Why Viktor Orbán took the EU hostage

By Gabor Scheiring | 11.20.2020

Orbán is right to worry about EU funds becoming conditional on the rule of law. It threatens his whole socio-economic model

German Chancellor Angela Merkel bumps elbows with Hungary's Prime Minister Viktor Orban at the EU summit

The EU and Viktor Orbán's government have clashed on several occasions over democracy and the rule of law. Orbán is aware that his wiggle room would significantly shrink if the EU made the payment of funds conditional on compliance with the rule of law. This is why Orbán — together with his Polish allies — vetoed the EU budget and the recovery fund (worth €1.81 trillion in total), thereby jeopardising the fight against the pandemic. Unsurprisingly, the disagreements could not be resolved at the European Council videoconference on 19 November 2020. But time is pressing and a solution needs to be found before the end of the year.

In similar cases, usually after drawn-out procedures, Hungary was forced to make incremental changes. However, the effect of these sanctions was dubious. For example, the European Court's recent ruling against the so-called Lex CEU should, in principle, mean that Hungary's most prestigious university has every legal right to offer courses in the country. In reality, the university had already fled the country a year ago, practically banned by the government.

So far, Orbán has gotten away with vandalising institutions and enriching the elites. The EU has even been ready to foot the bill. Now Orbán's power play might cost lives and livelihoods. By taking the EU budget hostage, Orbán and Kaczynski hope to achieve the withdrawal of the rule of law conditionality, even at the price of deepening the corona crisis.

More than cronyism

And Orbán is right to worry. In my recent book, I show that his illiberal regime rests on bending the rule of law to finance perverse upward redistribution. The cronies — Orbán's friends and family — are the biggest winners. They entered the group of top billionaires in Hungary thanks to EU-funded public procurement projects.

According to investigative journalists, between 2010 and 2014, the share of EU-funded projects made up 94 per cent of the total value of public procurement contracts signed by Elios, Orbán's son in law's company, which was flagged by the European Anti-Fraud Office for its shady dealings. Orbán's childhood friend, Lőrinc Mészáros, by now the wealthiest person in Hungary, benefits even more from European taxpayers' money. EU funds accounted for 99 per cent of the total public procurement contract value his flagship company won. In the first four months of 2020, corruption reached the highest level since 2005, with the share of contracts without competition reaching 41 per cent.

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However, public procurement not only benefits political capitalists. It serves as a tool to sustain Orbán's socio-economic model by propping up dwindling private investment and offset the reduction in foreign investment inflow. This strategy is a polarising answer to the exhaustion of the pre-2010 neoliberal model and as such it is supported by a broad segment of the economic elite. After catapulting back to power in 2010, Orbán renegotiated the terms of the compromise with transnational corporations and emancipated domestic capitalists. He has shifted the focus of development policy from the wholesale competition for new foreign investment to strengthening the national bourgeoisie and selectively appeasing foreign investors in the manufacturing export sector.

Simultaneously, the country's economy came to increasingly depend on EU funds. Transfers from the EU accounted for around 50 per cent of public investments in the first half of the 2010s. Businesses in general, not just the inner circle of cronies, benefit from the economic growth and demand created through the state's increased investment activity.

How EU funds sustain Hungarian austerity

The reliance on EU funds to finance public investment projects has allowed the government to free up Hungarian taxpayers' money and spend it on supporting businesses. Analysing the direct financial subsidies allocated through the government's discretional fund, I found that it primarily benefits transnational corporations.

Between 2004 and 2010, these discretional subsidies' total value was $626 million (130.2 billion forints); this doubled to $1.28 billion in the 2011-2018 period (346.8 billion forints). The total value of the subsidies allocated to transnational corporations also doubled, making up 76 per cent of the subsidies' total value. At the same time, the share allocated to domestic companies also grew. The clear winners of this increase are not the cronies but a much broader segment of the economic elite.

Orbán clashed with foreign investors in the banking, media, and energy sectors, where he saw fit to make more room for national capitalists. However, the government has also signed Strategic Partnership Agreements to pacify tech-intensive transnational manufacturing corporations. Orbán's hard-handed approach to the budget, implementing widescale austerity and social divestment, also pleases businesses. The government also introduced a flat tax of 9 per cent in 2016 – the lowest in Europe — again, significantly benefitting the largest transnational corporations. Due to tax reliefs, they pay even less tax. The actual corporate tax paid by the 30 largest companies in Hungary on their income before taxes was 3.6 per cent in 2017.

How German support is propping up Orbán

German carmakers are the key engine of Hungarian economic growth, contributing to the government's legitimacy. Together with their Hungarian suppliers, they account for 10 per cent of Hungary's GDP. Orbán does everything to keep them satisfied. Based on the subsidies in proportion to jobs, Audi, for example, has received four times as much aid from the Hungarian government as from the German state in the 2010-2014 period.

Besides showering them with money, Orbán's government also invests heavily into maintaining excellent connections with influential German business circles. Klaus Mangold, a former top manager of Daimler, is a crucial ally of Orbán. Guenther Oettinger — a CDU member — also plays a crucial role in German-Hungarian business diplomacy. Nominated by the government, he recently became the co-chair of Hungary's new National Science Policy Council. Peter Szijjártó was also quick to visit German industrialists this week, soothing their concerns. Hungary recently also became Germany's number one arms buyer.

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Good business relations are also reflected in the political arena. The European People's

Party (EPP) has been vital in preventing real sanctions against Orbán, sheltering him throughout the last decade. Even though Hungary is the first country in the EU classified as a non-democratic hybrid regime, the EPP has failed to make a final decision about the membership status of Orbán's Fidesz party, suspended in March 2019.

Upon her recent visit to Hungary in August 2019, Angela Merkel praised how EU funds were spent in Hungary: 'If we look at Hungarian economic growth rates, we can see that this money has been well invested by the country, that it benefits the people, and Germany is happy to be able to participate in this growth by creating jobs in Hungary.' Thus, it is no wonder that according to the editor of Budapester Zeitung — a leading German-language newspaper in Hungary — 90 per cent of German investors in Hungary would vote for Orbán.

Blackmailing the EU – and its citizens

Now the illiberal chicken came home to roost. Years of soft-touch approach to Orbán's illiberal shenanigans allowed him to consolidate his power. Making the disbursement of EU funds conditional on the rule of law is a potential threat to his regime. Now, Orbán uses his power to blackmail the EU. The recovery fund is essential to fight the corona pandemic in cash-strapped member states, such as Italy.

Most European countries increase public spending to protect vulnerable populations; Orbán however uses the crises to pursue his Social Darwinist politics, keeping the budget deficit as low as possible. While accepting European taxpayers' financial support, Orbán remains tight-fisted when it comes to economic relief for people. By blocking the EU budget, Orbán might also force other governments to withhold crucial support to precarious populations.

Emboldened by their international enablers, Orbán-type illiberals not only threaten the health of democracy but the health of citizens too. European taxpayers may soon pay for illiberalism not only with their money but with their health. That's why the only way forward for the EU to save face is not to give in and show determination to protect democracy. The European Parliament has already refused to bow down. Now it's up to the heads of state and government to play hardball and, if necessary, threaten to go ahead with the recovery fund without Hungary and Poland.