What is "Authoritarian" about Authoritarian Capitalism? The dual erosion of the private-public divide in state-dominated business systems

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Abstract

The "return of the state" as an economic actor has left scholars at a lack of theoretical tools to capture the characteristics of state-dominated business systems. This is reflected in the fact that any type of state intervention in the economy is too easily qualified as a sign of "authoritarian capitalism," which has led scholars to lump together countries as diverse as China, Singapore, and Norway under that heading. Rather than considering *any* type of state intervention in the economy as authoritarian, we propose a more sophisticated conceptualization, which distinguishes two boundaries between the public and the private domains and conceives of the "return of the state" as the erosion of one or both of them. This conceptualization allows us to clearly distinguish a shift from an ideal-typical market-based "regulatory capitalism" to "state capitalism" or "authoritarian capitalism" respectively. We use interview data with business leaders in an extreme case of the return of the state to identify the nature of the mechanisms by which an authoritarian government erodes these public-private divides. We argue that a focus on these constitutive mechanisms of the erosion of public- private divides allows us to define "authoritarian capitalism" in a way that makes it a useful tool to understand contexts beyond the Chinese case in which it first emerged.

JEL Codes: P16, P26, H13

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What is authoritarian capitalism? How is it different from state capitalism? Current management scholarship does not allow us to answer these questions, because studies of the "return of the state" as economic actor mostly focus on its ownership function and label any economic systems "state-capitalist" where the state holds significant ownership stakes in commercial businesses (Cuervo-Cazurra, Inkpen, Musacchio, & Ramaswamy, 2014; Dolfsma & Grosman, 2019; Inoue, Lazzarini, & Musacchio, 2013; Kurlantzick, 2016; Musacchio, Lazzarini, & Aguilera, 2015). Similarly, attempts to understand the "return of the state" as the emergence of a new type of capitalism as part of the Varieties of Capitalism (VoC) categorization (Hall & Soskice, 2001) have remained somewhat unconvincing (e.g. Hofman, Moon, & Wu, 2017; Situ, Tilt, & Seet, 2018), because the VoC perspective exclusively focuses on the role of the state as a regulator – and hence a 'background factor' – not as an active economic player (Schmidt, 2009: 519-20). Even attempts to remedy this shortcoming by applying typologies of states drawn from the national governance and business systems literatures (Evans, 1995; Hollingsworth & Boyer, 1997; Whitley, 2007) have focused on rather broad-brush typologies – usually distinguishing regulatory-, welfare-, developmental-, and predatory states (Fainshmidt, Judge, Aguilera, & Smith, 2018; Witt et al., 2017).

These categories, however, are not sufficient to capture the complexities of modern forms of state-dominated economies and leave researchers at a lack of conceptual tools to understand current changes in the economic role of the state. This is illustrated by the recent tendency to apply the arguably crude label "authoritarian capitalism" to any economy with a more interventionist state than the Western ideal of the "regulatory state" (Majone, 1994) including countries like Norway (Situ et al., 2018: 9). Conversely, other authors define "authoritarian capitalism" largely based on the empirical reality of China (Witt & Redding, 2014; Hofman et al., 2017), which leads to a risk of tautology.

Defining more clearly what is authoritarian about authoritarian capitalism, we aim to turn the concept of "authoritarian capitalism" into a useful analytical tool beyond the Chinese case and distinct from "state capitalism." Few, if any, papers using the concept "authoritarian capitalism" define what "authoritarian" means. In this article, we define it broadly as state intervention that denies certain individual's fundamental political and economic rights. It thus constitutes a transgression of the *principle of self-limitation* of government power implied by the norm of Rule of Law (RoL) (Chen & Deakin, 2015).

As such, we argue that authoritarian capitalism is the result of constant renegotiation and redefinition of the boundary between the public and the private domains not just in the political, but also the economic realm. Yet, we know very little about the mechanisms contemporary authoritarian governments use to subject economic actors to state control and thus redefine what is public and what private. We therefore seek to explore the question *what mechanisms do authoritarian governments use to erode the frontier between the public and the private domains in the economic realm?*

We claim that it is key to go beyond classifying systems as "authoritarian" simply based on the type of "tools" the state uses to intervene – such as regulation, incentives, and ownership (Situ et al., 2018). Rather, we propose that what allows us to define "authoritarian capitalism" – and to distinguish it from "state capitalism" and "regulatory capitalism" – is the way in which these tools are used (in accordance with principles of the RoL or against them) and to what purpose (in pursuit of the public good or elite interests). We show that the tools of state intervention should be considered *mechanisms* that play a constitutive role in creating the authoritarian capitalist system they are part of (cf. Bunge, 2004).

Our qualitative study is based on semi-structured interviews in the context of Hungary under the Orbán government. Hungary is an "extreme case" due to the speed at and the extent to which the rise of authoritarian capitalism happened. It therefore allows us to explore more clearly the mechanisms underlying the rise of authoritarian capitalism.

Our study makes three contributions. First, it further nuances the typology of states used in the literature on emerging varieties of capitalism (Fainshmidt et al., 2018; Witt et al., 2017). Second, we respond to recent calls for research that "document[s] the changing role of states and governments" to better understand the impact of "authoritarian and non-democratic tendencies" on firms (Kourula et al. 2019: 2, 16). We identify the transformative mechanisms that allowed the Orbán government to shift the boundaries between the public and the private domains. Acknowledging that these often neglected means of political control over the economy are constitutive of authoritarian capitalism, allows us to provide a more precise, empirically grounded definition of authoritarian capitalism. Thirdly, our study allows us to turn an either empty concept (that lacks a definition of authoritarianism) or an essentially tautological one (that identifies authoritarian capitalism with China) into a more robust, multi-dimensional concept that helps us understand state-dominated economies.

Theoretical Background

The "Return of the State"

The ongoing "global shift" in the world economy from "West" to "East" (Dicken, 2015) and the Global Financial Crisis that started in 2007 have led to a remarkable change in both the discourse and realities of state intervention in the economy (Bremmer, 2008; Kourula, Moon, Salles-Djelic, & Wickert, 2019; Kurlantzick, 2016; Musacchio, 2008). The increasing importance of state-owned enterprises (SOEs) as players in the world economy is but one conspicuous sign of this shift (Bruton, Peng, Ahlstrom, Stan, & Xu, 2015; Cuervo-Cazurra et al., 2014). This "return of the state" came at a time, when most scholars had gotten used to analyzing the role of the political in the economy as a "retreat of the state" (Strange, 1996). Since the arrival of Thatcherism/Reaganomics in the 1980s, the focus had been on analyzing firms as increasingly important actors in providing public goods and services that states were no longer able or willing to provide on their own (Kourula et al., 2019; Scherer & Palazzo, 2011; Schneider & Scherer, 2019). The end of Soviet communism reinforced this trend, meaning that little scholarship focused on analyzing the state as an economic actor (Schmidt, 2009). Rather, the focus was on the "economization of the political" (Gond et al., 2011: 662). Yet, the return of the state constitutes – to paraphrase Gond et al. (2011) – a "re-politicization of the economic" and hence a reversal of the shift of the public-private boundary. While theories about the regulatory and post-regulatory states have been developed in reaction to the above trends of the *retreat* of the state (Kourola et al., 2019: 16), we lack sophisticated theoretical and conceptual tools to understand the *return* of the state. This has led to a great deal of conceptual unclarity and confusion about what types of states we see emerging in different parts of the world. Importantly, authoritarian and non-democratic types of states are often lumped together with other, more benign forms of state control over the economy under the heading of "authoritarian-" or "state capitalism" (Witt & Redding, 2014; Situ et al., 2018; Hofman et al., 2017).

Three different attempts at understanding state-permeated (Nölke et al., 2015) or state-dominated (Lane, 2008) economies – especially in low- and middle-income countries (LMICs) – can be identified in the recent literature. Firstly, management scholars have started to theorize the return of the state as an owner of business enterprises (Cuervo-Cazurra et al., 2014; Dolfsma & Grosman, 2019; Inoue et al., 2013; Musacchio et al., 2015). Here, any economic system where the state owns significant stakes in companies – either as complete-, majority-, or minority shareholder (Musacchio et al., 2015) – qualifies as "state capitalism" (Kurlantzick, 2016). While important, the narrow focus on the state's ownership function leads scholars to omit many tools – other than ownership of firms – that interventionist governments can use to control economic actors (Dolfsma & Grosman, 2019; Situ et al., 2018).

A second approach has attempted to capture the specificities of state-dominated economies by applying the VoC approach to LMICs (Dentchev, Haezendonck, & van Balen, 2017; Hofman et al., 2017; Witt & Redding, 2014). This approach is useful, because it allows us to systematically compare little-known economies to well-studied high-income ones. Yet, a major weakness of the VoC approach consist in its focus on regulatory institutions and its lack of any theory of the state (e.g. Schmidt, 2009).

A third approach remedies the shortcoming of VoC approaches by borrowing a typology of states from the national business- or governance systems (Hollingsworth & Boyer, 1997; Whitley, 2007) and developmental studies literatures (Doner, Ritchie, & Slater, 2005; Evans, 1995). This stream of research distinguishes four types of states: "regulatory-," "welfare-," "developmental-," and "predatory states" (Fainshmidt et al., 2018; Witt et al., 2017). The two latter categories in particular are potentially useful to understand the return of the state in LMICs. The “predatory” type is “governed by elites who monopolize power […] so as to generate profits that benefit them rather than society at large” (Carney & Witt, 2012: 12). As such, it is distinct from the “developmental state,” where “a government ministry can have the freedom to plan the economy and look to long-term national interests without having its economic policies disrupted by either corporate-class or working-class short-term or narrow interests” (Carney & Witt, 2012: 12).

Intriguingly, however, this useful typology is not leveraged to clarify the concepts of “state-“and “authoritarian capitalism.” Thus, Witt and Redding (2014: 15) characterize China’s authoritarian capitalism as “a developmental state with distinct predatory admixtures;” without further explaining how the concepts of authoritarianism, developmental- and predatory state relate to each other. For Situ et al. (2018) authoritarian capitalism is a “form of state capitalism” (p. 6), which is distinguished from other forms by the fact that the state “uses newer, more sophisticated tools [than state ownership] to manage both state-owned and non–state-owned companies” (p. 1), namely incentives and regulative influence. However, it is not obvious why these three mechanisms – ownership, regulation, incentives – should be substantively qualified as “authoritarian” in the common sense of the term and how they differ from mechanisms commonly used in (state) capitalist – but not authoritarian – countries (Musacchio et al., 2015; Kurlantzick 2016; Dolfsma & Grosman, 2019). Indeed, Situ et al. (2018: 9) suggest that because “SOEs play an instrumental role in society” even Norway qualifies as authoritarian capitalism just like China or Singapore. Yet, is authoritarian capitalism a useful description of the Norwegian economy? We think not.

In the next section, we argue that more clearly defining authoritarian capitalism implies answering two questions: What distinguishes (regulatory) capitalism from *state capitalism*? Secondly, what makes state capitalism *authoritarian*? To answer these questions, we require a standard by which to judge the extent, quality, and purpose of state control over the economy. We argue that the concept of the Rule of Law allows us to do that.

What Distinguishes Regulatory Capitalism from State Capitalism? The Rule of Law and the two boundaries between the private and the public

The RoL has many definitions (Ohnesorge, 2007). Fundamentally, it can be defined as a norm of equality before the law and the separation of the judiciary from other branches of government. This twin principle of *equality* and *autonomy* applies not just to the judiciary, but to state officials in general. Thus, equality before the law also requires that the state and its agents subject themselves to the law like any ordinary citizen. As such, it contains a *principle of self-limitation* whereby the state "acknowledges limits to its own knowledge, capacities and powers" (Chen & Deakin, 2015: 124). The principle of autonomy, in turn, implies the independence not just of judges, but of the state and its agents from "the influence of personal gain and partisan or popular bias" (Jones 1958 quoted in Ohnesorge, 2007: 101-2).

Thus defined, the RoL establishes *two boundaries between the private and the public domains*: the first one between the state and the private sphere – including in the economy – (self-limitation); the second one between the state apparatus and particularistic interests of the governing elite (state autonomy). Redefining the boundary between public and private, constitutes shifts along these two dimensions.

Regarding the second boundary, it is important to note, that "particularistic elite interests" should not be equated with personal gain alone. Personal gain is one of many ways in which the governing elite may define its particularistic interests. Other definitions may relate to "partisan bias" rather than personal gain; including collective interests such as the maintenance of power by one party (e.g. in the case of China; McGregor, 2012). Even broader definitions include collective interests (e.g. the national interest). However, contrary to cases where a genuine pursuit of the public good is guiding state action, the above-mentioned criterion of "partisan or popular bias," implies that the collective interest is defined *exclusively* in two senses: It often excludes certain minority groups (immigrants, ethnical minorities – e.g. welfare for nationals only); and it claims exclusivity over the definition of the legitimate collective state goal; eliminating pluralism and competition of ideas (Müller, 2017).

This definition allows us to answer the question what distinguishes regulatory capitalism from state capitalism (see table 1). Regulatory capitalism is based on an extensive interpretation of the principle of self-limitation of the state. Drawing on the classical liberal definition of the RoL as the protection of the private sphere from undue state interference, legitimate state law is restrictively defined as legal rules *proscribing* behaviors that infringe on other people's liberties; excluding more interventionist rules that *prescribe* certain state-wanted behaviors (Hayek, 1960). This limitative definition of the role of the state as protecting private actors' rights to pursue their private goals provides a normative basis for the "regulatory state" concept (cf. Majone, 1994), which, in turn, is closely associated with the neo-liberal ideal of a state that "steers but doesn't row" (Osborne & Gaebler, 1992). It contains an often implicit normative statement that the state *should not* expand its control over the economy beyond the principle of "subsidiarity," whereby the state only intervenes to correct "market failures" and "negative externalities" (Aßländer & Curbach, 2017). This ideal-type of a minimal regulatory state is often what authors have in mind when opposing capitalism without qualifier to state capitalism. We call it 'regulatory capitalism' to clearly underscore that unqualified capitalism too requires a state to support it.[1]

[1] Indeed, the term "state capitalism" is potentially misleading in the sense that it suggests that there can be capitalism without a state. We reject this latter view, which ignores the constitutive role of the state in the emergence of capitalism (Deakin, Gindis, Hodgson, Huang, & Pistor, 2017). We still use the term "state capitalism," because it has become an established term in the literature.

From this perspective, the "return of the state" can be understood as a shift of the *first* private-public boundary where the state expands its role in the economy beyond the self-limiting principle of subsidiarity. This shift takes place through mechanisms such as the re-nationalization of firms and other forms of state involvement in firm ownership (Bremmer, 2008; Dolfsma & Grosman, 2019; Inoue et al., 2013; Kurlantzick, 2016), or through re-regulation (see table 1, column 6).

However, while this shift can be interpreted as the emergence of "state-permeated" types of capitalism (Nölke et al., 2015), it does not necessarily lead to "authoritarian capitalism." To justify the qualifier "authoritarian," and hence to be able to answer the question about the distinction between state- and authoritarian capitalism, we need consider two additional factors: firstly, the way in which the shift of the first boundary between public and private takes place; secondly, the purpose of the shift and hence of the increased state control over the economy, which, in turn, relates to a shift in the second private-public boundary (state autonomy).

We need to start with a more precise definition of authoritarianism. Most studies of "authoritarian capitalism" do not provide *any* definition of the terms "authoritarian" or "authoritarianism." Often, they simply equate the empirical features of the Chinese model of capitalism with the definition of authoritarian capitalism (Witt & Redding, 2014; Hofman et al., 2017; Situ et al., 2018). Unsurprisingly, this leads authors to consider authoritarian capitalism as a model *sui generis* (e.g. Situ et al. 2018: 7).

"Authoritarianism" usually refers to a political system, which is opposed to liberal democracy in the sense that it restricts citizens' rights to participate in politics and to publicly contest power (Mudde & Rovira Kaltwasser, 2018). While this clearly defines authoritarianism in the political sphere, it is less clear what "authoritarian" means when applied to the economic sphere as the notion "authoritarian capitalism" suggests. Here a more fundamental definition is useful. Substantively, “authoritarianism” is opposed “to the ‘liberal’ values of tolerance of ambiguity and difference” in that it insists on “obedience to rules, […] on conformity, and use of coercion and punishment to ensure that obedience” while disregarding “human freedom and dignity” (Henderson, 1991: 382). This substantive definition captures two aspects of authoritarianism; one procedural (disregard for individual rights and dignity); one in terms of outcomes (elimination of plurality). This suggests that not all state intervention in the economy can be qualified as “authoritarian.” Increasing state intervention in the economy shifts the first private-public boundary in favor of the public domain. While this can be qualified as a move towards “state capitalism,” the conclusion that it leads to “authoritarian capitalism” would only be warranted if the way in which the state increases its control over the economy violated fundamental principles of individual rights and dignity. Only an extreme libertarian interpretation of individual rights and liberties would lead us to qualify interventions that are lawful and limited to incentivizing, regulating, or exercising the state’s legal ownership as “authoritarian” (e.g. Situ et al. 2018).

Thus, the shift from regulatory capitalism to both state capitalism and to authoritarian capitalism can happen through re-regulation (Schneider & Scherer, 2019) or (re-) nationalization of companies through state investment in firms (Inoue et al., 2013; Dolfsma & Grosman, 2019) (table 1, col. 7). Yet, the key difference is that in state capitalism the RoL is respected, while in authoritarian capitalism it is not. Thus, re-nationalizations that follow certain procedural standards, imply a compensation for the owner of the asset should be distinguished from outright expropriation (Berrios, Marak, & Morgenstern, 2011; Kobrin, 1984) or from nationalizations that are followed by subsequent re-privatizations. Similarly, re-regulating a given area of the economy – while limiting private actors leeway - does not obviously violate the RoL and cannot *per se* be seen as part of an authoritarian trend.

Conversely, it is important to note that the violation of the RoL does not necessarily imply *illegality* in the sense of violating the positive "laws of the land." Indeed, authoritarian regimes can use law very effectively to pursue their oppressive goals (Rajah, 2012). Here the principle of self-limitation of government power provides an important additional test (column 5, table 1). Rejecting self-limitation, the ruling elite in authoritarian regimes only accepts the law as long as they control its content and as far as it can be used instrumentally to favor the elite's interests and goals (Müller, 2017). Beyond that, they do not subject themselves to the RoL and do not respect the "checks and balances" that were put in place to guarantee it. Institutional reforms to subject the judiciary power to the executive power of the government are indeed a hallmark of contemporary authoritarian regimes (Müller, 2017). These mechanisms of "democratic backsliding" are associated with authoritarian – but not state- – capitalism and have their equivalent in the economic sphere (table 1, column 6). Thus, the literature on authoritarian politics has identified the centralization of the state apparatus (Greskovits, 2015) and the reduction of political pluralism through the authoritarian use of legislative and constitutional change as key strategies of authoritarian governments to concentrate power in the elite's hands (e.g. Müller, 2017: 44).

Table 1: Regulatory-, State- and Authoritarian Capitalism

	1st private-public boundary: State intervention in the economy	2nd private-public boundary: State autonomy from private interests	Main tools of state action	Purpose of state action	Self-limiting principle of state action	Processes and mechanisms of transition
Regulatory Capitalism	*Principle of subsidiarity* – state as regulator not actor ("steering not rowing")	State captured by self-seeking bureaucrats and politicians (public choice) – State autonomy must be protected from self-seeking insiders (Buchanan & Tullock, 1962)	Regulation and incentives (Majone 1996)	Governance of business conduct to secure economic transactions and avoid harm (Hayek 1960)	*Private good* constitutes a normative goal and at the same time a limit to state action.	**Nationalisations** (with compensation) (Kobrin, 1984) **Reregulation** (Schneider & Scherer, 2019)
State capitalism	Expansion of "political realm" into "economic realm" beyond "subsidiarity principle". State becomes economic actor ("steering and rowing").	State must be autonomous from particularistic private interest groups – State must be protected from capture by outsiders (Evans, 1995).	Various, including board seats, state ownership, political ties (Dolfsma & Grosman, 2018; Grosman et al. 2016)	Governance of business conduct to avoid harm and achieve (public) political, economic, and societal goals (Evans, 1995)	*Public good* constitutes a normative goal and at the same time a limit to state action.	**Nationalisations (without compensation)** (Kobrin, 1984) **and reprivatisation to governing elite** **Authoritarian Reregulation** (violating the RoL) (Rajah, 2012) **Centralisation** (Greskovits, 2015) **Reduction of pluralism** (Muller, 2017)
Authoritarian capitalism	Expansion of "political realm" into "economic realm" beyond regulatory state's "subsidiarity principle". State becomes economic actor ("steering and rowing").	Colonization of state apparatus by elite. State interest are identified with either elite's private (Wedel, 2003) or collective interests; or with an exclusionary definition of national interest.	Various, including board seats, state ownership, political ties (Dolfsma & Grosman, 2018; Grosman et al. 2016)	Private political and economic goals – public good as 'by-product' or for 'legitimization' (Kang, 2002)	Unlimited state: Neither public- nor private good constitute a limit to state action.	

The second criteria to distinguish authoritarian capitalism from state capitalism is the purpose of the state's increasing control over the economy. The "developmental state" literature (Johnson 1982; Evans 1995) has described systems where the state intervenes extensively in the economy beyond the protection of private individuals, but does so in pursuit of collective goals; such as the "public good" or the "national interest" (see table 1, column 4). Here, private market participants' freedom to pursue their private interests are not an absolute boundary to state intervention, but state intervention in the economy is still self-limited by some notion of "public good" (see column 5, table 1). Such a system where the state's role goes beyond "subsidiarity", but still accepts the principle of self-limitation – albeit a more limited one –, can be termed "state capitalism" (cf. table 1; row 2).

However, the developmental state literature generally acknowledges that for this active role to translate into benign outcomes, the state apparatus needs to be protected from "state capture" by particularistic interest groups (Evans, 1995). This corresponds with the second private-public boundary that is upheld by the respect of the RoL.

An *external* threat to the second private-public divide stems from authoritarian elite groups that pursue anti-pluralist political programs. Authoritarianism implies a disregard for plurality and a belief that only the governing elite – once in power – can deliver the promised goals (Eatwell & Goodwin, 2018). Authoritarian parties will seek to capture the state apparatus and use it to pursue the elite's particularistic interests while attempting to eliminate any alternative definitions of the legitimate goal of the state (Mudde & Rovira Kaltwasser, 2018; Müller, 2017). It is this "colonization" of the state, the monopoly of the governing elite to define the "public good", which hence becomes identified with the elite's interest, and the instrumental use of the state to pursue this goal that further distinguishes authoritarian capitalism from state capitalism. Although rent extraction is not the sole purpose of state capture, it does make rent extraction easier and will hence increase the likelihood of it happening.

The importance of the second private-public boundary and the risk of "state capture" are acknowledged by theories informing the regulatory state idea as well. Yet, from the regulatory state perspective, the threat of state capture is *internal* not external and *individual* not collective. Indeed, informed by public choice theory, politicians and civil servants themselves are seen as self-seeking utility maximisers who – once in control – will use the state apparatus to serve their personal interests (Buchanan & Tullock, 1962; Pennington, 2010) (see table 1, column 2). The only way to maintain the second private-public divide is to keep the state bureaucracy to a minimum to limit opportunities for the state's power to be used for private enrichment rather than as guarantor of the decentralized market order (Gamble, 2016).

In sum, our conceptualization of "authoritarian capitalism" suggests that it is distinct from "regulatory capitalism" regarding the extent of state intervention determined by the first private-public boundary; and from both "regulatory-" and "state capitalism" in that the erosion of the first boundary happens in an authoritarian way and the purpose of the erosion is to promote the narrow and exclusive (collective or private) interest of the governing elite, which implies the erosion of the second boundary.

A dynamic view of state capitalisms

Our conceptualization of different types of state capitalisms according to the two boundaries between the private and the public realms corresponds with what Gamble (2016: 493) has called "an evolutionary view of the state, in which the dividing lines between what is public and what is private, and how the two interact, are matters of continual political conflict and debate." Given that the return of the state and the authoritarian and non-democratic processes that accompany it are dynamic trends, our study investigates the processes by which a country moves from one of these ideal-typical categories to the other. As such, we contribute to the understudied question of "the ways in which this return [of the state] is in fact taking place" (Kourola et al. 2019: 8). Indeed, we know very little about the mechanisms that allow governments to shift the two boundaries between the public and the private and how this alters state-business relationships.

Contrary to Situ et al.'s (2018) definition, "tools" of state intervention such as owning, regulating, and incentivizing *per se* are not sufficient to define authoritarian capitalism. Rather, it is the ways in which they are used and the ends to which they are used that turn them from tools of state capitalism into instruments of authoritarian capitalism. We follow recent studies that focus on the "social mechanisms" by which governments expand their role in the economy (Schneider & Scherer, 2019). Such "social mechanism" can be defined as "one of the processes in a concrete system that makes it what it is" (Bunge, 2004 :182; also Hedstrom & Ylikoski, 2010). As such, it is the mechanisms not the tools that – in a constitutive way – make "authoritarian capitalism" what it is.

Based on these definitions, our empirical study investigates the ways in which these mechanisms are used to create authoritarian capitalism in the case of the Hungarian government of Viktor Orbán. We thus reply to calls that understanding the return of the state requires "a contextualized understanding of government influence" (Kourola et al., 2019: 16).

Data and Method

The case context

The context of post-socialist economies in East Central Europe (ECE) – i.e. Hungary, Poland, Slovakia, and the Czech Republic – constitutes an ideal setting to study the mechanisms by which an authoritarian government extends the political domain into the economic one in the interest of the ruling elite. For more than a decade after the fall of communism, these countries were amongst the most advanced in their transition towards a Western-style capitalism, even if they benefited relatively less from European integration than their western counterparts (Pelle et al., 2019). Yet, in the past decade all ECE countries experienced a dramatic change in direction in their transition, away from the Western ideal of a liberal-democratic market economy towards a more state-dominated and less democratic model (Greskovits, 2015; Sedelmeier, 2014).

In Hungary, since the 2010 elections, the conservative coalition of Fidesz and its junior electoral partner, the Christian Democratic People's Party (KDNP), have held more than two-thirds of the seats in the parliament (Kovács, 2015). The general elections of 2014 and 2018 have confirmed Fidesz's dominant position in the country's political system (Greskovits, 2015; Kovács, 2015). In 2018, Fidesz obtained more than 49 percent of the vote, with some 2.6

million voting for Fidesz. This provided the party with a two-thirds majority in parliament and hence a free hand to pursue in-depth legal and constitutional changes (Santora and Bienvenu, 2018).

Using its supermajority in parliament, the government has systematically engaged in actions that undermined democratic institutions (Greskovits, 2015; Kovács, 2015; Sallai, 2014), curbed judicial independence, and clamped down on the independent media (Tait, 2016). These well-documented actions by the Hungarian government have been interpreted by scholars as signs of "democratic backsliding" (Ekiert, 2012; Sedelmeier, 2014; Bandelj et al., 2015; Greskovits, 2015) or a "democratic U-turn" (Kornai, 2015).

Democratic backsliding

"Backsliding" is defined as "destabilization or even a reversal in the direction of democratic development" and "is usually traced to the radicalization of sizeable groups within the remaining active citizenry, and the weakening loyalty of political elites to democratic principles" (Greskovits, 2015: 28). More concretely, "democratic backsliding" in Hungary and elsewhere involved various simultaneous processes including "softening up the legal and procedural constraints of legislation and government; far reaching centralization within the units of public administration; increasing exposure of civil servants to political pressures; stripping the parliamentary opposition off its remaining opportunities to influence political decisions; serious restrictions of media freedom; and the repeated modification of the electoral law in favor of the incumbent" (Greskovits, 2015: 34).

Yet, backsliding has not just affected the political-, but also the economic sphere, bringing these countries closer to a model of "authoritarian capitalism." Indeed, while the first phase of transition after the end of socialism has led to the emergence of private business sector through privatizations and the establishment of new firms (Martin, 2002), we have recently seen a return of the state as an economic actor in its own right. Our empirical analysis attempts to investigate the nature of the mechanisms used by the government in the process that leads to authoritarian capitalism.

Research design

In order to explore the emergence of "authoritarian capitalism" we focused on Hungary as a single country case. We selected Hungary as a critical- or revelatory case, because it is arguably one of the most extreme examples of "backsliding". Member of the European Union and after the fall of the Iron Curtain one of the most advanced economies, today Hungary is essentially controlled by a single party (Sedelmeier, 2014; Greskovits, 2015) and constitutes an extreme case of 'strong man politics' (Lendvai, 2017). Extreme cases help us explore patterns that may not be easily recognizable in an average-, or typical case (Seawright & Gerring, 2008).

Data and analysis

Our empirical analysis is based on 60 semi-structured interviews conducted between 2009 and 2017 (See Table 2). 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).

Regarding our sampling strategy, 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 foreign and domestic firms in Hungary, because we aimed to constitute a sample comprised of all categories of companies commonly distinguished in the post-socialism literature, namely privatized incumbent firms, foreign new entrants, and domestic new entrants (e.g. Martin, 2008). We used categorical sampling by selecting participants from a wide variety of sectors and types of companies (see table 2).

Informant's sector	Type of interviewee (number of interviews)	Year of interviews (number of interviews in that year)	Number of Total interviews in the sector
Banking	CEO (4), Vice-CEO (2)	2012 (4), 2016 (2)	6
Construction	Chair (2), Director (2), CEO (1)	2011 (3), 2012 (1), 2016 (1)	5
Energy	CEO (1), Director (5)	2011 (4), 2013 (1), 2015 (1)	6
ICT	CEO (4), Director (5)	2009 (2), 2011 (3), 2012 (1), 2016 (1), 2017 (2)	9
Manufacturing	CEO (5), Vice-CEO (1), Director (2)	2009 (1), 2011 (2), 2012 (1), 2015 (1), 2016 (2), 2017 (1)	8
Telecommunication	CEO (1), Vice-CEO (1)	2015 (1), 2016 (1)	2
Retail	Director (4)	2011 (1), 2012 (1), 2016 (2)	4
Wholesale	CEO (2)	2012 (1), 2017 (1)	2
All other sectors: tobacco, tourism, consulting, advertising, beverages	CEO (1), Director (4)	2009 (1), 2012 (1), 2013 (1), 2016 (1), 2017 (1)	5
NGOs	Secretary General (4), Director (7)	2011 (4), 2012 (2), 2016 (2), 2017 (3)	11
Other	Political advisor (1), Journalist (1)	2011(1), 2017 (1)	2
Total number of interviews		2009 (4), 2011 (18), 2012 (12), 2013 (2), 2015 (3), 2016 (12), 2017 (9)	60

Table 2: Respondents by Sector

The final sample included 22 interviews with top managers (CEOs, vice-CEOs, board members, heads of business units) of Hungarian firms, 25 interviews with CEOs and Public Affairs directors of local subsidiaries of multinational companies (MNCs) and 13 interviews with experts from the context of the case (representatives of associations, chambers of commerce, trade unions, NGOs etc.). Among the multinational subsidiaries we had companies with headquarters in the US (7), France (4), Germany (3), UK (1), Denmark (1), Italy (1) and the Netherlands (1). Out of the 22 interviews with Hungarian firms, 8 were state-owned while 14 were privately owned businesses - out of which 2 were privatized incumbent firms, and 12 domestic new entrants.

Type of organization	Number of interviews
MNE	25
Domestic company	22
Other experts from the context of the case	13
Total number of interviews	60
Total number of printed and online news articles and reports	71

Table 3: Type of Organizations in Sample

To limit bias in our interview data, we used different data collection approaches for increasing accuracy in retrospective research (Golden, 1992; Miller et al., 1997). We used secondary data to verify interviewees' factual claims including 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.

Our interviews ranged from 45 to 90 minutes in duration. We carried out data collection and data analysis in parallel through an iterative process in order to develop our understanding of the processes and to reflect on the emerging findings. After the translation and transcription of interviews we analyzed the data by identifying initial concepts and grouping them into first-order concepts (categories), relying on respondents' quotes and terms. We used axial coding to create second-order concept by "refining and differentiating concepts" (Böhm, 2004: 271). At this stage, we drew on existing literature that has identified actions and characteristics of state- and authoritarian capitalism (see table 1, column 6). Finally, we gathered similar second-order concepts into aggregate dimensions to build the basis of the framework that emerged. Once we had the draft aggregate dimensions we went back to our theoretical constructs and carried out an iteration process between our newly emerging framework based on our data and the theory (Gioia et al., 2012). We used NVivo 12 software for our data analysis to identify the four aggregates that represent four mechanisms of "authoritarianization" of capitalism. The empirical case study allowed us to identify in "abductive" fashion - when data and existing theory are considered in tandem (Gioia, Corley, & Hamilton, 2012) - the mechanisms that contribute to the country's "backsliding" into authoritarian capitalism.

Empirical Findings

This section presents our empirical findings from the interviews with a view to deepen our understanding of "authoritarian capitalism". We focus on the economic rather than the political sphere and analyze the mechanisms the Orbán Government used in bringing about the "authoritarianization" of capitalism. Our data shows that for the economy, "backsliding" has meant a dual shift in the boundary between the public and the private domains: Firstly, the state has once again become an active economic player who controls the economy and even competes with private actors; secondly, the state's interests have become increasingly undistinguishable from the interests of the governing elite. We find evidence for four different mechanisms through which this has been achieved: 1. The creation of state dependence of private actors, 2. The reduction of economic pluralism to align economic actors' interests with the political elite's interests 3. The state being used as a tool to extract private rents, and 4. authoritarian shareholding (See Figure 1 that shows the data structure and Figure 2 that illustrates our conceptual framework of authoritarian capitalism).

Figure 1: Data Structure

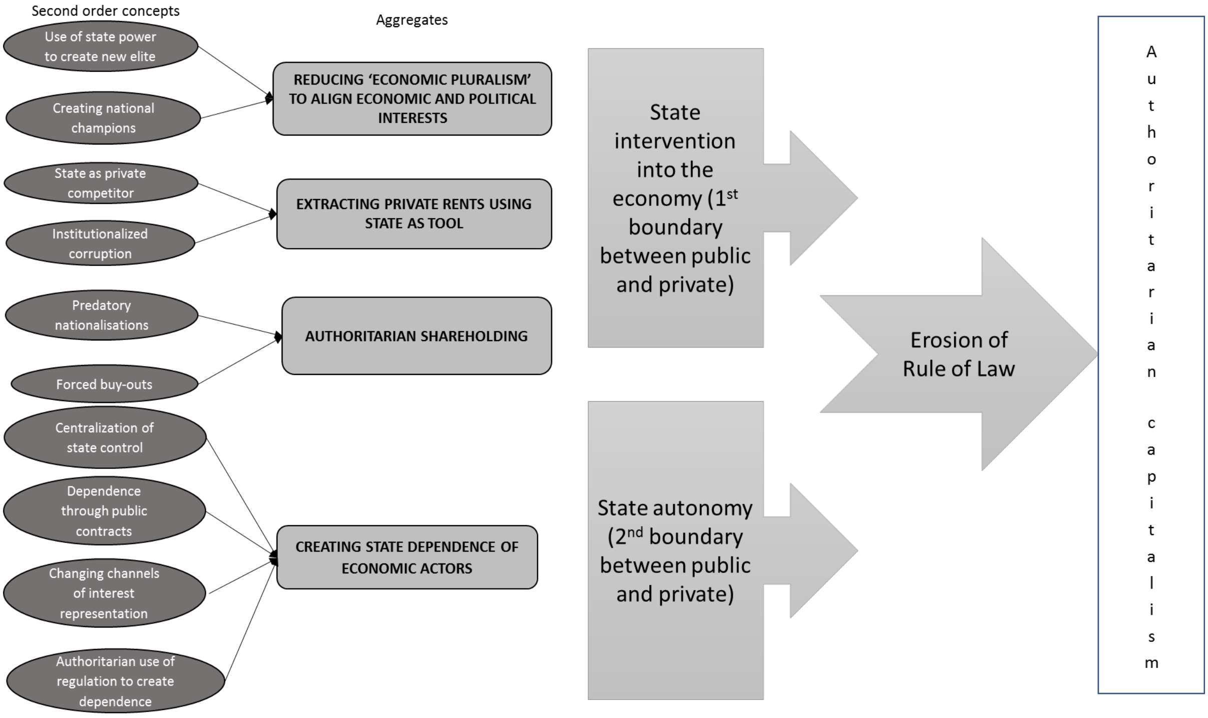

Figure 2: Conceptual Framework of Authoritarian Capitalism

Creating state-dependent economic actors

The first mechanism of the "politicization of the economic" used by the Hungarian government consists in making economic actors increasingly dependent on the state for their survival. Four interrelated processes relate to this first mechanism: the centralization of state control over politics, the economy, and civil society; making private actors dependent on public contracts for income; changing – and restricting – the official channels of economic interest representation; and using laws and regulation with the sole purpose of creating dependence. In the following we will illustrate these processes through our interview quotes.

Centralization of state control. 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). We call this process the *centralization of state control*. The government introduced legal changes that centralized decision-making at various levels of the state bureaucracy (Hajnal and Rosta, 2014, Kornai, 2015). The increasing centralization 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 International, 2012). Institutions affected by party-related appointments were the Constitutional Court, the prosecution, the institutions to safeguard the freedom of information, the State Audit Office, the bodies of election administration, the media authority, the Hungarian Competition Authority, the institutions of public procurement, the central bank, the ombudsman's office as well as bodies subordinated to the government such as the police or the tax authority (Ligeti et al., 2019:12).

Centralization of governmental control over the state bureaucracy also involved 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 "separated central policy from service delivery functions and clearly distinguished between political appointees and professional career employees" Negoita (2006: 225). Indeed, one key element of the rise of Orbán's authoritarian capitalism in Hungary is the undermining of the previously – for post-socialist standards – exemplary technocratic and meritocratic bureaucracy (Negoita, 2006) and the separation of powers. 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 shows the impact of this trend on the economy. From the company's perspective, the main change implied that civil servants now act mainly following political and private interests, rather than public 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" (Respondent at Hungarian NGO01).

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" (Respondent at Subsidiary17).

The job insecurity for civil servants and demand for political loyalty is combined with an increasing centralization 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 Prime Minister's (PM) hands. A 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" (Respondent at Local15).

Dependence through public contracts. Our interviews also suggest that the private sector has become increasingly dependent on income stemming from the state. Firms operating in different sectors explained that the state has become dominant as "a large customer" through "big investment projects," making public contracts essential for survival, including in marketing, services, and construction (Subsidiary04; Local04). Respondents highlighted that the state has become a "more and more dominant player in the economy" not only as a customer, but also in "distribution and in ownership" (Subsidiary04).

Changing channels of economic interest representation. Centralization and powerlessness were also mentioned when respondents spoke about the changing channels of economic interest representation since 2010, which parallels the removal of opportunities for political opponents in Parliament to influence decision-making (Greskovits, 2015). Many argued that traditional interest groups such as chambers of commerce or industrial associations no longer have a voice in Hungary. Some even stated that they have "zero impact" as the government "does not listen at all" (Subsidiary01). Others, representing industry interests, cited examples of officials at Ministries who were not allowed to meet them until they got clearance from the top: "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 'authorized' to meet us" (Subsidiary08). This illustrates how centralization leads to reduced autonomy of public officials and a close central political control even over high-ranking public official.

Respondents claimed that decision-makers at public bodies and state offices are powerless, as the final decisions depend on the PM's approval: "There are 2-3 people that influence the Prime Minister, but even they do not make the decisions, ultimately the Prime Minister makes the decisions" (Subsidiary01). Some argued that there was somewhat more openness during the second government in 2014-18 when companies were more listened to, although "not heard" (Subsidiary02) as there were no "public consultations before legislative changes" (Subsidiary08). To bypass economic actors, the Orbán administration institutionalized a hitherto rarely used process in political decision-making: proposing legislation through member of parliament's (MP) motions. The majority of proposals submitted to the Parliament in 2010 were MP's motions (Transparency International, 2012). When a legislative proposal is introduced by individual MPs, no ministerial consultation procedures or the involvement of the government is required. In this environment businesses feel that "in Hungary it is not worth to represent interests, because today in the Parliament a 'voting machine' operates" (Local09).

Authoritarian use of regulation. A further mechanism by which the Orbán government shifts the boundary between the public and private, is the authoritarian use of legislation by introducing laws and regulations that are purely aimed at creating dependence of economic actors on the state. The Orbán government has extensively used legal- and tax reforms to change the "playing field" in legal ways that many existing companies cannot cope with. Thus, various legal changes forced existing companies in different sectors out of business and paved the way for the entry of new, politically connected companies (cf. Kovács, 2015). Targeted sectors were mainly those focused on the domestic market in the services sector, because the government considered foreign investment in these areas "bad FDI" (Sass, 2017: 6).

Given the formal legality of these types of state intervention, one could expect that companies can also use legal means to protect themselves through lawsuits or appeals to the courts. However, this is where the government's respect of the RoL stops. Thus, an 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 push it, because obviously he will make me feel the weight of my decision […]. There were five people there […]" (Respondent at Local10).

This type of intimidating and arbitrary state intervention to prevent companies from using the legal means at their disposal has created a general apprehension among the business elite of the state authorities who do not respect the principle of self-limitation of state power any longer:

> "Today, there is a fear from central authority in people's blood; a fear that they can take away anything, do anything." (Respondent at Local15).
>
> "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!… CEOs are kept in fear" (Respondent at Local15).

This authoritarian use of law and regulation implies that formally legal intervention is backed up by pure threat and intimidation that violates the RoL.

Reducing 'Economic Pluralism' to align economic actors' interests with the governing elite's interests

Using legal and constitutional changes to reduce political pluralism is a hallmark technique used by authoritarian governments to increase their power (Müller, 2017). An equivalent process is applied to the economic sphere to reduce "economic pluralism" by creating an economic elite whose interests are aligned with the political elite. Indeed, the Orbán government has used the state apparatus to transfer state- and private assets to supportive actors, while eliminating others; creating thus a new economic elite and aligning the economic and political elite's interests.

Creating a new elite. The reshaping of the retail sector provides an example of how the government redistributes state assets to create a new elite. A "special tax" was introduced in 2010 with a retroactive effect. The tax required all retailers operating in Hungary with annual revenue over 500m HUF (ca. $2.2m) to pay a special tax on their consolidated revenues. In February 2014 the European Court of Justice (ECJ) ruled that the special retail tax puts companies from other EU member states at a competitive disadvantage as many of the largest retail groups who were exposed to the highest rate were foreign companies, while the Hungarian retailers were smaller companies paying a much lower rate (Gulyas, 2014). In reaction to the ruling, in December 2015, the parliament passed a series of laws that directly targeted international retail chains operating in Hungary, requiring non-family-owned retailers of a certain size to remain closed on Sundays, and stores to close if they reported losses for two consecutive years. The combination of these rules put multinational corporations at a disadvantage compared to Hungarian competitors (Kovacs, 2013). According to our interviewees, the goal of these changes was to reshape the ownership of firms in key domestically orientated sectors in favor 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 absolutely dominant." (Respondent at Subsidiary07).

The ruling political elite thus directly influences companies' position in the market, restructures industries, and appoints or eliminates the dominant players in the Hungarian economy (Kovacs, 2015). These changes also had the more profound effect of reshaping the Hungarian economic elite, creating a group whose interests are directly aligned with the governing political 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." (Respondent at Subsidiary15).

Creating dominant national champions. A related process of reshaping industries to reduce economic pluralism consists of creating a market dominated by chosen national champions while driving out foreign actors. One example is 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 distributed a more limited number, mostly to people close to prominent Fidesz members (Kovács, 2015). This step drastically disadvantaged major multinational tobacco companies and small family-owned retail shops. In December 2014, the government restricted the wholesale market, 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 monopolization of tobacco products, the number of retail outlets dropped sharply from 42,000 to 5,415 (Piac és Profit, 2013). It soon became clear that the new legislation originally was aimed to create a monopoly for Continental Zrt., a Fidesz-related tobacco manufacturer (Laki, 2015), whose employees and their family members have indeed won many of the new concessions (Nagy and Szabó, 2013). Investigatory journalists also claimed that the tobacco act was written on the computer of Continental's CEO, a close friend of Fidesz's party leader, who officially submitted the proposal to the Parliament (Laki, 2015). This case illustrates how the government re-nationalizes sectors temporarily by creating state monopolies through legal means before re-privatizing them by reallocating property to its own supporters (Magyar, 2016), thus creating a new elite whose interests are aligned with the political elites' interests.

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" (Respondent at Local17).

The tobacco case also illustrates the authoritarian nature of the process of creating state monopolies and national champions in the sense that the procedure to achieve this goal systematically violated the RoL. Thus, when the government introduced the monopolization of tobacco retail sales, amendments were introduced after the closing date for applications for retail licenses 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).

The state as an instrument for the pursuit of the governing elite interests

Our theoretical framework implies that both state capitalism and authoritarian capitalism differ from regulatory capitalism in the sense that the state becomes an economic actor in its own right. Yet, the key difference between state capitalism and authoritarian capitalism is that in the former case the state has a certain degree of autonomy vis-à-vis the governing elite's interests and at least partially pursues public goals, while in the latter case the state is itself being colonized by the ruling elite's interests (see table 1). Two concepts emerging from our data capture the state's loss of autonomy vis-à-vis the private sphere directly, namely changes in the nature of corruption and the state becoming a competitor for private firms.

Institutionalized corruption. Our respondents consistently referred to changes in the nature of corruption under the Orbán government. Earlier studies have already shown that those who have top-level networks and money can exert influence in Hungary (Sallai, 2013), however our interviews show that - rather than petty corruption of lower level bureaucrats - corruption has become "institutionalized" since 2010. It now involves the state authorities directly, rather than individual public officials within them. One respondent stated: "They threaten the company, by – for example – sending the tax office out for control. They can always find something. They can make your life hard if you do not cooperate. We want to live in this country, but if you want to live here, they can make your life a struggle“(Respondent at Local15).

In other words, rather than the “bottom up” corruption of the early post-socialist period, in Hungary today a ‘top-down type of systemic corruption became dominant’ (Transparency International, 2018: 2) and institutionalized in the state bureaucracy (cf. Kang, 2002).

This trend directly erodes the boundary between the public and the private domains, leading to the blurring of public and private interests. One interviewee stated: “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” (Respondent at Local17). As a report of Transparency International put it: “Corruption is a tool in the hands of the holders of public power; it allows for the distribution of goods as a function of loyalty rather than performance. […] In the scope of high-level abuses mostly linked to the holders of public authority, corruption occurs not against the rules but through them” (Ligeti et al., 2019:12).

The state as competitor. A second process related to this mechanism is the state becoming an economic competitor for private firms. Various interviewees argue that SOEs are increasingly supported by the government to gain an advantage over non-Fidesz affiliated private firms. Yet, while SOE competition is a feature of state capitalism too, under authoritarian capitalism, the state has become a tool for the elite controlling it. Thus: “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.” (Respondent at Local10).

Authoritarian shareholding

Contrary to Situ et al. (2018), our more restrictive conceptualization of authoritarian capitalism implies that shareholding by the state *per se* cannot be seen as a mechanism of authoritarian capitalism. It becomes part of the authoritarian capitalist repertoire only if the RoL is violated in the process of acquisition or when shareholdings are used in the pursuit of the governing elite's own interests. We call this mechanism *'authoritarian shareholding'*. Based on the Hungarian case we identify two related concepts "predatory nationalizations" and "forced buy-outs."

Predatory nationalizations. After the initial wave of privatizations in the 1990s, predatory nationalizations started in 2010 when the government also nationalized the private pillar of the mandatory pension system (Adam and Simonovits, 2017). The first company targeted by re-nationalization was MAL Zrt., one of the largest aluminum manufacturers in Hungary. When a red sludge reservoir burst and caused serious environmental damage and casualties (Dunai, 2010), the government took the opportunity to have Parliament nationalize MAL (Day, 2010). In 2011, the government suspended state control over MAL, but the regional environmental agency imposed a HUF 135bn fine on the company (Mihályi, 2015).

Renationalization measures were often helped by the authoritarian use of regulation discussed above and hit not just domestic firms. One interviewee at 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 nationalization, 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." (Respondent at Subsidiary01).

State-ownership expanded significantly in sectors such as energy, banking, public works, transportation, the media, and advertising (Kornai, 2015). Thus, in 2012 the government declared its plans to re-nationalize the gas sector by buying back E-On's Hungarian gas business (Than, 2012). It also 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 had 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).

Some of the re-nationalizations were first initiated by the previous, Socialist-led government (Mihályi, 2015). However, under the Orbán government, these re-nationalizations changed in nature and increasingly became predatory. Indeed, (re)nationalizations are not necessarily illegitimate means of state intervention in the economy *per se* and may very well have a positive impact on economic development in some cases. Thus, in many state capitalist regimes governments can pick winners to promote growth (Evans, 1995). What makes the re-nationalizations in Hungary part of authoritarian capitalism is that they are – despite the nationalistic anti-FDI rhetoric surrounding them and despite the government compensating the previous owners quite generously (Mihályi, 2015:1) – not part of a national developmental strategy, but rather a predatory one that serves the governing elite to extend their power over the economy and enrich its members. Evidence suggests that government officials have private interests in economic restructuring (Dunai, 2018) and many friends and family members have become extremely rich since 2010 (Buckley and Byrne, 2017). For instance, the wealth of Lőrinc Meszáros – Orbán's childhood friend and a gas fitter by profession - and Orbán's son-in-law István Tiborcz has grown exponentially in the last eight years. They acquired stakes in major industries like banking, energy, construction, agriculture and the media, as well as tourism (Dunai, 2018). In 2019 Meszáros was the second, while Tibrocz the 32th on the list of the richest people in Hungary (Blaskó, 2019).

One respondent described the strategy in the following terms:

> "The government nationalized 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 forints 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." (Respondent at Subsidiary11).

Forced buy-outs. A second aspect of the "authoritarian shareholding" mechanisms can be called 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 actors 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, 2015: 6).

Our interviews suggest that FBOs generally are carried out by Fidesz-related individuals approaching the owners of private companies and "persuading" them to transfer their ownership rights, often without payment. Our respondents claimed that when owners refuse to cooperate, the "raider" 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. Consequently, the market value of the firm went down to 10 percent [of its previous value]" (Respondent at Local07).

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; NGO02). Contrary to re-nationalizations, FBOs do not transfer ownership to the state, but directly to private individuals close to the governing elite. They are hence a sign of the deep penetration of the elite's private interests into the state sphere – the second erosion of the public-private divide normally protected by the rule of law – and imply that the state has become itself an economic actor that serves the governing elite's interests.

Discussion & Conclusion

The concept of "authoritarian capitalism" has merit in that it expands the varieties of capitalism approach to include important emerging market economies (Hofman et al., 2017) and alerts us to types of state intervention in the economy that go beyond its role in the ideal-typical Western regulatory state. Yet, in this article, we have shown that existing studies fail to provide a clear definition of the authoritarian nature of authoritarian capitalism. Often, they equate the Chinese reality with "authoritarianism," or they consider any – even legal – state intervention in the economy to be authoritarian (Situ et al., 2018). This approach limits the usefulness of the concept.

It is crucial for scholars to develop new conceptual tools to study the contexts of LMICs, whose realities often defy Western academic concepts and theories (Bothello et al., 2019). "Authoritarian capitalism" can be such a concept if we define "authoritarian state intervention" as state action that infringes on key principles of the "Rule of Law." This allows us to distinguish authoritarian capitalism from other types of state-permeated business systems – such as state capitalism. Furthermore, defining authoritarian capitalism as the *erosion* of the two boundaries between the public and the private and the focus on the *mechanisms* that allow the governing elite to shift that boundary captures the dynamic nature of the phenomenon, rather than conceiving of authoritarian capitalism as a stable state as suggested by VoC-related categories.

We argue that all four mechanisms we identified – the creation of state dependence of economic actors, reducing economic pluralism to align the economic elite's interests with the governing elite's interests, the state being used for the pursuit of the governing elite's interests, and authoritarian shareholding – can be considered as part of a truly "authoritarian capitalist" state's arsenal in the sense that they all imply state action that disregards the principle of the RoL and are used to allow the governing elite to eliminate plurality of interests in the political and economic spheres. As such, they constitute authoritarian capitalist tools in a narrower sense than what previous literature has suggested, which sees even perfectly legal and legitimate types of state intervention – such as the state exercising its ownership rights – as a sign of authoritarianism (cf. Situ et al., 2018). Defining "authoritarian capitalism" more narrowly, avoids confusion between interventionism and authoritarian interventionism.

We also contribute to the literature and study of post-socialist transition by extending the increasingly widely used concept of "democratic backsliding" in the political sphere (e.g. Greskovits, 2015) into the economic sphere. The mechanisms we identify shift the boundary between the political and the economic and lead to more authoritarian forms of economic governance. As such, we complement the existing literature on the rise of political authoritarianism with its economic pendant.

One open question concerns the relationship between the four mechanisms we identify. Our empirical analysis shows that some of them are closely related. One distinction that can be made is between mechanism that erode the first private-public divide (i.e. the boundary between the state and the economy) and those that affect more the second one (i.e. the boundary between state interests and elite interests) (see figure 1). While these trends took place in parallel and several mechanisms may contribute to both trends at once, the Hungarian case does suggest that the erosion of the state's autonomy was a pre-condition for the state becoming more interventionist in the economy once it had been colonized.

In terms of the boundary conditions of our study, as a single country case study, our research is limited regarding its generalizability across contexts. Moreover, given the sensitivity of the topic at hand and the political situation in Hungary, our firm sample may be subject to a self-selection bias. While we attempted to mitigate this bias, it is conceivable that certain sectors and companies perceive the state's role in a more positive light (cf. Scheiring, 2019). This may be the case for instance in the export-orientated sectors. Future research should more systematically analyze such sectoral differences.

Our discussion also suggests that in the case of 'authoritarian capitalism,' political authoritarianism is matched with economic authoritarianism. This should not be seen as a universal feature of authoritarianism though. Indeed, history provides numerous examples of countries where the political regime was authoritarian – in the sense of eliminating pluralism, suppressing the right to participate in politics and to contest government –, but adopted a non-interventionist attitude towards the economy. Pinochet's Chile may be the prime example of an authoritarian political regime co-existing with a liberal economic one. Authoritarian capitalism only designates situations where a political regime uses authoritarian interventionist mechanisms to extend the state's control over the economy (shifting the first boundary).

Distinguishing political authoritarianism from economic authoritarianism raises a further issue, i.e. does economic authoritarianism have to be *capitalist*? We think not. Although we do not have much empirical evidence, North Korea may be an example of both political and economic authoritarianism; but it can hardly be qualified as a case of authoritarian *capitalism*. Therefore, economic authoritarianism may come in different varieties. Conversely, state dominance over the economy and anti-business policies, do not necessarily imply that the fundamental logic of that economy stops being capitalist. Scheiring (2019) for instance sees current authoritarian trends in post-socialist countries as a reaction to these semi-peripheral countries' insertion in the capitalist world economy. As such, they may be inherently linked to capitalism and indeed follow a capitalist logic of accumulation. The extent to which an economically authoritarian regime remains capitalist despite increasing state control over the economy may hence depend on its place in the world economy. Future research should investigate both the reasons why certain authoritarian political regimes do not become economically authoritarian and what determines that economically authoritarian regimes remain capitalist.

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