

Outlook for Hungary in 2019

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Summary

What will shape Hungarian politics in 2019? This essay will highlight issues that should be followed in 2019 – as well as issues that are highly discussed but are essentially irrelevant.

First we need to discuss both domestic and international developments as there is nothing significant taking place in a small and exposed country that goes against major international or geopolitical trends. Reversely, it is also true that some things that appear home-grown and domestic in nature are merely a part of a bigger trend, and thus the domestic explanations have only limited value to offer.

Political and economic factors need equal attention and they are often intertwined. Keeping this in mind, these are the most important factors to watch if someone wants an insight into Hungarian politics in 2019:

Domestic political issues to watch out for in 2019 in Hungary are the European Parliament elections in May, the local elections in the autumn, and any local byelection that may put an end to Orbán's two-third parliamentary supermajority. We have to discuss the possible escalation of anti-system protest movements. Neither of these issues can, however, be confidently separated from international developments (with the exception of a byelection).

Irrelevant to the immediate future of Hungarian politics are migration and the inner dealings of the domestic opposition. Orbán couldn't care less about migration into Hungary or Europe – despite his reputation abroad. Migration is just a propaganda tool and distraction that worked. Orbán's domestic opposition is also irrelevant as they are fragmented, divided, and thus conquered. Their political and legal room for maneuver within Orbán's system has been shrunk to so narrow as to be non-existent. Their participation in potential anti-regime protest movements is also controversial. It is also a recurring question whether factions or competing strongmen within Fidesz might endanger Orbán's reign – but it is completely unfounded. Legal or political challenges to Fidesz are thus not to be expected from within Hungary.

The domestic economic issues are even more influenced by international trends. The most interesting phenomenon is the apparent (but unannounced) austerity measures by the

regime that aims to reign in not just the 2018 election spending, but to prepare for the eventual drying up of EU funds as well as the next global economic crisis. By affecting Orbán's dubious welfare legitimacy even among his believers, austerity can erode support and make voting for Fidesz an even less acceptable compromise for many. The question is whether popular support still matters.

Furthermore, Orbán seems to have embarked upon a quest to quell the corruption that is inherent in his system of hand-picked oligarchs. Oligarchs and local strongmen are losing their last inhibitions in showing off their newfound wealth and abusing their political clout. Their extravagant spending and barely concealed corruption even seems to have upset Orbán. At the same time, his own luxury and the country's prestige spending abroad, as well as rumors about his private wealth are getting out of hand – even though the impact is largely muffled by the Orbán-controlled media.

The drying up of abundant EU money that helped Orbán's buildup of power to this point by providing unsustainable welfare legitimacy is also a massive issue that has to be watched. It is dependent on the progress of Article 7 procedures, as well as other political developments within the European Union. So far, the flexing of financing muscles by the EU proved to be just a show as they have closed 2018 with a windfall transfer to the Orbán-regime, ending speculation about the effectiveness of rule of law enforcement by financial measures.

The international political developments that need to be watched in 2019 with regards to their influence on Hungarian politics are (in no particular order) the faith of the Trump presidency, the moves and ambitions of Putin's Russia, the Article 7 procedure against Hungary in the European Parliament and its progress, the European Parliament elections, the Polish general elections, the state of Orbán's illiberal allies across Europe and elsewhere, the trends in Chinese infrastructure investments, and the pro-authoritarian European political movement of Steve Bannon.

But the global economic trends are even stronger predictors of potential troubles ahead. The next phase of the 2008 economic crisis is about to kick in, the FED's and the ECB's interest rate and money supply decisions will profoundly influence the economy of a tiny and open economies, such as Hungary, despite symbolic attempts to disentangle itself from global economic developments – or at least to form tighter bonds with the East. The state of the Chinese and Russian economies will also have a profound effect on Hungary through the financing of geopolitically motivated, state-sponsored projects.

Anti-regime protests: Can 2019 really be the year of resistance?

The short answer is: probably not.

But for many people, the new labor code is the first undeniable reminder that they have no recourse left against the government if it chooses to go against their interests. The impact of this realization can, however, cut both ways. If the protest movement doesn't achieve anything, it will push the population even deeper into apathy and resignation – a wager that has always worked for Fidesz so far. If it does, that would be the first instance when Orbán retreats from an already passed piece of legislation due to active citizen resistance.

At this point it is impossible to say anything about the nature and impact of the so called 'slave law' protests. It started with the ruling party pushing through a legislation increasing the amount of overtime that can be requested by employers – while reducing the power of unions to even negotiate better terms locally. The unions have been particularly hard hit as they have participated in the preparation of the new law – but have been completely blindsided when the eventual legislation had nothing to do with what they have agreed on during negotiations.

Opposition parties have also been sidetracked, and the ruling majority didn't even tolerate the appearance of an actual parliamentary debate – not that the opposition had any chance to vote down the proposal. Microphones went silent, thousands of proposals for modification in the proposed law were swept off in a single vote. Even the theatre of democracy was crudely denied, prompting opposition MPs to crank up the show that resulted in the most tumultuous parliamentary session in a long time. Then the protests went to the streets.

As the protests are entering their third week, the unions are finally getting moving and the opposition parties may have put aside their egos. The question is how long either of these phenomena will last and how long people can be motivated to keep turning up for dishearteningly impact-less protests in the unpleasant January weather. One of the ways any such movement can be killed is announcing so many tiny protests one doesn't bother to turn up to either anymore – and the uncoordinated organizers seem to be well on their way to achieve exactly that. Another one is just to keep going – and see participation fizzle out. The delay and reluctance of the unions to get moving and organize a strike is also telling. In Hungary neither protests nor strikes are popular with the public, and organizers of either always go out of their way not to disturb anyone, and to show the world what a good boy they are.

What is new in these protests and what is not?

Firstly, these protests do nothing that hasn't been done before. There have been protests that have spread to the countryside, to abroad, and there have been much bigger protests against various policies of the Orbán-government. There has also been hope before that this might be the moment the Orbán regime cracks – but it never did. The regime never relented. It never backpedaled. And every time resistance broke, it became cheaper and cheaper to maintain power for Fidesz.

Having to retreat even on a minor issue can potentially unravel an authoritarian regime built on the futility of resistance. The lesson to teach to the population is that resistance is futile – and the bigger the outrage, the better. When the regime doesn't budge on an unpopular motion, despite resistance, apathy grows even greater, making the exercise and maintenance of power even cheaper. It is always a gamble, of course. There have been a few issues in which Orbán's system had to (almost) retreat, but they were never fully complete (see side notes).

Orbán's retreats so far

Orbán had only been forced to retreat on four issues since 2010.

The first was in 2012 when a months-long online protest and scathing ridicule has forced the President, Pál Schmitt, to resign for plagiarism. The President was Orbán's loyal friend, a sport-related political persona, once a member of an Olympic team – and one of the pillars of Budapest's infamous Olympic bid. The president is a political figurehead with merely symbolic powers, but Orbán didn't want to lose face by letting him go. He put a lot of force behind Schmitt, but eventually he let go of him. But the president is a symbolic position, and it happened when Orbán's power wasn't complete yet.

The second crack happened in 2014 when mass protests broke out at the proposal of an internet tax – a minor item on the government ongoing taxation drive, yet with surprising galvanizing power. But the proposal was not a law yet and Orbán managed to push the defeat on a minion who then drowned the issue into a “consultation with the people”.

In 2016 Fidesz had to perform a U-turn on the mandatory Sunday closure of retail stores. By that time Orbán had won a second general election and extended his powers considerably. When the policy of Sunday closure was introduced, it was a distraction from the Fidesz scandal of the day - as much as it was an attack on Hungary's retail sector (and Orbán policy). The Sunday closure was uncalled for, wildly unpopular, and it produced farcical results. But when a referendum about it became possible (despite physical threats and every possible legal obstacle put in its way) – Orbán was forced to drop it. It didn't go down well for him, he threatened to keep it and even extend it until the last moment, but eventually he let go of the policy for the time being. But this retreat was still not a win for the opposition, or the expression of discontent by the people. The reason it was cancelled was in the opinion polls – a *passive* form of resistance – there was no active citizen resistance.

Orbán's retreats so far (cont'd.)

That came a few years later with the appearance of Momentum, a youth movement-turned-party. It has been the most significant crack on Orbán's regime yet. In 2017 Momentum successfully managed to collect a stunning number of signatures against Orbán's pipedream for Budapest to host the 2024 Olympic Games. By that time signing someone's name, ID number and address on a petition against Orbán felt as a risky act – yet so many people did it that Orbán had to cancel the Olympic bid. It was a hugely symbolic disaster, even more so since it hit Orbán's personal sport-fanatism, as well as a massive public procurement opportunity for friendly oligarchs. They have never stopped the preparations and spending though and Orbán has demonstratively stepped up his sport event hosting game, hinting that one day there will be Olympics in Budapest anyway.

An authoritarian regime must never retreat

A democratic regime can live with policy reversals, it can take criticism and change policy based on public demand – in fact, things are much less likely to deteriorate to the point when a thoroughly unpopular motion gets passed.

But an autocrat has to built his power on the futility of resistance – and as a zero-sum game. Either people have a say in their own lives – or the regime does – there can be no middle ground. It is also necessary for an autocratic regime to make the maintenance of its power as cheap as possible – and physical enforcement is pricey. Creating apathy, however, is cheap, and it is an equally good way to break future resistance. All the regime has to teach the population is that resistance is always futile – so that they will eventually stop trying.

No protest has ever achieved anything under Orbán (with the lame exception of a proposed internet tax – see text box) and the resulting apathy is one of the gravest issues in Hungary right now. It baffles international public opinion, but it has a very simple explanation. No protests have ever yielded anything. No one, not even the janitor of the Parliament talks to protesters – and when they do, it is even worse. The apologetic protest of teachers against the debilitating centralisation and politization of elementary and secondary education had, for instance, been met with an actual delegation by Fidesz – only to secure a handshake with the teachers’ delegate on camera, who later admitted that he was duped. He had been reassured of everything, but nothing of their demands have been eventually met. The teachers relapsed in even deeper apathy – if at all possible. It is also very telling that throughout their protests the teachers were very keen to express that they were “not political” – meaning that they are not associated with opposition parties – but also that they are desperate not to upset the power.

No actual policy of the Orbán regime had never been reversed due to active citizen resistance. And this is where the “slave law” protests could be relevant – and their failure could push the country even further into apathy.

The “slave law” was not only a demonstration of power by the regime. According to speculation (because that is all the public can get these days) it was also the regime’s desperate attempt to do something about the debilitating labor shortage that put Hungary’s outdated economic model in jeopardy. The Orbán-regime had a very clear – if criminally simplistic and inappropriate – vision of how the Hungarian economy should look like and it was providing impossibly cheap and low value added labor for Western European companies. How that could pull an EU economy out of the middle income gap is a mystery, yet the efforts are visible everywhere from the education reforms, through a distasteful demographic push, to the labor code. The new extra overtime law is meant to make it possible to squeeze out more of the employees while making their choice in the matter symbolic. The three-year accounting time frame for overtime may serve to reduce mobility – or worse, if we consider the short life span of companies in certain sectors, such as construction and the subcontractors to public procurements – the oligarchy’s favorite playground.

With the overtime law that makes it very unlikely in practice that an employee can say no to overtime, Fidesz had wielded the power they have accumulated since 2010. And every form of resistance is a make-or-break test to the system. There is no middle ground.

The futility of resistance is, in fact, the cornerstone of authoritarianism. People seem to forget it often, so it might be worth to repeat: oppression means that the will of the people

doesn't matter. It didn't matter when they voted, when they turned to courts, so why would it suddenly matter when they expressed it by protesting? It just looks livelier on camera.

This is the first time, however, that people seem to realize that there is no institution left to turn to when the regime hurts them, and they can't explain it away this time. This time there is no bad adviser vs good king, there is no solace in the fact that only others are affected – because this time everyone is. With the unions, the courts, the prosecution, the constitutional court, even the opposition parties eliminated as checks on Orbán's power, every employee had to realize that they have nowhere to turn, there is no one to speak up for them. The scary specter of having to make a stand for themselves had materialized.

Parties are fragmented, divided and stupefied. Even without being corrupt or on Orbán's payroll, opposition politicians can now do nothing that hurts Orbán. Their politeness as well as their aggressive moves can be used against them. Courts have been neutralized the same day the new labor code was passed – by the introduction of so-called administrative courts, stuffed by loyalists and handling all the politically sensitive cases, such as election disputes, protest, public procurements, etc. The constitutional court has been neutralized a long time ago.

Workers' unions are also essentially a joke. They have always worked more as the mechanism through which political will is transmitted to the workers than the opposite – so workers' complicity and consent could always be implied – and it is not an exclusively Hungarian phenomenon. In Hungary there is even a workers' union that self-identifies as “bourgeois” – referring basically to being OfFidesz.ⁱ

What is new in these protests is that for the first time in eight years, the entire opposition (parliamentary and otherwise) had been working together. Not sure how long they will keep it up, because this kind of cooperation is highly discouraged under Orbán's regime and the weeks following the 2018 election defeat made it abundantly clear that many opposition politicians are so forceful in keeping the divisions going that they might as well be working for Orbán. Not only that, but they all appear to be pathologically drawn to discussing and chewing on any communication flash bomb the populist propaganda machine throws their way in the shape of scapegoats or “policy” proposals. An even bigger scandal would take the wind out of their sails, just as a counter-fire puts out the original one.

But for a few days, opposition MPs have worked together, submitting thousands of modifications to the new labor code (only to be voted down in one vote by Fidesz), sabotaging the parliamentary vote to highlight that there isn't even a pretense of a debate anymore, and worked together in a rare and inspired move to enter the building of the public broadcaster (they are not allowed to otherwise), demanding that they broadcast their five point demands.

Wanting something so concrete and using their immunity to achieve something that protesters could never do was a rare moment of brilliance from an otherwise dispirited and stupefied opposition.

The second thing that is new that it is now definitely the Orbán-system the protests are addressing, not just the slave law. Having no chance to ever win elections under this regime, and having nothing to lose (the specter of physical violence by authorities is still weak), some opposition MPs couldn't sit in Orbán's parliament and keep pressing 'No' on Orbán's laws while they passed anyway. Some didn't even want to take their oaths when they learned about the new 2/3 supermajority. They have now found something to do - using their immunity and privileges to press issues like trying to bring the 5 points into the public TV. But that may all unravel in the coming weeks.

It is not for the first time for large protests to happen under Orbán's rule. In fact, protests became much more frequent than ever before since 1989. There have also been bigger ones - except they weren't always noticed internationally and never yielded anything. This is not even the first time the countryside and the expats joined in the protests in Budapest, creating a network of protests in 22 cities across the globe and dozens within Hungary. The same had happened against the inane internet tax proposal in 2014, for instance, or when high-ranking Orbán-officials were banned from entering the US on corruption grounds, to name just two.

Violence from Orbán's opposition is also new – if limited. For the first time in the history of anti-Orbán protests there was some misbehavior from protesters – lame as it is compared to what the other side did in 2006 when Orbán refused to accept his election defeat – and police reacted with tear gas. Pushing against police, no matter how lame, is also completely new. In December 2018 police car windows were broken instead of flowers left for them (like they did in April 2018). This is the first time Hungarian opposition protesters were not good-boys and not completely apologetic – but it's still a far cry from France, for instance. Apologies for

every Christmas decoration ruined and accusations thereof had immediately ensued and the second wave of “slave law” protests duly relapsed into good-boy mode.

Hungarian protesters (the legitimate ones, not the football ultras) always seem to be in some kind of competition of who is more peaceful and well-behaved. They act and communicate like a bunch of *good girls* and *good boys*, who want to be approved of by everyone. They want to appease the public opinion by being so well-behaved, and they even want to appease the regime by not making any trouble. The psychological dynamics of these marches are that of a martyr with a suffering face who now deserves some tiny-tiny reward for suffering so silently – even if the reward is just less punishment. Maybe a longer leash. Maybe a less tight regulation. Maybe a law that only makes life hard but not impossible. The saintly peacefulness of protests is also expected by public opinion.

If the protests continue and escalate, the issue of more aggressive tools will emerge on both the protester’s and the regime’s side. The question is not what many are now asking, whether Orbán will at one point “call in the Russian tanks” to support his regime, nor is it whether he will use more force. It is whether he can continue building his power with soft tools – the ones that international public opinion finds hard to understand: economic coercion, non-violent intimidation, etc. – or he will be forced to lose deniability.

In a world where journalists are regularly killed by oppressive regimes and the free world desperately wants keep pretending that nothing had happened, offers that can’t be refused and informal firings for political views can hardly make the cut for even a 15-minute outrage. They won’t even slow down the scrolling. Yet, these tools are perfectly enough to slowly reduce an entire country into submission – especially when they are combined with unprecedented levels of emigration of said country’s most agile demographic groups.

There is a fundamental asymmetry in the use of violence and its impact on the regime whether it is a polite, liberal regime or an autocratic, illiberal one. A civilized regime loses and is forced to call elections if they resort to force. An illiberal one just gets even stronger with every instance of using force – as fear and apathy in its victims grow, and the relevance of international condemnation is negligible.

But the use of force doesn’t just affect liberal and autocratic rulers differently. Its effect deeply differs in the hands of liberal or populist protesters. Extremist and populist troublemakers know what they are doing when they use violence. A non-autocratic regime can’t afford to ignore violent protests or let them run their course. But an autocratic one, like the new illiberals are without exceptions, can even benefit from violent protests against it.

And protesters follow these unspoken rules. Those who protest against authoritarianism and abuse of power feel compelled to be as nice and civilized as possible, to appeal to public opinion, to demonstrate peacefulness and all the things they want a governing regime to be like. It is a self-defeating tactic against an authoritarian regime.

If the current wave of protests escalate (which is the only thing that may still work as Orbán made it abundantly clear that protests will never achieve anything, especially the good-girl kind) then we will see more photogenic scenes in the international media. It will, however, be drowned out by Brexit, Trump, various wars across the globe, and any other page from Putin's playbook. The attention deficit that allowed Orbán to grow into the Trojan horse of Russian-style illiberalism in the European Union will also allow him to continue because Hungary will never be the biggest fire to put out.

In 2015, a year after he secured his second supermajority in parliament, Orbán had to learn the lesson that the loss of even a single MP can paralyze his illiberal juggernaut. He may be a super talented politician – just not when any opposition, independent institutions, civil liberties, or checks on his powers are present. The loss of the mandate of Veszprém, a traditional Fidesz stronghold, to a non-Fidesz candidate was enough to halt Orbán's power grab until the next general election in 2018.

The Veszprém byelections had shown that Orbán can be caught naked without his precious 2/3 supermajority. This is why the stakes for the 2018 general elections were not whether he would get a majority (as the only non-democratic and non-fragmented party conglomerate, Fidesz was bound to get a simple majority under its own election law) but whether he gets another precious 2/3. After a campaign where other parties had no chance to get on public media, scarce resources to buy advertising, and divided to a degree that inspired speculation about just how many of them are actually Offidesz, Orbán regained his precious 2/3 – if under highly suspicious circumstances. But only just. After a judge's ruling took away a seat, Orbán was left with an equally thin margin for his 2/3. And that is why byelections matter.

Byelections allow the opposition to focus their efforts, both in terms of campaigning and sending a delegate to the voting stations (which did not happen in the overwhelming majority of voting districts in the 2018 general elections). The pressure is also higher to put up a real fight and support a united candidate. Especially if their result is relevant to national politics. The pressure mounted even higher after the devastating 2/3 of Fidesz in April, so much so that even the spokesman of the most stubborn non-cooperator, Jobbik, claimed that

withdrawing their candidates in just a few districts would have averted the new 2/3 for Fidesz.

A common candidate for the non-Fidesz parties had already brought a surprising landslide victory in the mayoral byelections in Hódmezővásárhely, weeks before the general elections on 2018. The same is expected to happen the next time the opportunity presents itself. The loss of a single MP to the European Parliament, for instance, could mean the end of Orbán's supermajority if the mandate is not from the national list. Even with the grotesquely pro-Fidesz election law, a united opposition candidate can win seats in individual districts (as we have seen in Hódmezővásárhely) and if the independent media and local activists somehow manage to get the news around that these byelections matter, people actually turn up. It can not break Orbán, but if his precious 2/3 is gone, he will have to govern with less than a supermajority – and he is not good at that. Between 2015-18 the legislative damage he could impose was limited by the loss of his precious 2/3. No wonder he is in a hurry to push through all the new laws that had been waiting to be rubberstamped by his new supermajority for years – such as the court reform (see above).

The April 2018 general elections broke something in non-Fidesz voters. The last rush of hope that Orbán can be beaten at his own election law was put to rest in the evening of the general elections, when record participation numbers have been significantly modified downward after the ending of the public vote, just enough to usher in Orbán's coveted two-third supermajority in parliament. Whether non-Fidesz voters believed that the counting of the ballots and/or voters was rigged or just genuinely believe the results, it didn't matter. They had every reason to relapse into even deeper apathy after the results. The last few byelections and local mayoral elections in Hungary have all taken place amid record low participation rates and overwhelming Fidesz triumph. If the pattern continues into the May EP-elections, barely an MEP can be non-Fidesz.

Things that don't matter

There are three questions that need to be addressed regarding Hungarian politics – not because they are relevant, but to clear them out of the way.

The first one is whether the opposition can unify and finally tackle the barriers erected by Fidesz in the form of the election law. The second question is whether there are any strongmen within Fidesz that could weaken Orbán's iron grip on power. The third is whether migration has to do with anything.

The answer in each case is 'no'. If there is any substantial change to politics in Hungary, it is most likely to originate outside of the country.

Irrelevant to the immediate future of Hungarian politics are the inner dealings of the opposition, even though many foreign commentators dedicate much scrutiny to their internal affairs and recurring, lame attempts at fighting back autocracy at its own game and by its own rules. Short of an equally devastating populist counterforce arising, the current opposition parties represent no inherent challenge to Orbán's regime.

Whether we talk about Jobbik, the far-right party whose extreme right ideological platform had been completely absorbed by Fidesz, or the so-called 'democratic opposition', they are all divided and thus stupefied and conquered. According to Fidesz' tailor-made election law such a fragmented opposition will always punch below its weight at elections, and Orbán ensured that they will remain that way. Opposition parties appear to be compromised and corrupted in many cases – by Fidesz. The suspicion was most glaring after the general elections in April 2018. The internal catfights and blame game that unfolded was embarrassing to watch – and also irrelevant. There is merit to the notion that there will be no change to the system with the current opposition parties and politicians. Even opposition MPs' legal room for maneuver has all but diminished – every time they find a forgotten legal path to express some weak opposition, those paths are quickly shut down. The only danger to Orbán in the domestic field is self-defeat.

It is also a recurring question whether factions or competing strongmen within Fidesz might endanger Orbán's reign – but it is completely unfounded. If there is one thing to understand about illiberal state capture is that the one-man show of illiberal autocracy is held together not just by the carrot of public money and cronyist legislation, but also the stick of threats and intimidation. Any player that appears to have popularity on his own will be compromised and publicly embarrassed as to not pose a threat to the leader. And that is just what is visible for an outsider.

Fidesz has been an autocratic party since its inception. Orbán has never been challenged for his party's leadership, not even after the disastrous election defeats in 2002 and 2006.¹ He hasn't attended a single prime ministerial debate since 2006 as he doesn't accept the legitimacy of his opposition to govern in such troubled times, he barely ever gives press conferences, and even when he does, he doesn't answer questions from non-loyalist media. He hasn't given a single interview to a media outlet that has not been controlled by him since 2010. He does give speeches to his most dedicated followers in strictly controlled environments such as his annual state of the nation speech, his regular radio appearance, and his party's annual summer festival in Romania. His party doesn't release election programs anymore. There is no Fidesz without Orbán and what can be expected of such a party on a national level?

The only oligarch who has publicly parted with Orbán in 2015 and tried to challenge him had thrown in the towel after the 2018 elections and disappeared from political life. If the most powerful oligarch Orbán has ever had could not weaken him, and his replacement has no political weight whatsoever, then who can? Just like any other autocratic structure, Fidesz (and thus Hungary) will either degenerate into a gerontocracy – or be weakened by external factors. Internal power shift is not likely as it couldn't be prepared without risking the hold on power.

The last point will be hard to believe because rational and realistic minds melt down immediately upon the topic being raised all over the world, but migration (legal, illegal, economic or otherwise) has nothing whatsoever to do with anything in Hungary. (The same stands for George Soros and his alleged protocol to import migrants to the continent.) It is a communication flash bomb, and as every emergency ever declared by an autocratic leader, it is also a tool to distract from monumental corruption, to conceal and justify power grab, to erode checks on power and legal protections such as civil liberties – and to gain similarly uninhibited international allies. This regime has never been concerned about immigration – as there isn't any – it was merely the most galvanizing talking point upon which to build their propaganda – and everyone jumped on the topic, including the talentless opposition that never fails to react to communication chew toys Orbán is throwing to them and the public.

There are cracks on the oligarchy but it doesn't have the potential to elicit political change – only internal power struggles for the favors of Orbán. Orbán hasn't just started a weak but

¹ There was technically one challenger in 1994, but he received no support to speak of and had disappeared since then from politics.

visible anti-corruption effort among his own smaller vassals, but with any further austerity and the EU funds being withheld, these “self-made men” are just about to learn what happens when the easy and free money dries up. It is not going to affect domestic politics or Orbán’s grip on power though – as any autocrat worth his salt holds sticks as well as carrots when he builds his ranks. It thus doesn’t mean competition to Orbán, only that oligarchs are starting to learn their own helplessness.

The self-serving banking system that has been created to lend resources for oligarchs’ takeovers has also shown cracks by the end of 2018. Surprisingly, creating banks to lend money to ourselves is not a sustainable business model. As the golden shower of EU funds and taxpayer money dry up, cronies, who had been aiming at short-term gains will get even more desperate and suck the life out of subcontractors, bureaucrats get even greedier squeezing the most out of their victims. And that will adversely affect the economy.

One way the EU funds might become less available for Orbán’s system is the activity of OLAF, the European Anti-Fraud Office. Orbán has resisted joining the European Prosecutor’s office, and with good reason as OLAF has concluded an investigation in 2017 into the EU-funded business success of Orbán’s son-in-law. Hungarian authorities have dismissed OLAF’s findings, but the story probably won’t end here. If other schemes come under investigation and the funds under consideration for claw back grow even further, it might put financial pressure on Orbán’s system of clientelism.

We can also see some anti-corruption crackdown within Fidesz - something resembling China's Xi's dealing with his internal opposition – which is a political tool, even if they are actually corrupt.

International affairs – Article 7, OLAF, and the drying up of EU funds

As a rule, nothing significant can take place in a small and exposed country that goes against major international or geopolitical trends. When it comes to the Orbán-regime, this rule stands. Developments that appear to have originated in Hungary may have their actual roots elsewhere, could be part of a broader trend, and not just in the economy.

The international political developments that need to be watched in 2019 with regards to their influence on Hungarian politics are (in no particular order) the faith of the Trump presidency, the state and imperial ambitions of Putin's Russia, the Article 7 procedure against Hungary in the European Parliament, the European Parliament elections, the progress of Italian populist politics, the Polish general elections, the state of Orbán's illiberal allies across Europe and elsewhere, the trends in Chinese infrastructure investments, and the pro-authoritarian European political movement of Steve Bannon.

But the global economic trends are even stronger predictors of potential troubles ahead. The next stage of the 2008 economic crisis is about to kick in, the FED's and the ECB's interest rate and money supply decisions will profoundly influence the economy of tiny and open economies, such as Hungary, despite symbolic attempts to disentangle itself from global economic developments. The state of the Chinese and Russian economies will also have a profound effect on Hungary through the financing of geopolitically motivated, state-sponsored projects.

One of the first things one needs to watch out for in 2019 is whether the Article 7 procedure affects the payment of EU funds to Hungary.

EU funds made Orbán's regime happen so the question whether they continue to flow so abundantly are not without political significance. According to an analysis, 7 million euros a day have been sent from Brussels to Hungary during the 12 years between 2004 (Hungary's EU accession) and 2016.ⁱⁱ The bulk of that money came during the reign of the Orbán-administration as payouts only really kicked in 2008 (its effect weren't visible due to the crisis) and only really became visible from 2012.

But it didn't bring prosperity. As it is predictably common with foreign aid of any kind, pouring resources of a malfunctioning system didn't incentivize effective reforms, and it eventually zombified the economy, making it addicted to and dependent on the influx of new funds. Every time the payments slow down, the economic output immediately suffers. When EU funds are not coming, the quarterly GDP immediately declines, signaling without doubt that the mindless development spending had not resulted in any qualitative improvement or created sustainable economic fundamentals.

To make things even worse, a new economic elite had materialized that is completely dependent on political connections – and not at all dependent on running an efficient business. Politization of the economy pulled the last shreds of voluntarism out of the markets and stifled market logic. To call the arrival of EU funds one of the biggest economic opportunities – yet the greatest economic (and political) tragedy that could befall Hungary is probably not an understatement. The biggest problem is not that the money was often spent with Western European companies – but that it didn't leave any benefit behind, the intended big infrastructure development was dumb and mostly just checked the boxes of bureaucratic logic that was detached from reality.

The money had achieved one thing though. As the economy went on life support by EU funds, the ruling elite had learned to use it as a tool to build up a massively corrupt, cronyist system of clientelism and patronage where access to EU funds became the measure of “entrepreneurial” success, and the decisive factor in the access became the proximity to politicians in a highly centralized manner that was ultimately focused in the hands of just one person. It is not the first nor the only time development funds have created an unmovable political elite, state capture or corruption, not even in the EU. It is the inevitable political result of a funding mechanism that is guided by bureaucratic and political rationale and feeds participants' personal power motives rather than following market logic, let alone any real public interest. Abundant EU money helped Orbán's buildup of power to this point by providing an unsustainable economic welfare legitimacy to his system and immense power in the hands that distribute the “free” and dumb money.

There have been signs of growing discontent with the wasteful and corrupt spending of European taxpayer money for years. In November 2017 Hans Eichel, Germany's former finance minister and three ex-EU commissioners, Pascal Lamy, Franz Fischler and Yannis Paleokrassas sent an letter to Jean-Claude Juncker, saying that money flows to Hungary should be turned off until “basic democratic freedoms are reinstated and corruption counteracted”.ⁱⁱⁱ But these were not the only voices. Linking the continuation of the money

shower to the adherence to core European values and to joining the European Prosecutor's office had been called for repeatedly. And by the last months

In the last months of 2018, rumors about the potential drying up of payments have been circulating, fueling speculation that there might be some effective pushback from EU bureaucracy by delaying funds to put pressure on the regime. A dispute between Hungary and the European Commission about some EU-funded projects seem to have delayed payments from the EU in 2018. As a consequence of the delays (and 2018 being an election year when the government had spent generously on its preferred voter groups as well as blurring the line between party campaign and taxpayer-funded government communication) there have been signs of distress in the distribution mechanism in the shape of claw backs of previously approved funds that have been advanced by the budget. The budget had also looked to close with substantial deficit for the year due to its extreme reliance on EU money.

In September 2018 g7.hu reported that European Commission inspectors found “widespread irregularities” in EU-financed projects in Hungary, raising the risk that the European Union could withhold development funds worth EUR 1.6 billion.^{iv} According Finance Ministry data, in the first eight months the cash-flow deficit widened to 1646 billion forints (EUR 5.49 billion), exceeding the full-year target of 1361 billion in the 2018 budget. A delay in reimbursements of billions of euros has temporarily increased Hungary's cash-flow budget deficit and a row over payments strained relations with the EU that has threatened to impose sanctions for flouting the rule of law and civil rights, and for wide scale corruption. By the end of August budget spending related to EU projects (advance payments by the state) totaled 1388 billion forints, while reimbursements from the EU were only at 183 billion forints.

By the end of the year, however, the problem appears to have been sorted out. Orbán's most precious Christmas gift (apart from finally moving himself into the Buda Castle) had been the last minute transfer of over 2 billion euros of delayed EU funds during the final weeks of 2018 that boosted the budget and removed any doubt as to the toothlessness of European democratic control mechanisms. The unprecedented, large transfer even came in the most disputed chapters of funding, and it improved the ratio of budget spending to EU reimbursements to 1597 billion forints in spending vs 1451 in reimbursements.^v

Whether it was the result of another sweet promise that allowed the EU to do nothing while still saving face in an election year or something else, we know not. The Hungarian government celebrated the windfall with massive spending on football and churches – both in Hungary and abroad.

The further progress of the Article 7 procedure against Hungary is, however, still to be watched closely. Behind the opaque political decision making someone might come up with a deal that finally reigns in Orbán's European economic resources – the only thing that currently ties Orbán to the EU. Calls for more accountability in the spending of EU funds and more conditionality are constant.

As of the political impact, a potential drying up of EU funds can cut both ways. It may be accompanied by a mechanism that finally enforces the founding principles of the European Union in exchange for the funds – if there is political will and talent left in the EU to do so. This is why the progress of illiberal forces in other European countries need to be watched, with special regard to their own exposure to Russian influence and economic assistance.

But the drying up of European money could equally likely push the regime to turn for more economic favors towards Russia, China and its other Eastern allies. These new allies are, however, less reliable and less generous with their economic help – with stronger political strings attached and with more reliable mechanisms of political accountability of a different kind.

Another way the EU funds might become less available for Orbán's system is the activity of OLAF, the European Anti-Fraud Office. Orbán has resisted joining the European Prosecutor's office, and with good reason. OLAF has concluded an investigation in 2017 into the EU-funded business success of Orbán's son-in-law, for instance. The two-year probe has found "serious irregularities" around infrastructure projects won by Orbán's son-in-law. They were part-financed by the European Union and OLAF's claims could prompt Brussels to try and claw back payments on the projects of more than EUR 40 million – in this case only.

Hungarian authorities have dismissed OLAF's findings, but the dropping of the Hungarian investigation just further "strengthens doubts on the independence of Hungarian law enforcement authorities" according to the chair of the EP parliamentary committee.^{vi} If other schemes come under investigation and the funds under consideration for clawback grow even further, it might put financial pressure on Orbán's system of clientelism. Ultimately, it will only hurt the Hungarian taxpayer as such clawbacks and fines are not paid by the perpetrators, but the reduction of available resources to provide the carrots that support an autocracy will be felt.

The Poland-Hungary-Italy populist triangle

As Poland is entering election year, eyes should be set upon its results. As the other renitent country in the European Union, Poland is Orbán's best hope to avoid more serious consequences for turning his back to European values and the stalling of the Article 7 procedure that requires unanimous votes from member states in the Council.

As the incumbent Polish government so openly takes after Orbán's early power grab and copies its tools, the parallels and similarities of the two countries will become more prominent.

Unlike Hungary, Poland has a working and spirited opposition that makes it difficult to achieve the damaging supermajority the Orbán-system is resting upon. Another difference is the Polish position vis-à-vis Russia. While Hungary has submitted to Russian interests, Poland is traditionally more suspicious of and unfriendly to Russia – and thus less open to direct forms of Russian economic and political influence. The third fundamental aspect in which Poland seems to differ from Hungary is that the Polish leadership actually appears to be ideologically motivated – whereas a real populist's policies are merely saying and doing whatever it takes to gain and keep power, without any naïve adherence of principles or ideologies. Being genuinely ideological and a true believer of one's own words is a weakness that clouds the thinking and distracts from actual goals. Both in politicians and their audiences.

The Polish developments regarding the independence of the judiciary will be an important matter for the Orbán-government and determines whether he has an ally in his illiberal about-turn within the European Union. If the European Union finds a way to turn Poland around, Hungary will stay without an important tactical ally. The Italian connection appears to be less drawn to Orbán and more keen on the Polish connection to work, but their differing positions to Russia might get in the way. Why Polish leadership is not concerned about Orbán's ties to Russia is a puzzle though.

The independence of the judiciary has been an issue in Hungary long before Poland joined in. Orbán has often ranted about "judicial governance", meaning court activism. Despite years of efforts (filling up the constitutional court with loyal judges and setting up an office to oversee the placement of legal cases throughout the country to ensure politically sensitive cases to be seen by friendly judges), there have been a few minor instances when the odd freedom of

information request has slipped through and got approved by a judge. After the April 2018 election Orbán went on a furious rant because courts stripped him of an extra seat on top of his precious 2/3 supermajority in parliament. (Orbán had to learn in 2015 that an extra seat of margin is crucial, when a Fidesz MP left for Brussels and his seat was taken over by an independent candidate, breaking Orbán's supermajority for three years, until the next elections. He did everything in his power to ensure he wouldn't have to endure the absence of a supermajority again.)

In order to do away with the last chance that an independent court might accidentally see a politically sensitive case, the Orbán government prepared a new law, creating so-called "administrative courts" to oversee all politically sensitive cases, such as election disputes, public procurement, public demonstrations, etc. The proposal has been voted into law alongside the now infamous new labor code ("slave law") and the resulting protests have drowned out attention for this crucial court reform. This way Orbán may not have got rid of the rebellious judges – but he will never have to endure their rulings anymore.

In the meantime, Orbán's Polish disciples seem to have given up on the idea of sacking judges. It appears that copying another country is not as straightforward as it was sold to them and some decisions just cannot be adopted without resistance due to idiosyncrasies in each system and society. If further setbacks or the general elections put a break on the Polish copycat illiberalization, Orbán may find himself in hot water. Poland might not be as strong a wheel on Orbán's cart to roll illiberalism into the European mainstream, and if the EU manages to convince Poland, there will be no country to have Orbán's back in the Council in case of an Article 7 vote.

European Parliament elections and Orbán's disproportionate influence through EPP

Apart from Poland and Italy Orbán has another European ally, the European People's Party (EPP), some of whose members appear to be too compromised by illiberal influence to initiate action against their openly Russia-friendly, illiberal members, such as Orbán's Fidesz. The number of MEPs Orbán can deliver into the European Parliament is an obvious explanation why the EPP is reluctant to cut him off. As long as Orbán delivers at the European Parliamentary elections, they seem determined to hold their noses and wipe away every line

in the sand they've ever drawn. Some may just genuinely like the warm and historically familiar stench of Orbán's illiberal tendencies, but in many cases the internal struggle appears to be real – its links reaching beyond the borders of Europe.

If we want to predict the outcome of the May 2019 EP elections in Hungary, it is worth looking at the current electoral mood in the country. The April 2018 general elections in Hungary have changed something in Hungarian voters. The last rush of hope that Orbán can be beaten at his own election law (with his massive communication firepower and the liberal use of taxpayer funds to blur the line between government communication and party propaganda) was put to rest in the evening of the April general elections, when record participation numbers have been significantly modified downward after the ending of the public vote, just enough to usher in the necessary 48% for Fidesz that translated into Orbán's coveted two-third supermajority in parliament. Whether non-Fidesz voters believed that the counting of the ballots/voters was rigged or just genuinely believed the results, it didn't matter. They had every reason to have relapse into even deeper apathy without hope.

The last few local mayoral and byelections in Hungary have all taken place amid record low participation rates and overwhelming Fidesz triumph. It is too early to draw a trend line, but if the current voting pattern carries over to the EP elections in May – and if nothing earth-shaking happens, it will – Orbán's Fidesz will win a landslide victory at extremely low participation rate, delivering a mouthwatering number of MEPs to the EPP. Orbán position can thus be fortified on the strength of the apathy he created at home.

Orbán had always preferred to compare European countries' sizes based on how big their leaders' was at home (Orbán's was 2/3) rather than said countries' actual size and influence – and he appears to have made this assessment true. Whoever holds power more firmly in their respective countries will triumph on the European level – irrespective of said countries' effective size. If illiberal elements manage to take over even small sovereigns, they can steer the entire European Union in a very undesirable direction that may be familiar from history, but no doubt something new.

Another factor not to be overlooked with regards to the EP elections and Hungary's future politics is the activity of Steve Bannon and his European political movement gearing up to overtake the European Parliament in May, and their illiberal influences from outside of Europe. For one thing, their ideological-looking movement conceals a more pragmatic ambition – while tickling everyone to join in the ideological mud fight. But the anti-European illiberal movement is not only interesting as a campaign tool but as a meeting point of characters and interests from various corners of the autocratic-illiberal political map.^{vii}

The economy – Austerity kicks in

There are four things to watch out for regarding the Hungarian economy and its political impact. The first is the potential drying up of EU funds, either in the shape of further payments more conditional on rule of law, or in the shape of clawbacks of some of the misspent funds. The second thing is the coming second kick of the global financial crisis, the reigning in of quantitative easing worldwide, and the inevitable reckoning of the end of yet another debt cycle. The third one is the country's growing exposure to a less reliable and potentially even more volatile East. Perhaps in preparation to all these – or more likely as a readjustment for the 2018 election budget – Orbán has started an unannounced austerity drive, the fourth thing to watch out for in terms of political impact.

Orbán has started talking about the next economic crisis moving as soon as the ink dried on his April 2018 election results. He never does such a thing without an agenda. To make the agenda more obvious, his media also started to publish headlines about the poor shape of the global economy, the German economy, the American economy, etc. Such a coordinated communication maneuver is always a preparation for something to come, those media outlets never write anything without being ordered to, and even their sport report must be approved.

The obvious and logical explanation as to why Orbán started blaming the world for hardship that hasn't happened yet (at least not according to his communication) is that he took notice of the end of quantitative easing, the impending interest rate increases of central banks, and such a tiny country is always the first to get caught up in the resulting withdrawal of funds. But knowing his skepticism of economics this explanation may not be sufficient.

Another reason why Orbán may have started priming his audience to undeniable hardship to come is can be one of two things: 1) his very own austerity drive that has kicked in with the 2019 changes in the tax law and various government transfers, and 2) the anticipated drying up of EU funds that he may know more about (see above). The two things are not unrelated.

Orbán's welfare legitimacy rests on communication more than fundamentals – and headline statistics are part of communication. The gap between the aggregate numbers of the economy (GDP, headline inflation rate, etc.) and the actual state of the economy (for those who are living there) has widened globally – and Hungary is no exception. Emigration, massive and crippling labor shortage and the long-stagnating wages and pensions that are lightyears away from their Western counterparts are yet to filter into popularity loss for Fidesz. As long as the numbers are shining and we regard collective success as a measure of success, every individual hardship can be dismissed as individual failure.

An important voter group for Fidesz, the pensioners have also been snubbed after the elections. Before April 2018, they were sent food vouchers and various gifts from local Fidesz candidates. After the elections, however, a few disadvantageous steps have been taken, like de-linking the pensions from the supposedly stellar performance of the economy and merely increasing them with the supposedly tiny inflation rate.

But pensioners are just one of the targets of the unannounced austerity. The 40+ changes to the tax code have all represented a spending cut – even when they are difficult to explain. Employees saw their cafeteria (non-money vouchers whose spending is badly limited) suddenly taxed (the only reason accepting vouchers made sense is that it was exempt from the high personal income taxes), just to mention one change. Then they were hit by the “slave law”.

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