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## **From Free Market Corruption Risk to the Certainty of a State-Run Criminal Organization**

(using Hungary as an example)

Studies that examine post-communist regimes and define their characteristics primarily place an emphasis on describing the political system and its ideological determinants. The occurrence of corruption and its manifestations generally appear only as the unpleasant side-effects of imperfect systems. But if we model a distinction between the evolutionary phases of (1) petty corruption based on free competition, (2) state capture through oligarchs and the organized underworld, and, finally, (3) mafia state governance operated as a criminal organization, then we inevitably revise the popular definition that corruption is nothing more than the (mis)use of entrusted/public power/office for private gain. According to its descriptive function, it becomes a decisive element based on its occurrence in the regime. Movement toward this wider, system-defining direction is occurring not only in the world of academia, but also in political bodies such as the Council of Europe, which advanced a motion (“Corruption as a governance regime”<sup>1</sup>) that shows great development in the analysis and evaluation of the nature of corruption.

Let us distinguish between three levels of corruption:

**The first** level is the simplest, the so-called day-to-day corruption, which is characterized by scattered, sporadic, face-to-face direct corrupt transactions, involving the players in the economy and public authority.

**The second** level is when corruption vertically reaches even the higher layers of governance and rather than manifesting in only occasional trans-

actions, show signs of a regular nature. Players' cooperation becomes more complex not only on the side of corruption supply, but also on the side of corruption demand, given that the corruption partners on the side of the economy are in many cases oligarchs or criminals in the organized underworld. (We need to distinguish between the two above-mentioned groups: while criminal organizations carry out illegal "economic" activities supported by illegitimate access, oligarchs on the contrary usually conduct lawful economic activities, but mostly with illegitimate access.)

This level is known today as the realm of state capture. We can only speak about this phenomenon when certain segments of public authority are captured and not the governmental structure in its entirety. At this level, political competition may still continue. The transfer of political power is still possible under constitutional circumstances, and the oligarchs still maintain their relative autonomy, as they are not infinitely tied to certain political actors. Both sides can enter and leave the corruption transactions relatively freely. Organizational criminology refers to this level as state crime, which can take the form of corporate-facilitated state crime or state-facilitated corporate crime, depending on who the dominant or initiating actor is.

In the case of the **third** level, it is not appropriate to talk simply about state crime, as the phenomenon that we see already is rather a criminal state. It is no longer the oligarchs nor the organized underworld who capture the state, but a political enterprise—the organized upperworld—that captures the economy, including the oligarchs themselves. This is what we can witness **in some post-communist countries**. This evolutionary stage is possible when two conditions are met. Firstly, the monopolization of power by one political actor, accompanied by the systematic surrendering of the institutions of checks and balances. The second condition is the lack, or practical non-existence, of private property during the regime changes and widespread public distrust as privatization happened in these countries.

The emerging post-communist criminal states, where the governance bears the features of a criminal organization, can be described as post-communist mafia states. This is nothing other than the privatized form of a parasite state. In this case, the central bodies of the state itself operate in concert as a criminal organization, as the organized upperworld.

## The Hungarian Post-Communist Mafia State

Let us briefly summarize the **basic features of the corrupt criminal state, namely the mafia state**<sup>2</sup>:

1. **The concentration of political power and the accumulation of wealth by the adopted political family occur in unison.** Public benefit becomes subordinated to private interests, not occasionally but permanently, and in a manner that influences political decision-making in a fundamentally determinant, systematic way.
2. **The alternation and systematic replacement of the political elite take place in parallel with that of the economic elite,** and these changes are not driven by the instruments of democracy or the market economy.
3. With the legalized instruments of the state monopoly on coercion, **the mafia state coercively extracts private fortunes**—sometimes indirectly through **different forms of nationalization**—to serve its own interests, and redistributes them amongst clients of the adopted political family.
4. The corruption of the organized criminal upperworld is neither a matter of incidental—even sporadic—back-door dealing, nor an occasional irregularity or deviance, but a centrally-directed and rationally-transacted plunder, a centrally-executed collection of protection money. For in the organized criminal upper world, **the mechanisms for the concentration of power and the accumulation of the wealth of the political family cannot be operated in disjoined systems.** But while the traditional mafia reaches its objectives through blackmail, intimidation and open violence, the spheres of influence in the mafia state can be shaped by the quasi-lawful instruments of coercion deployed by public authorities.
5. Let us specify the **key players** in this type of corrupt criminal state:
  - The **poligarch** is someone who uses legitimate political power to secure illegitimate economic wealth—while his or her political power is visible, the poligarch's economic power remains hidden. The poligarch manages his or her family business in the form of a political venture.
  - The **oligarch** is someone who, from more or less legitimate economic wealth, builds political power for himself—in this case his or her eco-

conomic power is visible, while his or her political power, if it exists at all, remains hidden.

- The **stooge** is someone who has no real power, neither in politics nor in the economic sphere, but bridges the gap between the real nature of power and its required legitimacy. So he or she formally serves as a middleman between the legitimate and illegitimate spheres for the public.
  - The **corruption broker** brings the partners of the corrupt transaction(s) together in the role of mediator or expert lawyer. When the monopoly of political power is created, the criminal state surrenders the corruption brokers to the adopted political family and subjects them to strict order of dependency.
  - The **family security guard** and the **secret services**.
6. **Decisions are taken outside the competence of formalized and legitimate bodies** of democratic institutions, and are brought into the topmost, tightly-knit **informal network of the adopted political family**.
  7. Formalized and legal procedures give way to material and arbitrary actions. The head of the executive power does not govern, but illegitimately disposes of the country as if he (or she) owned it. State institutions, including the parliament, the government, the tax offices and the prosecutor's office do no more than rubberstamp and attend to the bookkeeping. They become the institutions of politically-selective law enforcement. The "**law of rule**" substitutes for the "**rule of law**." Proper jurisdiction is replaced by the arbitrary practice of justice. Legislation is no longer the field of lawful, normative regulations that are valid for all and brought to bear upon all equally, but where laws are tailored to fit the needs of those in power. **Equality before the law has been replaced by inequality after the law**.
  8. In place of legally-protected autonomous positions, a **patron-client chain of vassal relationships** comes into being. This results in the elimination of the grounds of individual autonomy and forces livelihoods into a system of hierarchical dependency.
  9. This new form of vassal dependency should not be called feudal or patrimonial, because **the material nature of power and its formal legitimacy do not converge**. The gap between them is bridged by state coercion and hypocrisy, using quasi-democratic procedures by restricting civil rights and the freedom of the press, and by manipulating electoral democracy. It is neither a liberal democracy nor a dictatorship.

- 10. The mafia state is not ideology driven.** Rather, it builds on various ideological templates that suit its political agenda. While inconsistent in terms of public policy expertise, emotionally it remains consistent. This is also its strength: it resists a rational critique. The coherence of its values is ensured by the **cultural model of the dominance of the head of the patriarchal family.**

### The need for big data analysis

Due to the lack of available data on the occurrence of corruption, researchers attempt to show it either by discussing institutional mechanisms, through case studies, or through the perception of corruption as measured in public opinion polling of businesses and the general public. Yet despite the utility of a model composed of a mosaic of case studies and legal analyses, there is still a need for a method that could verify the existence of a mafia state type of corruption through a large sample of individual corrupt transactions. Such ambition, however, also faces some limitations. First of all, the essential characteristic of decisions made in the informal power structure (the adopted political family) is that they are created in a non-public and non-documented way. Secondly, due to the small number of key decisions taken at the highest level, it is difficult to create a statistically appreciable database of such occurrences. Thirdly, broader procurement activities that are subordinate to these decisions are also not normally available in databases that can be examined for research purposes.

Moreover, the changes and manipulation of public procurement law after 2010 in accordance with the needs of centrally-managed corruption has also narrowed the scope of public spending not affected by politically motivated, discretionary decisions. A logical corollary of the established mafia state system is that for public procurements: the limit of public funds that can be spent without requiring a tender has been raised; the bidding period has been reduced; and cost makes up only 50 percent of the award criteria, while the rest is awarded by the politically-instructed assessment committee based on so-called qualitative, i.e. subjective, criteria.

All of this has increased the opportunity for manually-controlled government orders and clientele building in public administration and large state distribution systems. Another dimension of this phenomenon is that after 2010 low and mid-level officials are no longer “freely autho-

rized” to engage in corruption. Municipal institutions and authorizations have undergone state centralization and become subject to political monitoring from higher-ups to such an extent that the freedom of such low-level corruption has been appropriated from them, and the right to exercise it granted instead to the central authority. It can ironically be stated that within such single-pyramid patronal networks, the former communist command economy regime has been replaced by a type of command corruption regime. Of course, it is also possible that these powers are occasionally delegated to subpatronal networks as a type of corrupt concession.

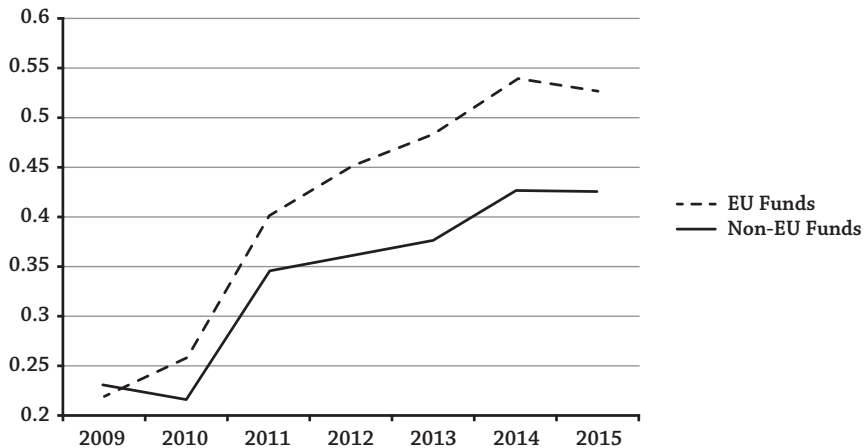
For major investments, however, the government has nearly unlimited power to officially designate an investment of economically-strategic importance, or prioritize it for national security reasons. These priority projects are exempted from regular public procurement procedures. Not to speak of the fact that from 2016 the government has given itself the direct authority to approve tenders exceeding 300 million forints.

Yet research led by István János Tóth of the **Corruption Research Center Budapest (CRCB)**<sup>3</sup> offers a unique opportunity within the post-communist region by attempting to detect signs of grand corruption, or the corrupt activity of a criminal organization operated by the central government, through a database that analyzes over 120,000 public procurement procedures between 2009 and 2015. Employing the tools of economics and political economics, a systemic difference between *state capture* and a *criminal state* can be detected in the periods of both pre- and post-2010. In addition, the use of big data analysis also provides an empirical base for a description and interpretation that satisfies the academic requirements of research and analysis in a way that helps the examination of the phenomenon go beyond the theoretical scope of Weberian model construction.

The drastic increase of **corruption risk** after 2010, though it could be assumed to be the result of a systemic, qualitative change in public procurements, could in theory also be explained simply by the extent of common corruption or state capture, both centrally directed and unorganized.

However, the change in the proportion of **non-advertised invitations to tender** appears to be disproved by individual offenders, which is to say, the theory of a *corruption service provider* that is not centrally directed. CRBC data shows that while less than one-fifth of all invitations to tender were unadvertised in 2009, this had become more than three-fifths by 2015. Such a dramatic increase in the rate of unadvertised tenders would necessitate decisions from the mid-level of the public administration apparatus

Figure 15.1. Corruption risk in public procurements, 2009–2015 (N = 118.843)



*Explanation:* The value of the corruption risk indicator is 0 if there was some type of strong competition during the public procurement process and it was preceded by a notice, and 1 if the public procurement occurred without a notice and without competition. A value of 0.5 was assigned if only one factor—either competition or a notice—was missing.

*Source:* CRCB, “Versenyerősség és korrupciós kockázatok: A magyar közbeszerzések statisztikai elemzése, 2009–2015; Adatok és leíró statisztikák” (February 2016), 36, 47.

at a minimum. At the very least, this can be understood as an evolutionary phase of *state capture*, since the bulk of non-advertised public procurements presume the existence of smoothly-operating channels of corruption.

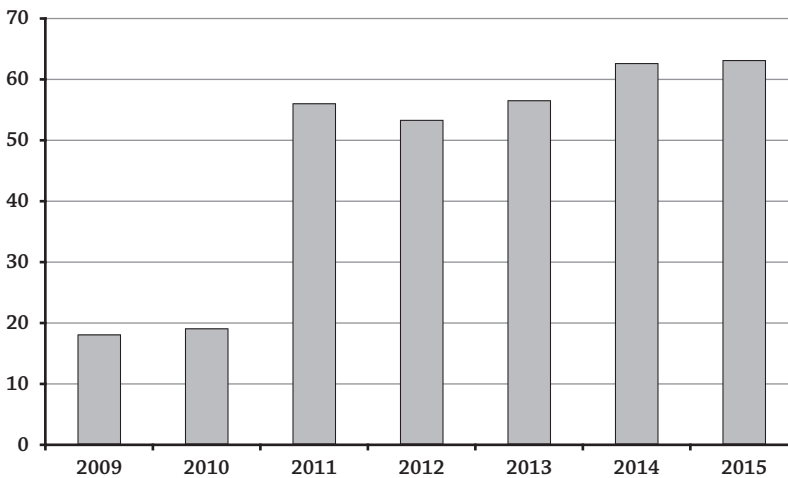
From the economic side, an examination of overpriced public tender bids suggests a difference between the oligarch-directed *state capture* and the mafia state-directed *grand corruption* in relation to advertised and non-advertised public procurements. Indeed, the decision as to whether it should be advertised or non-advertised, or whether open, negotiated, or restricted tenders should be specified for EU or state funds, are decisions made at the government level. If the government finds that certain types of public procurements result in a large number of overpricing and partial deals, then it theoretically possesses all the necessary means to be able to steer tenders towards the direction of an open and advertised application process. Considering that the submission deadlines can be unrealistically

short even for advertised tenders, it can be concluded that some mechanism allows the eventual winners to receive regular information required for the tender submission before its notice is posted. This could even be called **tender shorting**. And this is before a discussion of invitations to tender and technicalities that are tailor-made to an individual or company.<sup>4</sup> The technicalities are in fact nothing more than **tender personalization**, when the technical requirements of the tender outline the specifics of a bid that has already been selected to win. This is not a series of isolated incidents, but a wide-scale practice approved from the top.

However, this phenomenon might still fit into the *state capture* concept, as the collusion of the tender writer and assessor on the one side and the applicant on the other are sufficient. Yet the out-of-control overpricing demonstrated in Figure 15.4, which has raised the rate of overpriced bids by 140–320 percent for the bulk of these cases, cannot be explained through the concept of partial *state capture*.

The prices for public procurement contracts show a much stronger level of distortion in 2015 than at any time prior. This process distorts the bids so far from normal market prices that it cannot be explained simply

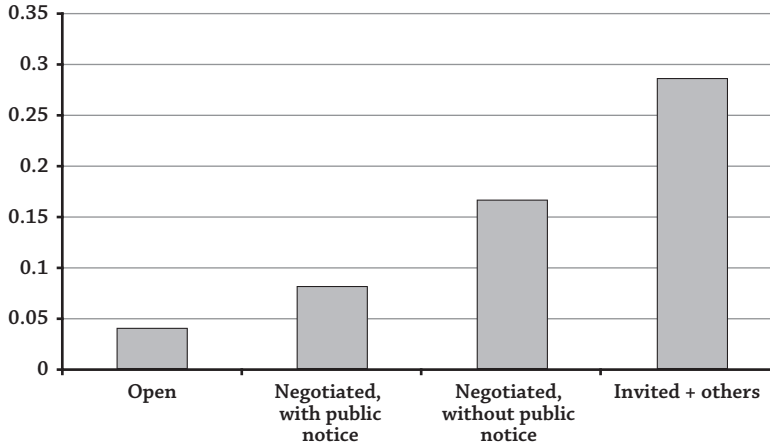
Figure 15.2. Proportion of public procurements without advertised tenders as a percentage of all public procurements, 2009–2015 (N = 121.849)



Source: CRCB, “Versenyerősség és korrupciós kockázatok,” 31; Erdélyi Péter, “Közbeszerzéseként lopják el Magyarországot,” *444.hu*, last modified March 9, 2016, <http://444.hu/2016/03/09/kozbeszerzesenkent-lopjak-el-magyarorszagot>.



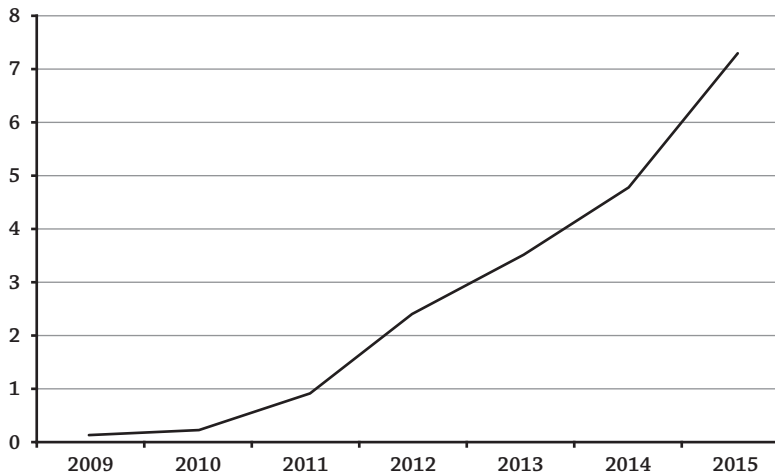
Figure 15.3. Price distortion of Hungarian public procurements for each type, 2009–2015 (N = 124.693)



Note: Cramer's V values appear in the diagram. (Cramér's V is a measure of association between two nominal variables, giving a value between 0 and +1.)

Source: CRCB, "Versenyerősség és korrupciós kockázatok," 56

Figure 15.4. Price distortions for Hungarian public procurements, 2009–2015 (N = 123,224)



Explanation: The mean squared error (MSE) of contract prices of Hungarian Public Procurements from the theoretical (Benford's) distribution by year, first digits, 2009–2015, N = 123,224.

Source: CRCB, "Versenyerősség és korrupciós kockázatok," 53.

by a quantitative improvement or just the extent of corruption. Its scale likewise cannot be explained by an increase in the role of inherently more corrupt product markets within all public tenders. The increase in corruption is thus not the result of a spontaneous process. Therefore, it is worth taking a more detailed look at what this figure tells us.

The process of carrying out various public policy objectives through public tenders can be broken down into the following stages:

1. strategic public policy objectives (defining the problem, creating the program);
2. project planning;
3. invitation to tender;
4. tender assessment;
5. appeal lodged at the public procurement commission;
6. appeal lodged at court;
7. government review institutions that can impose legal consequences (Government Control Office, State Audit Office, Public Prosecutor).

Within the conditions of a democracy, these stages are separated from each other not only in terms of their content but also in regards to the persons representing and executing them. Although the first four stages concern the different layers and areas of the government, in a civilized setting the separation provides transparency, as well as enforcing normative procedures and fair competition within the government and from the review bodies that are independent from it.

- If these bodies operate separately from each other while the public tender is being managed, then the dominant terrain for corrupt transactions is the tender assessment (4th) stage. This is where the client of a corrupt transaction (the applicant) and the provider of a corrupt transaction (the assessor) meet each other. The offer is voluntary, and the value of the service is paid through a kickback. In such a case, it is closer to free market corruption, as the expected tender winner is not a person or company that has been pre-selected from above, and there is some competition regarding the amount of the kickback as well. The kickback or extra income paid by the client is sometimes included in the overpriced bid. Yet the other applicants competing for the tender can underbid the price that has been agreed-upon by the actors in the corrupt transaction, which **sets a scale** for it. The assessor, however, cannot accept a sky-high bid during the corrupt transaction—to each

side's mutual benefit—since the losers, or those disqualified from bidding for any variety of reasons, can appeal the decision and win a ruling from the public procurement commission or in court. That is, assuming that these are independent bodies. Thus the scale of overpricing is regulated and kept in check in a market-based way by limits that are created as a result of such appeals against arbitrary deals.

- **Overpricing can increase** if the collusion, for example, is not only between the applicant and the assessor, but also with the tender writer, and by manipulating the deadline and technicalities, as previously mentioned. This is a case of partial state capture that can hinder the operation of the independent review bodies, since the very way the tenders are written can “legally eliminate” a significant portion of the competitors. But this form of corruption, although it may facilitate tenders in which a desired bidder will win the tender, cannot result in a significant increase in overpricing, as the review bodies may still reinstate applicants who have been illegitimately pushed out back into the competition.
- **Out-of-control overpricing**, however, can only occur under certain conditions. A centralized guiding hand and resolve monitors and coordinates the stages of tailoring the project planning, invitation to tender, and assessment to a specific person/company. It also ensures that those eliminated from the tender are unable to win an appeal, while also guaranteeing that the inspection and law enforcement agencies are unable to levy sanctions on the writers and assessors of the tender because of their biased decisions. This also means that the managing and supervising public authorities go beyond actively coordinating the activity of the actors in public administration referred to in the stages 1–7 above in a way that guarantees the private use of the funds gained through the tenders. They simultaneously also eliminate the free market type of corruption: after all, it is not the assessor, but the review and managing agencies in their totality that award the winner of the tender. The assessor is no longer bought off, but rewarded by being able to retain his or her status.

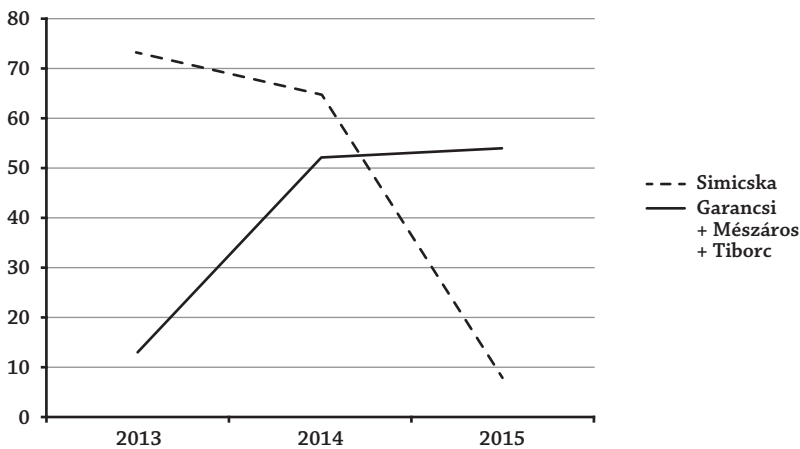
What facilitates out-of-control overpricing is either that the activity itself is difficult to standardize (e.g., for IT procurement), or, in case the commission is more prone to standardization (e.g., the construction industry), though the post-tender increase of funds, due to “unforeseen problems”

or “additional tasks.” (Naturally, in this system of centrally-directed collusion, selected winners are not disqualified from later tenders when they are unable, even by chance, to estimate correctly in advance the extent of work to be done.)

This type and size of rent-seeking is only possible with a centrally-controlled, state-run criminal organization, namely the operation of a mafia state. Thus the **scale of overpricing** can serve as an **indicator of the functioning of the mafia state**, one that helps through quantitative methods to distinguish this regime from other, more ordinary, corrupted regimes. For the former, it is an essential element that defines the system, while for the latter it is only an unpleasant side effect.

The operation of a state-run criminal organization is also exemplified by the “mafia war” between Viktor Orbán and Lajos Simicska, the head oligarch who used to be part of the inner circle of the adopted political family. With a two-thirds Parliamentary majority won again in 2014 for Orbán-led Fidesz, chief patron Viktor Orbán decided to terminate Simicska’s monopolistic role in economic affairs within the adopted political family. Although the refashioning of the network of oligarchs connected to the chief patron began in 2014, the conflict broke into public view in February 2015. It caused a dramatic roll-back of companies linked to Simicska, the

Figure 15.5. Number of public tenders awarded to Lajos Simicska (S), and to István Garancsi, Lőrinc Mészáros and István Tiborcz (G+M+T) combined, 2013–2015



Based on data provided in CRCB, “Versenyerősség és korrupciós kockázatok,” 75.

main winner of public tenders up to that point. Their replacements were primarily front men and non-autonomous oligarchs: István Garancsi is a friend of Prime Minister Orbán and the “appointed” owner of his favorite soccer team; Lőrinc Mészáros, a gas fitter from the prime minister’s hometown who has become an omnivorous “entrepreneur”; and István Tiborcz, Orbán’s son-in-law. Their surge into greater power could only have been more spectacular if the alternative media portfolio that has replaced Lajos Simicska’s media empire also belonged to them and not to other newfound front men/oligarchs of the prime minister.

These indicators speak to how **free market corruption risk** is replaced by the **certainty of a state-run criminal organization** managed from above.

### **The perception of corruption and the problems with international comparative indicators**

Various international comparative indices that measure of corruption worldwide show a similar difference between regions in terms of the contamination of corruption. Historical traditions and contemporary practices visibly overlap each other. The vast majority of such surveys are based on the experiences of businesses competing on the market, as it would be very difficult to make a consistent comparison of detectable corrupt practices in all countries through any other dimension. Yet while data obtained this way provides a suggestive picture of the degree of corruption, they do not offer a reliable picture regarding the prevalence of the various types of corruption, particularly that which is characteristic to a mafia state.

These data sets still offer partial insight into the extent of corrupt transactions that are initiated by economic actors, possibly under coercion, and whether these grow into the partial state capture stage on a systemic basis. But they do not provide a picture of the situation when the initiator of a corrupt transaction is neither the company, nor low or mid-level actors in public authorities with the potential to extort, but the criminal state itself. In a mafia state dominated by such a single-pyramid patronal network, it is politically-controlled enterprises, rather than the oligarchs, who hold the state captive, and then collect tax and protection money from economic actors and the public authority that they have designated. This situation may persist for countries such as Hungary, which are placed in

*Table 15.1. The World Bank control of corruption (the ability of a state to curtail corruption) percentile ranking (Country rank among all countries of the world: 0=lowest; 100=highest)*

Post-Communist Countries		1996	2004	2009	2014
EU-member Post-Communist Countries (not formerly part of the Soviet Union)	Croatia	24	61	57	62
	Czech Republic	77	69	67	65
	Hungary	74	76	68	61
	Poland	73	59	70	71
	Slovakia	66	69	65	60
	Slovenia	87	83	81	75
	Bulgaria	26	58	51	49
	Romania	49	49	51	53
EU-member Post-Communist Countries (former Soviet Republics)	Estonia	58	81	78	88
	Latvia	24	60	62	66
	Lithuania	58	65	61	69
Non EU-member Post-Communist Countries (not formerly part of the SU)	Albania	12	27	38	36
	Bosnia and Herzegovina	42	47	44	49
	Macedonia, FYR	17	38	57	59
	Montenegro		33	55	57
	Serbia	15	40	48	52
Former Soviet Republics in Europe	Belarus	20	17	29	48
	Moldova	51	15	28	21
	Russia	16	25	11	20
	Ukraine	13	18	16	15
Former Soviet Republics in the Caucasus	Armenia	36	29	33	40
	Azerbaijan	6	11	10	18
	Georgia	5	29	52	75

Post-Communist Countries		1996	2004	2009	2014
Former Soviet Republics in Central Asia	Kazakhstan	9	11	21	26
	Kyrgyzstan	36	13	6	12
	Tajikistan	5	10	10	14
	Turkmenistan	36	5	2	9
	Uzbekistan	12	12	7	11

Source: <http://info.worldbank.org/governance/wgi/index.aspx#reports>

the mid-range in terms of their corruption indicators, as well as for countries such as Russia or the post-communist nations of Central Asia, who are placed at the bottom of such indicators.

Along with the end of the shortage economy in Hungary following the change of regime in 1989, common corruption typical of the “third economy” became less prominent and also decreased in matters of public administration. The terrain for corruption was mostly concentrated in areas regarding decisions on privatization, state procurement and the disbursement of EU funds. It was here that centralizing the decentralized system of corrupt transactions and expropriation through a politically-controlled enterprise witnessed a significant change after 2010. It is no longer the economic actors who bid against each other in corrupt transactions, but the new political elite, the adopted political family, that designates in advance on different levels those who are positioned to win government and EU tenders. The lower level of the apparatus is paid with a position and not with a “corrupt concession right.”

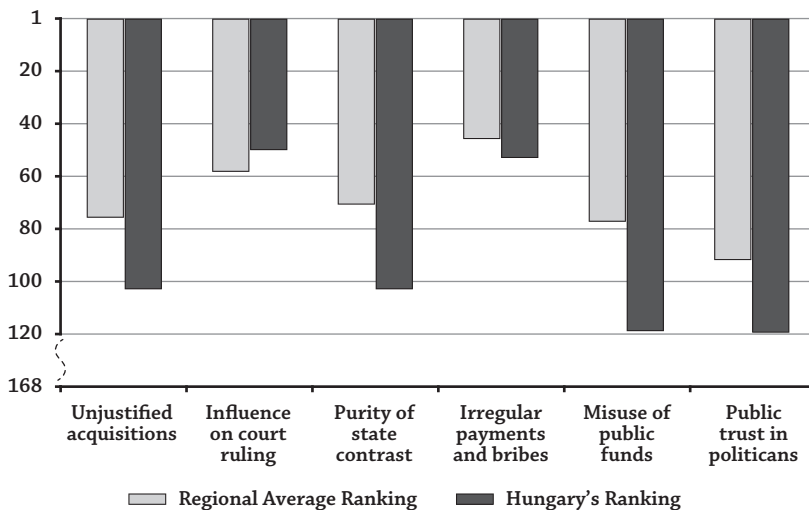
In Russia, in contrast, the private market sector continues to be heavily dominated by means that allow the state to intervene and guide, providing the possibility for it to collect restrictive, corrupt financial benefits. The centralized power structure there distributes regional powers for the collection of corrupt funds to its own clients, where the actors in temporary positions of public authority have an interest in maintaining and maximizing the channels of corruption. In Russia, such position offers access not to property but sources of revenue, a portion of which then flows back to the center through various channels. The chief patron situated at the top of the single-pyramid patronal network, however, takes complete

sectors out of the system of regional redistribution and places them under the control of subpatrons that belong to his inner circles.

In the post-Soviet mafia states of Central Asia, the system of outsourcing corrupt channels is even more common. A hybridization of this system with the favor network of traditional clan and family structures adds a further flavor to this version of state-managed corruption.

Although questions in the latest Transparency International survey on business in Hungary follow the paradigm of common corruption and partial state capture, the data nevertheless indirectly suggests systemic corruption that is centrally organized by the state.

Figure 15.6. Ranking according to selected institutional competitiveness indicators in a world ranking of 168 countries (2015)



\*Region: Poland, Czech Republic, Slovakia, Slovenia, Estonia, Latvia, Lithuania, Hungary

*Explanation:* Transparency International's Berlin headquarters (Secretariat) generates the Corruption Perception Index (CPI) from 12 evaluation and assessment reports by 11 organizations. It measures public sector corruption in each country based on its contamination in public institutions, the economy, and society through interviews with experts and business people. In 2015, relevant data was made available for 168 countries, and Hungary was examined on the basis of nine different sub-indices. Source: Transparency International Hungary



In their analysis, it is not by accident that the concept **party state capture**, referring to a politically centralized and monopolized system of corruption, appears instead of **partial state capture**. Just as the classic mafia does not tolerate competition in its sphere of interest, the mafia state likewise wants to eliminate the free market actors in a corrupt competition. This can cause everyday petty corruption to recede and a number of measures to appear. Such is the case with cash registers now connected online to the Hungarian tax authorities, which is intended to supplant channels of corruption that operate without central authorization. The term party state capture, while an important step forward in understanding the operation of this criminal state, still perpetuates a common misunderstanding. Namely, it suggests that the acting subject was a political party formally in possession of power and not the informal power network, which can be defined according to its sociological nature as the adopted political family that dominates the mafia state.

The diagram above rather shows that the extent of petty corruption as typified by “irregular payments and bribes” conforms to the regional average, and the “influence on court rulings” score is even below that. However, interestingly, the perception of a state of affairs describing centralized and largely quasi-legalized corruption, such as “unjustified acquisitions,” the “purity of state contracts,” or “misuse of public funds,” indicates that Hungary far surpasses the regional average.

## Public perception of system-wide corruption in Hungary

The real question is how well the citizens of a country are able to perceive the difference between various evolutionary levels of corruption. This question is all the more valid given that the more a functioning autocratic regime takes advantage of centrally-organized corruption in the context of a single-pyramid patronal network, the less opportunity there is to conduct public opinion polling directly on this issue in that country. For such reasons, a nationwide representative surveys in Hungary by the **Medián Public Opinion Research Institute** in June 2016 and December 2017 are particularly valuable.<sup>5</sup>

The survey in question breaks with the paradigm of simply polling public opinion on corruption in general, its extensiveness, or even its development over time. Naturally, the standard question regarding the extent to which the public views corruption as a serious social problem also had to be

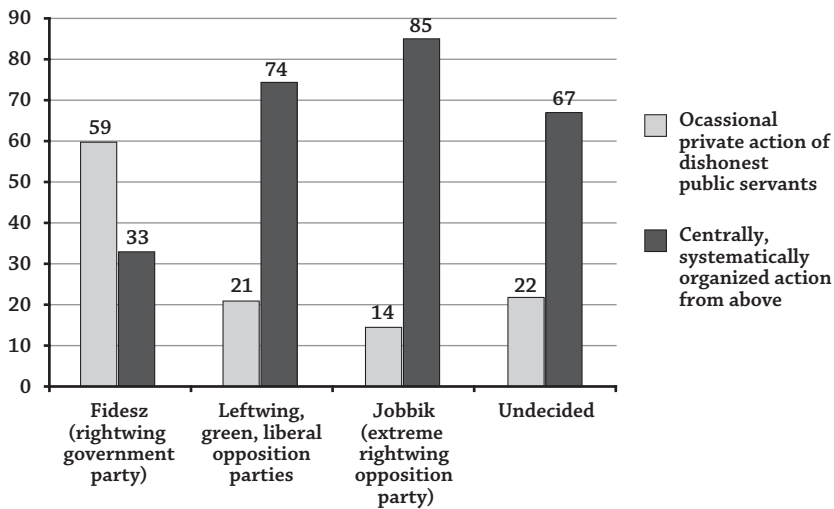
measured. As the data clearly shows, after the abysmal state of health care, the public considers corruption to be as worrisome a problem as the economic situation, unemployment, or the refugee issue, which is the current focus of an anti-foreigner campaign by the government. It is revealing, but still within the framework of a quantitative description, that two-thirds of the respondents considered government-related financial abuses as typical of the system to either a large or a very large extent. What is more surprising is that even 25 percent of pro-government voters believe that financial abuses are characteristic of the current Fidesz government to a large extent, while 12 percent of them believe this to a very large extent.

This by itself, however, still does not inform us as to how the public assesses the relationship of the government itself to corruption. But the perception of politically-selective law enforcement is indicated by the fact that while only 17 percent of the respondents assert that the government “consistently takes action against corruption in all forms,” a further 56 percent are of the belief that it “only takes action against corruption that it is not party to.” In addition, 23 percent of those believe that “the government does not fight corruption at all.” Even 11 percent of voters who support the ruling party think that the government does not do anything at all to stop corruption, and 47 percent of this group, detecting the government’s partiality, believe that it only takes action against corruption that it is not party to.

The high proportion of responses suggesting politically-selective law enforcement poses the question as to whether the current nature of corruption in Hungary can fundamentally be classified as *petty corruption* or *grand corruption*. 60 percent of respondents stated that corruption is “more of a top-down, centralized, and systematically-organized activity,” while only 31 percent view it as “more ad hoc private actions by dishonest public officials.” Even 38 percent of Fidesz supporters view corruption in Hungary as a top-down, centrally-organized activity.

The question legitimately arises here as to whether or not the radical opinion of these respondents is reflected in the description of corrupt transactions or in its description in the linguistic categories that are used. The survey also allowed respondents to choose two categories from among a list of descriptive labels. It is understandable that the most general expression, **corruption**, was chosen for the first or second place in 56 percent of all cases, but its specific form of **bribery**, which could be described as a bottom-up corrupt transaction, was only picked by 15 percent of the respondents.

Figure 15.7. Is “petty corruption” or “grand corruption” more dominant in Hungary? (percentage of respondents, broken down by party affiliation)

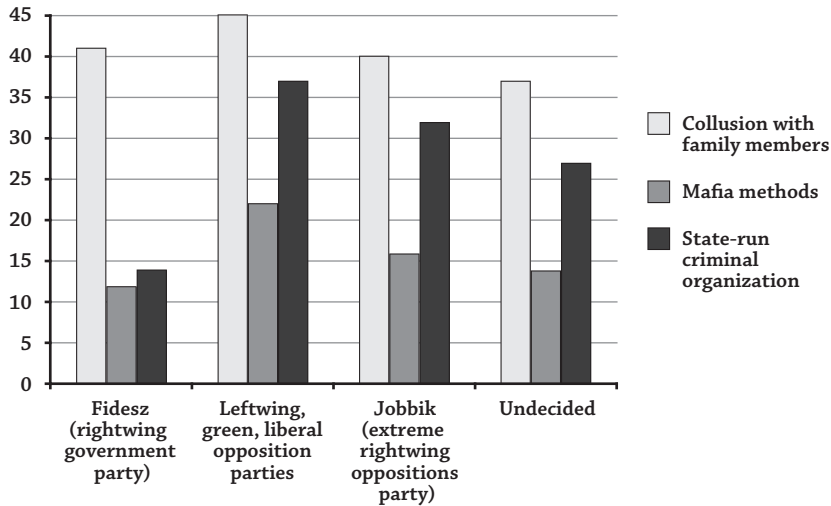


Source: Medián Public Opinion and Market Research Institute, December 2017

This was also the case with **theft**, a relatively neutral and technical term, that was also only chosen by 17 percent. And only 25 percent chose “**mutyi**,” a common designation used in the Hungarian media to describe occasional small-scale corrupt transactions that do not presuppose a patron-client system. 41 percent of the respondents now talk of **collusion with family members**, while a total of 42 percent of respondents considered the phrases **state-run criminal organization** and **mafia methods** as adequate categories for characterizing corruption in Hungary.

Among the categories that characterize the government’s financial abuses, it is worth highlighting those that originate from the top and are more related to grand corruption, such as the state-run criminal organization, mafia methods, and collusion with family members. For the latter case, news reports on the enrichment of the political elite are critical to creating awareness within the general public. The appearance of collusion with family members, clan identification, and dynastic elements is a part of a process that occurs when policy-making is removed from the world of formal institutions (the party, government, Parliament), and is moved to the informal world of the adopted political family, ruled by the chief patron.

Figure 15.8. Proportion of those who chose categories related to grand corruption to describe corruption (percentage of respondents, broken down by party affiliation)



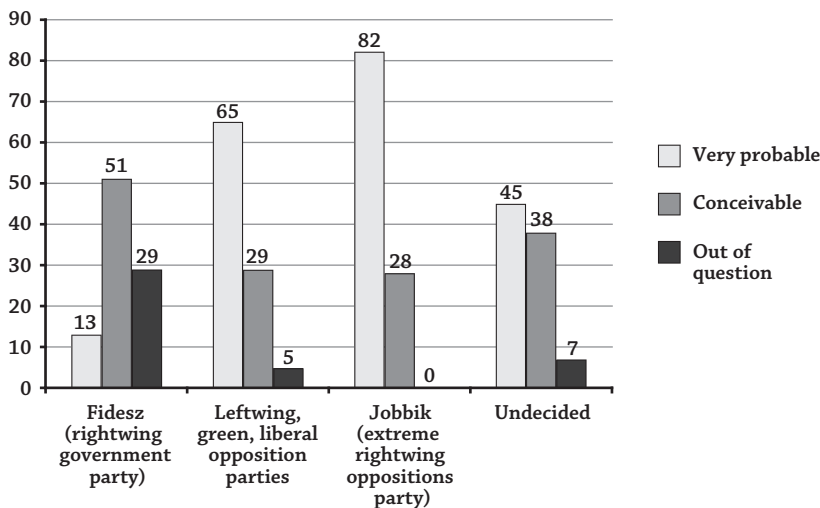
Source: Medián Public Opinion and Market Research Institute, June 2016

If we mention collusion with family members, then the question is how the public judges the financial situation of the chief patron, Prime Minister Viktor Orbán. Although Orbán declared in response to an opposition parliamentary member in April 2016 that “I have been a Member of Parliament since 1990, have never been a wealthy man, am not now, and will never be one,”<sup>6</sup> the citizens of Hungary believe differently: only 4 percent of them think that Viktor Orbán belongs to the middle class in terms of his financial situation, while 45 percent classify him as wealthy and 49 percent put him right among the wealthiest people in Hungary. Even 27 percent of Fidesz supporters also think that the prime minister—in contrast to his own assertion—is one of the wealthiest people in the country.

At the same time, if there is no trace of it in either Orbán’s official career history or his declaration of assets as a politician, the question of where they think this wealth has come from cannot be avoided. Now we arrive at one of the key categories of the operation of the state-run criminal organization and mafia state: the front men, the function of which is to bridge the gap between one’s legal and one’s actual financial situation.

During the same parliamentary session in which he denied being a wealthy man, Orbán responded to the question of whether Lőrinc Mészáros was his front man by saying, “I have never had and will never have any type of front man.”<sup>7</sup> But the survey respondents viewed this differently. The statement “accusations repeatedly heard nowadays and even in Parliament, that certain businessmen who have achieved outstanding success, such as István Garancsi, Lőrinc Mészáros and Andy Vajna,<sup>8</sup> are front men for Viktor Orbán, i.e. a substantial portion of their huge business profits is actually passed on to the Prime Minister,” was thought of as conceivable by 47 percent of respondents, and very probable by 31 percent of them. Only 15 percent of respondents ruled out this possibility. But what is truly surprising is that 10 percent of the Fidesz faithful feel that it is very probable, and 51 percent of them think it is conceivable, that the prime minister is enriching himself from money relayed through his front men. After all, it is not possible to justify only through his official salary how he is widely perceived to be one of the wealthiest persons in the country.

Figure 15.9. To what extent do voters in each party consider it likely that the Prime Minister is enriching himself through front men? (percentage)



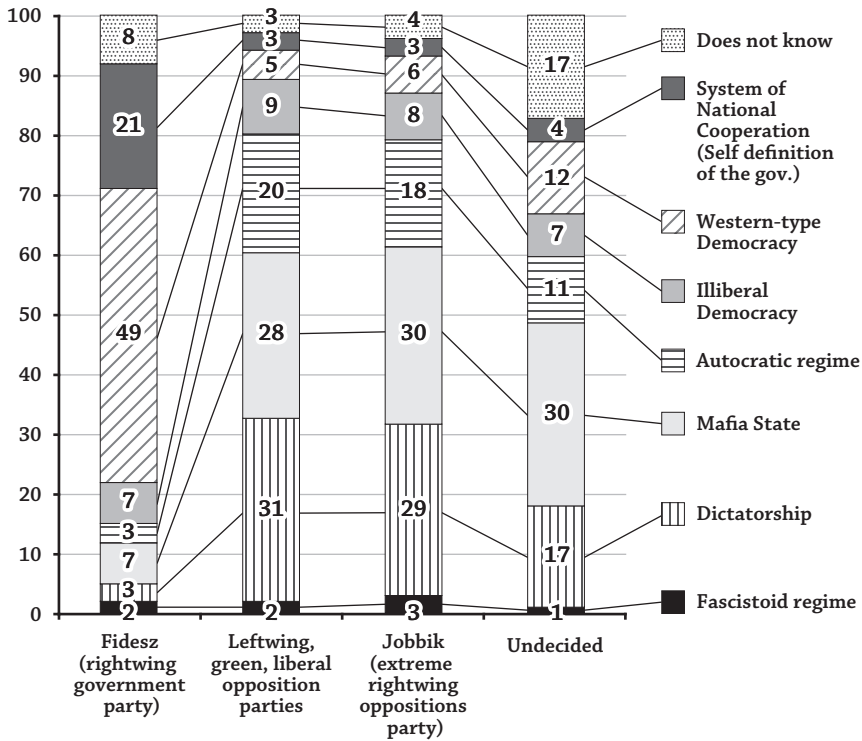
The question asked: “In your opinion, is it likely that István Garancsi, Lőrinc Mészáros or Andy Vajna are the front men or stooges of Viktor Orbán, and significant part of their huge business profit is channeled to the prime minister?”

Source: Medián Public Opinion and Market Research Institute, December 2017.

The public opinion poll also explored how much of an effect the perception of the nature of corruption had on judging the political system as a whole. To assess this, of course, key changes made by **Fidesz, which achieved in 2010 a constitutional parliamentary majority through a disproportionate electoral system** must be taken into account. As a sole political actor following the elections, the party rewrote the constitution, made members of the adopted political family leaders in public authority institutions that are designed to maintain checks and balances, restricted the privately-owned media, appropriated the state-run media for itself, eliminated individual and institutional autonomy, and forced a significant portion of the citizenry into patron-client relationships. In a tripartite political space, where Fidesz' right-wing opposition is the far-right Jobbik party and its left-wing opposition is made up of largely discredited left-wing and miniscule green parties, Fidesz has been able to maintain its position as the largest, centrist party. In this regard, responses to the question of what term best describes the current Hungarian political system are particularly noteworthy. Fidesz' official self-designation, the **System of National Cooperation**, was chosen by 9 percent of respondents, with the term **civic democracy** selected by 18 percent. Proceeding from these towards more negative and critical designations, mentioned first could be **illiberal democracy**, a phrase chosen by 8 percent of respondents that simultaneously carries meanings both vindicating and criticizing the regime in Hungary. After all, the prime minister himself declared in the summer of 2015 that "the new state we are building in Hungary is an illiberal state, not a liberal one. It does not renounce fundamental values of liberalism like freedom, . . . but it does not make this ideology a central part of organizing the state, and applies its own divergent, national approach."<sup>9</sup> However, the critical liberal and left-wing intelligentsia uses it in a critical sense connected to the expression's Western interpretation. Among designations critical of the regime that are more comprehensible to the wider public, 17 percent of respondents chose **autocratic regime**, while 15 picked **mafia state**, and 20 percent **dictatorship**. Some of the left-wing and liberal intelligentsia, totaling only 3 percent of all respondents, showed a preference for the definition **fascistoid regime**, referring to the system's supposedly ideology-driven nature.

In the diagram above, it is striking that—if we discount those who were unable or unwilling to provide an answer—there is a similarly-structured distribution in the categories used to judge the regime by both the

Figure 15.10: Characterization of the present Hungarian political system by voters in each party (percentage)



Source: Medián Public Opinion and Market Research Institute, December 2017

left and right-wing opposition to the central space dominated by Fidesz, and also by those with no party preference. Among the three categories most critical of the regime, the strong showing of the mafia state designation in addition to dictatorship and autocratic regime indicates that a significant share of society considers the state-run criminal organization and mafia state elements of grand corruption as integral factors in the system, rather than merely an unpleasant accompaniment to it. The terms dictatorship and autocratic regime directly refer, of course, to the restrictions on civil rights and to the elimination of societal autonomy and separate branches of power.

It is also not irrelevant that close to one-fourth of Fidesz voters characterized their own party's rule with categories that were the most radically

critical of the regime. In the absence of an alternative, moderate center-right political force, they either got jammed in amongst Fidesz supporters or expanded the mass of those who were undecided. For them, choosing the far-right Jobbik is obviously not an option, but they have no path towards the left-wing opposition either, as their reservations against the features of the mafia state obviously do not result in the shedding of their moderate, right-wing conservative identity.

Regime criticism through the “fascist” approach, which is given relatively large weight by the government-critical intelligentsia and media, does not gain traction among those who are undecided, but neither with supporters of the left-wing parties. The government’s policies of employing ideological panels that are racist, anti-Semitic, xenophobic and homophobic with a pragmatic expediency to increase its voter base are not ideologically driven. This “fascism,” which stems from an ideology-driven, regime-critical paradigm, is a position that is unfollowable for the general public, and it puts representatives of such views into an ideological and political quarantine. While the general public considers them the “real” representatives of the left wing, it also, among other reasons, is a way of limiting the left-wing political parties from expanding.

A separate point of interest in the survey is that when broken down according to gender, age, level of education, and level of income, it does not show any significant difference when compared to the indicators taken together. It is only when broken down according to type of settlement is

*Table 15.2. Support for particular corruption-related statements according to type of settlement (in percentage)*

Proportion of those who believe:	Budapest	City/Town	Village
corruption in Hungary is more of an activity that is top-down, centralized, and systematically organized	50%	60%	55%
the present political system in Hungary can be characterized as a mafia state	11%	24%	19%

*Source:* Medián Public Opinion and Research Center Institute, December 2017



it clear that a significantly higher proportion of the population in provincial cities, compared to the population both in Budapest and in rural areas, shares the interpretation of corruption as a centrally-controlled mafia state. This may also be due to the fact that Hungarian cities range between 10,000 and 200,000 inhabitants. On the one hand, this is sufficiently large enough for centralized and state-monopolized corruption to manifest itself in specific localities in manifold ways. On the other hand, a settlement of this size is small enough for everyday instances of personal interconnectiveness and family networks to remain in plain sight, without a level of remoteness or impersonality that would cloud perception. This is despite the fact that provincial cities in Hungary have a much narrower choice of government-critical media compared to Budapest.

Overall, it can be stated that the view of the current Hungarian political system as a functioning criminal organization, a view held by a broad swath of the Hungarian public, might be more insightful than that held by the majority of its academic community, political analysts, or even its opposition parties.

## NOTES

- <sup>1</sup> “Corruption as a governance regime: a barrier to institutional efficiency and progress; Motion for a resolution,” tabled by Ms. Chiora Taktakishvili and other members of the Assembly, Doc. 13551, June 25, 2014.
- <sup>2</sup> Bálint Magyar, *Post-Communist Mafia State: The Case of Hungary* (Budapest: CEU Press-Noran Libro, 2016).
- <sup>3</sup> Corruption Research Center Budapest, “Competitive Intensity and Corruption Risks: Statistical Analysis of Hungarian Public Procurement, 2009–2015; Data and Descriptive Statistics,” March 3, 2016 / May 18, 2016, <http://www.crcb.eu/?p=943>. Following figures and data is from the Hungarian-language version of the report, “Versenyerősség és korrupciós kockázatok: A magyar közbeszerzések statisztikai elemzése, 2009–2015; Adatok és leíró statisztikák” (February 2016), [http://www.crcb.eu/wp-content/uploads/2016/03/hpp\\_2016\\_crcb\\_report\\_2016\\_hu\\_160303\\_.pdf](http://www.crcb.eu/wp-content/uploads/2016/03/hpp_2016_crcb_report_2016_hu_160303_.pdf).
- <sup>4</sup> Dávid Jancsics and István Jávör, “The Corrupted Industry and the ‘Wagon-Wheel Effect’: A Cross-Country Exploration of the Effect of Government Corruption on Public Service Effectiveness,” *Administration & Society* 48, no. 5 (2016): 559–79.
- <sup>5</sup> Endre Hann, Medián Public Opinion Research Institute, Budapest, June 2016 and December 2017.
- <sup>6</sup> “Orbán egyszerű választ adott: Nincs strómanom,” *HírTV*, April 11, 2016, <http://hirtv.hu/ahirtvhirei/orban-egyszeru-valaszt-adott-nincs-stromanom-1337079>.

<sup>7</sup> Ibid.

<sup>8</sup> István Garancsi is a newfound favorite oligarch of Viktor Orbán, and gas fitter Lőrinc Mészáros is his industrialist village neighbor. Figure 15.5 shows the public tenders that have been won by the two of them plus the prime minister's son-in-law. Andy Vajna is the beneficiary of a monopoly on the casino industry that came about through parliamentary legislation and government policy. All three of them have been listed as among the richest Hungarians in recent years.

<sup>9</sup> Viktor Orbán, "A munkaalapú állam korszaka következik: Orbán Viktor beszéde a XXV. Bálványosi Nyári Szabadegyetem és Diáktáborban 2014. július 26. Tusnádfürdő (Băile Tușnad)," <http://www.kormany.hu/hu/a-miniszterelnok/beszedek-publikaciok-interjuk/a-munkaalapu-allam-korszaka-kovetkezik>, last modified on July 28, 2014. For the English version of the speech (in a slightly different translation), see "Prime Minister Viktor Orbán's Speech at the 25th Bálványos Summer Free University and Student Camp," <http://www.kormany.hu/en/the-prime-minister/the-prime-minister-s-speeches/prime-minister-viktor-orban-s-speech-at-the-25th-balvanyos-summer-free-university-and-student-camp>, last modified on July 30, 2014.