hungarian Academy of Sciences (ed.). Budapest.
- Atlatszo.hu. 2012. *A Nemzeti Együttműködés Rendszere: Kik ejtették foglyul a magyar államot? (The System of National Cooperation: Who captured the Hungarian State?)*. Available at: <http://www.atlatszo.hu/2012/09/24/a-nemzeti-egyuttmukodes-rendszere-kik-ejtettek-foglyul-a-magyar-allamot/>.
- Bandelj, N. 2008. *From Communists to Foreign Capitalists. The Social Foundations of Foreign Direct Investment in Postsocialist Europe*. Princeton: Princeton University Press.
- Bandelj, N., Finley, K. and Radu, B. (2015) 'Democracy in Central and Eastern Europe: test of early impact', *East European Politics*, 9165(June 2015), 1–20
- BBJ. 2012. Hungary's new nationalization plans could cost a fortune. *Budapest Business Journal*. Available at: [http://www.bbj.hu/economy/hungarys-new-nationalization-plans-could-cost-a-fortune\\_64073](http://www.bbj.hu/economy/hungarys-new-nationalization-plans-could-cost-a-fortune_64073).
- Block, F. and Negoita, M. 2016. 'Beyond Embedded Autonomy: Conceptualizing the Work of Developmental States', in Chu, Y. (ed.) *The Asian Developmental State: Reexaminations and New Departures*. New York: Palgrave Macmillan US, 57–72.
- Bohle, D. and Greskovits, B. 2007. 'Neoliberalism, embedded neoliberalism and neocorporatism: Towards transnational capitalism in Central-Eastern Europe', *West European Politics*, 30(3), 443–466.
- Bohle, D. and Greskovits, B. 2012. *Capitalist Diversity on Europe's Periphery*. Ithaca: Cornell University Press.
- Bozoki, A. 2011. Occupy the State: The Orbán Regime in Hungary. *Debatte: Journal of Contemporary Central and Eastern Europe*, 19, 649-663.
- Bremmer, I. 2008. The Return of State Capitalism. *Survival*, 50, 55-64.
- DUNAI, M. 2010. Factbox: Hungarian firm MAL, owner of burst red mud reservoir. Available at: <http://www.reuters.com/article/2010/10/11/us-hungary-spill-mal-idUSTRE69A2YO20101011> .
- Budapestbeacon.com 2016. *Is CBA part of Hungary's 'political mafia'?*
- Day, M. 2010. Hungary nationalises toxic sludge aluminium company. *The Telegraph*, 12 Oct 2010.



- Dieleman, M., Boddewyn, J.J., 2012. Using Organization Structure to Buffer Political Ties in Emerging Markets: A Case Study. *Organization Studies*, 33, 71–95.  
doi:10.1177/0170840611430595
- Dunai, M. 2010. Factbox: Hungarian firm MAL, owner of burst red mud reservoir. *Reuters*. Available at:<http://www.reuters.com/article/2010/10/11/us-hungary-spill-mal-idUSTRE69A2YO20101011> .
- EBRD 2005. *Transition report 2005: Business in transition*. London: European Bank for Reconstruction and Development
- Evans, P. 1995. *Embedded Autonomy: State & Industrial Transformation*. Princeton: Princeton University Press.
- Econews, M. 2012. Legislation gives gov't monopoly on tobacco sales, *Econews*, Budapest.
- Euractiv. 2012. Hungary to step up nationalisations. *EurActive* . Available: <http://www.euractiv.com/central-europe/hungary-steps-nationalisations-news-514611>.
- Evans, P. 1995. *Embedded Autonomy: States and Industrial Transformation*, Princeton, Princeton University Press.
- Ferenczi, K. 2014. *Narancsbőr: Az Orbán-vagyonok nyomában*, Budapest, Tény Kft.
- Gulyas, V. 2014. Court Says Hungary's Retail Tax Discriminates Against Competitors. *The Wall Street Journal*.
- Gerschenkron, A. 1962. *Economic Backwardness in Historical Perspective: A Book of Essays*. Cambridge, MA: Belknap Press.
- Haasz, J. & Molnar, T. 2012. *Cégbirodalom egy nyilatkozat árnyékában [Corporate Empire in the shadow of an interview]* Budapest: [www.index.hu](http://www.index.hu).
- Hajnal, G. & Rosta, M. 2014. The illiberal state on the local level - The doctrinal foundations of subnational governance reforms in Hungary (2010–2014). *Paper presented at EGPA Annual Conference*, 10-12 September 2014. Speyer, Germany.
- Hungarian Spectrum. 2015. *Viktor Orbán's system is already in ruins*. Available from: <http://hungarianspectrum.org/2015/04/10/viktor-Orbans-system-is-already-in-ruins/> [Accessed 02.11.2015 2015].
- HVG. 2013. Continental Dohányipari Zrt.: nem tilthattuk meg munkatársainknak sem a pályázást. [Continental Tobacco Ltd.: we cannot forbid our employees to submit proposals] *hvg.hu* . [Accessed 26.04.2013].
- HVG. 2014. *K-Monitor: újfajta korrupció jelent meg az országban. [K-Monitor: new type of corruption has appeared in the country]* [Accessed 12.05.2014.].

- JM. 2013. *Itt vannak a nemzeti dohányboltok.* [National Tobacco stores are here] [Accessed 10.07.2013].
- Johnson, C. 1982. *MITI and the Japanese Miracle: The Growth of Industrial Policy, 1929- 1975.*  
Stanford, CA: Stanford University Press.
- Kang, D.C., 2002. Bad Loans to Good Friends: Money Politics and the Developmental State in South Korea. *International Organization.* 56, 177–207.
- King, L. P. 2007. *Central European capitalism in comparative perspective.* In: Hancke, B., Rhodes, M. & Thatcher, M. (eds.) *Beyond Varieties of Capitalism: Conflict, Contradictions and Complementaries in the European Economy.* Oxford: Oxford University Press.
- Kornai, J. 2012. Centralisation and the Capitalist Market Economy in Hungary. *CESifo Forum*, 13, 47-59.
- Kornai, J. 2015a. Hungary's U-Turn: Retreating from Democracy *Journal of Democracy*, 26.
- Kornai, J. 2015b. Shifting away from democracy - Hungary's U-Turn. *Public Finance and Management* 15, 171-202.
- Kovács, B. Á. 2015. *Country Report Hungary, Nations in Transit 2015.* Freedom House.
- Lawton, T., Rajwani, T. & Doh, J. 2013. The antecedents of political capabilities: A study of ownership, cross-border activity and organization at legacy of airlines in a deregulatory context. *International Business Review*, 22, 228-242.
- Ledeneva, A. V. 2013. *Can Russia Modernise? Sistema, Power Networks and Informal Governance,* Cambridge, UK, Cambridge University Press.
- Magyar, B. (ed.) 2013. *Magyar Polip: A posztkommunista maffiaállam [Hungarian Octopus: The Post-Communist Maffia State],* Budapest: Noran Libro.
- Martin, R. 2013. *Construction Capitalisms. Transforming Business Systems in Central and Eastern Europe,* Oxford, Oxford University Press.
- Martin, R. 2008. Post-socialist segmented capitalism: The case of Hungary. Developing business systems theory. *Human Relations*, 61, 131-159.
- Martin, R. 2002. Politicized Managerial Capitalism: Enterprise structures in post-socialist Central and Eastern Europe. *Journal of Management Studies*, 39.
- Mihályi, Péter (2015) : A privatizált vagyon visszaállamosítása, Magyarországon 2010 – 2014 (The renationalization of privatized assets in Hungary, 2010 – 2014) *IEHAS Discussion Papers, No. MT-DP - 2015/7,* ISBN978-615-5447-65-5
- Nagy, G. & Szabo, M. I. 2013. Trafikmutyi: idegenek, képviselők és haverok sora. *HVG* . [Accessed 05.05.2013].

- Negoita, M. 2006. 'The social bases of development: Hungary and Romania in comparative perspective', *Socio-Economic Review*, 4(2), 209–238.
- Nölke, A. & Vliegenthart, A. 2009. Enlarging the Varieties of Capitalism. The Emergence of Dependent Market Economies in East Central Europe. *World Politics*, 61, 670-702.
- North, D. C. and Weingast, B. R. 1989. 'Constitutions and Commitment : The Evolution of Institutions Governing Public Choice in Seventeenth-Century England', *Journal of Economic History*, 49(4), 803–832.
- OECD 2014. *OECD Economic Surveys: Hungary 2014*. OECD Publishing.
- OECD 2016. *OECD Economic Surveys: Hungary 2016*. Paris: OECD Publishing.
- Orenstein, M. A. 2013. Reassessing the neo-liberal development model in Central and Eastern Europe. In: SCHMIDT, V. & THATCHER, M. (eds.) *Resilient Liberalism in Europe's Political Economy*. Cambridge: Cambridge University Press.
- Pethő, A. 2011. *Rámozdul az évszázad üzletére a kormányzati kötődésű cégbirodalom*. Available at: <http://www.origo.hu/itthon/20110703-a-kozgep-es-az-eos-energetikai-terjeszkedese-simicska-lajos-es.html> [Accessed 11.10.2012 2012].
- Pető, P. 2012. Fidesz: az mi? *Népszabadság Online*, 01.03.2012.
- Piac És Profit. 2013. Nem lesz sikertörténet a trafiktörvény. *Piac és Profit* . [Accessed 20.04.2013].
- Pistor, K. & Berkowitz, D. 2003. 'Of legal transplants, legal irritants, and economic development', In *Corporate Governance and Capital Flows in a Global Economy*. P. Cornelius and B. Kogut (eds.). New York: Oxford University Press, 347-370.
- Radi, A. & Vitez, F. I. 2012. Céghajlatváltozás. *HVG*. Budapest.
- Rochlitz, M. 2014. 'Corporate raiding and the role of the state in Russia', *Post-Soviet Affairs*, 30(2–3), 89–114.
- Sajo, A. 1998. Corruption, Clientalism, and the Future of the Constitutional State in Eastern Europe. *East European Constitutional Review*.
- Sallai, D. 2014. *Europeanization of Corporate Lobbying in the Enlarged EU: The Missing Link in the Case of Hungary*. Ph.D., King's College London.
- Sass, M. 2017. *Is a live dog better than a dead lion? Seeking alternative growth engines in the Visegrad countries* In: Galgóczi, B. & Drahekoupil, J. (eds.) *Condemned to be left behind? Can Central and Eastern Europe emerge from its low-wage model?* . Brussels: ETUI - Brussels.
- Sedelmeier, U. 2014. 'Anchoring Democracy from Above ? The European Union and Democratic Backsliding in Hungary and Romania after Accession', *Journal of Common Market Studies*,

52(1), 105–121.

- Sharafutdinova, G. 2010. *Political Consequences of Crony Capitalism inside Russia*, Notre Dame, Indiana, University of Notre Dame Press.
- Simon, Z. 2017. What's Boosting the World's Best-Performing Stock? [Online]. Budapest: Bloomberg Businessweek. [Accessed 13. 11. 2017 2017].
- Stark, D. 1996. Recombinant Property in East European Capitalism. *The American Journal of Sociology*, 101, 993-1027.
- Stark, D. & Bruszt, L. 1998. *Postsocialist Pathways: transforming politics and property in East Central Europe*, Cambridge, Cambridge University Press.
- Stark, D. & Vedres, B. 2006. Social Times of Network Spaces: Network Sequences and Foreign Investment in Hungary. *American Journal of Sociology*, 111, 1367-1411.
- Stark, D. & Vedres, B. 2012. Political Holes in the Economy: The Business Network of Partisan Firms in Hungary. *American Sociological Review*, 77, 700-722.
- Than, K. 2012. Hungary signs preliminary deal to buy E.ON gas units. Available at: <http://www.reuters.com/article/2012/11/30/hungary-gas-idUSL5E8MU5UQ20121130>.
- Transparency International 2012. *Corruption Risks in Hungary 2011: National Integrity Study*. Berlin: Transparency International
- Wedel, J. R. 2003. Clans, cliques and captured states: rethinking 'transition' in Central and Eastern Europe and the Former Soviet Union. *Journal of International Development*, 15, 427-440.
- Whitley, R. 2007. The Contingent Nature of National Business Systems: Types of States and Complementary Institutions. In: WHITLEY, R. (ed.) *Business Systems and Organizational Capabilities* Oxford University Press.

## Tables and Figures

Table 1: Interviewed companies by sector and type

Sectors in the sample	Number of companies in each sector (does not include multiple interviews)
NGOs, trade unions, associations, other	11
Banking	7
Manufacturing	7
Construction	5
Energy	4
ICT	5
Retail	3
Telecoms	2
Advertising	1
Tourism	1
Wholesale	1
Tobacco	1
Consulting	1
Beverages	1

## Endnotes:

---

- <sup>i</sup> Respondent at Hungarian NGO1, interviewed 09.11.2011.
- <sup>ii</sup> Respondent at Subsidiary17, interviewed 01.09.2011.
- <sup>iii</sup> Respondent at Subsidiary08, interviewed 16.04.2012
- <sup>iv</sup> Respondent at Local15, interviewed 04.08.2011
- <sup>v</sup> Respondent at Local17, interviewed 16.02.2013.
- <sup>vi</sup> Respondent at Subsidiary15, 09.08.2015.
- <sup>vii</sup> Respondent at Subsidiary7, 15.07.2016.
- <sup>viii</sup> Respondent at Local10, interviewed on 15.11.2011.
- <sup>ix</sup> Respondent at Local15, interviewed on 14.08.2011.
- <sup>x</sup> Respondent at Local15, interviewed on 14.08.2011.
- <sup>xi</sup> Respondent at Subsidiary1, 15. 08.2016.
- <sup>xii</sup> Respondent at Subsidiary11, 06.05.2013.
- <sup>xiii</sup> Respondent at Local07, interviewed on 30.03.2012.
- <sup>xiv</sup> Respondent at Local10, interviewed on 15.11.2011.
- <sup>xv</sup> Respondent at Local15, interviewed on 04.08.2011.
- <sup>xvi</sup> Respondent at Local17, interviewed on 16.02.2013.
- <sup>xvii</sup> Respondent at Local04, interviewed on 16.06.2011.