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# Post-communist predation: modeling *reiderstvo* practices in contemporary predatory states

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## Abstract

While the economics of predatory states has been at the center of an emerging discussion, a rich body of literature on predation already exists in the scholarship on post-communist regimes. This paper offers a glimpse into that literature, developing (1) a typology of coercive corporate raiding ("reiderstvo") and (2) a model for understanding the logic of contemporary predatory states. The typology starts from the original form of reiderstvo, carried out by criminal groups ("black raiding"), and introduces the concepts of "grey" and "white raiding". We identify "centrally led corporate raiding" as a form of state predation not considered in public choice models, despite the fact that it exemplifies the functioning of contemporary authoritarian regimes. Expanding the models of Leeson (J Inst Theor Econ (JITE) 163:467–482, 2007) and Vahabi (Public Choice 168:153–175, 2016), we show how centrally led corporate raiding can be incorporated into the discussion of predatory states. We provide illustrations by offering two examples from the predatory state of contemporary Hungary, the case of an outdoor advertising company (ESMA) and the case of the banking sector.

**Keywords** Coercive appropriation · Predatory state · Corporate raiding · Reiderstvo · Post-communism · Hungary

**JEL Classification** H1 · P16 · P26

## 1 Introduction

Following North's (1981) formulation of the "predatory theory of state", Vahabi (2016) contests conventional economic theory and argues that the notion of public goods cannot be used to explain state space, that is, the actual list of state activities and assets. In his view, states in their developmental phase typically exhibit a "predatory" nature (cf. Vahabi 2015) and take on not what activities they *should* but what they *can*, considering various

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aspects of asset mobility and appropriability. The extent of state space in that model is a cost–benefit analysis of potential appropriation for early states. According to Vahabi, assets with high "booty value" are likely to be appropriated during the development of state space, whereas other assets may have escaped appropriation by various methods of exit (e.g., leaving the state's territory, hiding assets vulnerable to plundering).

While other scholars had previously considered the state in a framework of predation (Buchanan 1975; Tilly 1985; Lewis 1996; Olson 2000) and public choice scholars had modeled simple predatory states as well (Leeson 2007; Moselle and Polak 2001), Vahabi's article spurred new discussion of the political economy of state development and functioning. In a special issue of *Public Choice*, purely theoretical examinations (McGuire 2019; Crettez 2019) are accompanied by those that draw insights from empirical cases to further elaborate the theory of state predation. They include the case of Afghanistan (Murtazashvili and Murtazashvili 2019), early England (Leeson et al. 2019; Svendsen 2019), modern France (Vahabi et al. 2019), the Ottoman Empire (Arslantaş et al. 2019) and the United States (Benson 2019; Holcombe 2019). Boettke and Candela (2019) analyze Italy and the formation of the post-Soviet Russian state and show that the state is most likely to degenerate into a means of predation when constraints limiting political discretion are not in place. That analysis implies that autocracies are likely to exhibit predatory natures and that they should make fine empirical cases for studying the validity of theories concerning the political economy of predation.

One region that is home to numerous autocracies and also "active predatory states" (Leeson et al. 2019) is the post-communist one. Among those scholars who have contributed to the discussion since Vahabi's original article, only Boettke and Candela touched upon that region, and even they focused only on the process of transition, not the autocracies established later. That omission strikes us as a gap in the discussion because, if we look into post-communist scholarship, we can find a rich literature on predation and predatory "neopatrimonial" states (Ryabov 2019; Viktorov 2019; Fisun 2019; Lanskoy and Myles-Primakoff 2018; Yakovlev et al. 2014; Guliyev 2011). In such polities, political and economic actors routinely engage in forcible appropriation of privately owned productive assets. The prevalence of such actions means, on the one hand, that the region is a treasure trove of cases for enriching our understanding of the general economics of predation and particular predatory practices. On the other hand, Vahabi's analysis of asset appropriability and exit options, as well as the various contributions to the economic theory of the predatory state, offers insights into the analysis of post-communist predatory practices. Yet the post-communist literature and the dynamically emerging discussion since Vahabi's article have largely been detached.

In this paper, we intend to exploit the synergies between the two branches of literature, contributing to both the theory of the predatory state and the theory of post-communism. In Sect. 2, we offer a typology of "reiderstvo", which is a Russian word for the violent, post-communist variant of corporate raiding (asset takeover). Our typology involves not only a description of the practices used by post-communist predators, but also an explanation of the political-economic environment in which they operate, both in abstract and historical terms. Section 3 uses insights from cases of reiderstvo to expand public choice theories about the predatory state. While new forms of authoritarianism have emerged in recent decades, public choice scholars—despite recognizing the exceptional predatory propensities of non-democratic regimes—have yet to incorporate the new forms of state predation associated with such regimes. We attempt to fill this gap by considering centrally led corporate raiding as a form of state predation and contrasting its specificities with existing approaches in the public choice literature.

Section 4 offers illustrations for our model of centrally led corporate raiding by considering the case of an outdoor advertising company and the case of the banking sector in Hungary. Indeed, numerous states in the post-communist region engage in reiderstvo, most prominently Vladimir Putin's Russia (Viktorov 2019; Sakwa 2008, 2012). The reason we use Hungary for illustration is that it is the only one of the aforementioned states that is also a member of the European Union.[1] EU membership constrains Hungary externally (Bozóki and Hegedűs 2018), and the state has to use less obvious, more sophisticated methods of reiderstvo than Russia or countries in former Soviet Central Asia (Magyar 2016, 2017). The complexity of the Hungarian cases allows us to illustrate a large number of our model's components, as well as the various possible means and aspects of centrally led corporate raiding.

## 2 Reiderstvo: illegal predation of productive assets for private gain

After the collapse of the Soviet Union, newly liberated countries have varied in terms of "stateness", that is, the capacity of the state to exercise a monopoly on the legitimate use of violence to extract, manage and redistribute resources within the borders of its territory (Weber 1991; Fishman 1990). In the former Western satellite states of the Soviet Union, the formal-rational approach that appeared in the reformed communist regimes did not contradict in major ways the ethos of Weberian professional bureaucracy (Hale 2015, p. 59; Bokros 2013, pp. 31–55; Eyal et al. 1998, pp. 29–32). Therefore, such states could carry out a transition that never pushed them to the verge of failure. In Soviet Central Asia, the dismantling of stateness could be prevented only when old communist structures themselves turned directly into "reformed" national centers of power (Luong 2002, 2004). While countries like Tajikistan did not have such continuity and faced civil war after the change, a monopoly of legitimate use of violence was maintained in other countries in the area by elite continuity. In other post-Soviet countries, however, the situation was shakier when neither a complete transfer of previous power nor rational-bureaucratic foundations were present. In places like Russia, a kind of *oligarchic anarchy* came into being, which envisaged the imminent threat of state failure in the face of different kinds of violent groups (Volkov 2002; Viktorov 2019).

It was during the period of oligarchic anarchy when the phenomenon of *reiderstvo* first appeared (Markus 2015). "Reiderstvo" is a Russian word, derived from the English "raiding". However, it would be misleading to try to apply terms such as "corporate raiding" or "hostile takeover" here in their Western meanings. While a hostile takeover in liberal democracies is often considered immoral, the phrase refers to actions that usually are legal, just opposed actively by the target firm's incumbent management or board of directors (Schneper and Guillén 2004). Hostile takeovers in the West rarely are characterized by the illegal use of public authority, and physical violence is even rarer. In contrast, reiderstvo can be defined as a type of predation that (1) targets productive assets, mainly firms, companies and enterprises, and (2) always involves illegal practices and the use of violence *for*

[1] Other post-communist member states of the EU are democracies and—as we will argue in the paper—centrally led reiderstvo requires an autocratic level of power concentration. That condition is present in Hungary (see Sect. 3), but not in countries like the Czech Republic, where predatory degeneration can be associated with state capture by competing private groups instead of an uncontested predatory head of the executive branch with de facto patrimonial control over the instruments of state coercion. See Klíma (2019).

*private gain*. That is, the primary beneficiary of reiderstvo is always the person who initiated it or people with strong ties to that person, such as family members or patron–client networks (Hale 2015; Stefes 2006). Even when reiderstvo is carried out by public means and involves nationalization or "taking into public use" (Epstein 1985), either it is temporary, or the company's profit and control rights will be directly under the discretion of the initiator of reiderstvo.

A typology of reiderstvo is summarized in Table 1, indicating the actors involved as well as the political-economic environment in which various types are prevalent. When stateness is low, that is, in the case of a failed or weak state, the typical form of reiderstvo is *black raiding*. Black raiding is a type of reiderstvo that is carried out by the direct threat or use of physical violence (e.g., physical abuse, or extortion at gunpoint). In an oligarchic anarchy, the state is unable to protect property rights and therefore to hold onto a monopoly of legitimate use of violence, as entrepreneurs enter the market for protection (Varese 2001). Yet the enforcement partnerships formed with these actors do not necessarily limit themselves to protection, but can also involve other violent actions such as attack. In contrast to Vahabi's predatory state wherein predation is initiated by public actors, black raiding is typically initiated by private actors, namely (a) the organized underworld (criminal groups) or (b) rival entrepreneurs or oligarchs who hire so-called violent entrepreneurs to take over someone else's company (Volkov 2002).

The next type of reiderstvo is when predators rely on corrupted or captured state authorities (Hellman et al. 2003; Wedel 2003). Firestone (2009) deals with that phenomenon when he talks about "corporate raiding" in the post-communist region. He defines grey raiding as

> the seizure, or attempted seizure, of a business or a substantial part of its assets, through the corrupt reliance on a legal document, including, but not limited to, a court order, judicial decision, corporate resolution, corporate charter document, or state registration document. The execution of a corporate raid typically involves the following three stages: (1) the raider creates or corruptly obtains a legal document establishing faux legal title to some assets, usually shares or real property of a business; (2) the raider carries out a forcible takeover of the target property; and (3) the raider launders the seized property through a series of shell companies to an ostensible 'good faith purchaser' from whom it is essentially impossible to recover the property.… Each stage relies on abuse of the legal system. (Firestone 2009, p. 563)

The executors of grey raiding are no longer criminal groups, but members of the lower, local levels of organs of public authority. Grey raiding prevails as a dominant form of reiderstvo when leaders of the central government lose control over the public administration, and the bureaucrats start using state power over economic actors for their private gain. Markus (2015, pp. 27–46) describes that phenomenon as disorganized state threats to ownership rights, meaning that it consists of the occasional, uncoordinated predatory acts of individual actors. Bureaucrats in such a landscape degrade from stationary to roving bandits, using Olson's (2000) categories, as they do not have long time horizons, but think in the short term and predate on what they find to be tempting targets at the moment (Markus 2012). When grey raiding is endemic, anarchy may prevail not only outside the state—as in the period of oligarchic anarchy—but also inside it, resulting in a chaotic, rather unpredictable relationship between the state and economic actors (Frye and Shleifer 1997).

Yet grey raiding still does not necessarily imply that the initiator of predation is the state. Indeed, initiators can be business rivals or oligarchs who simply employ corrupt bureaucrats as violent agents. In that case, public administrators capitalize on their blackmailing

**Table 1** Types and certain features of reiderstvo in post-communist regimes. *Source*: Modified from Magyar (2019b)

| Strength of the state | Legality of raiding | The initiator of the corporate raiding: *Organized upperworld: chief patron (top level public authority)* | *Low, middle or high level public authority* | *Rival entrepreneurs or oligarchs* | *Organized underworld: criminal groups* |
|---|---|---|---|---|---|
| Strong state | White raiding | | | | |
| ↓ | Grey raiding | | | | |
| Failed state | Black raiding | | | | |
| Institutional environment and features of the raiding action | | Criminal state | Corrupt/Captured state | | Failed state |
| | | Single-pyramid power network | Multi-pyramid power network | | |
| | | Monopolized | Oligarchic | | Competitive |
| | | Oligarch capture | State capture | | n.a. |

power and appropriate economic actors' property for their customers, in exchange for kick-backs. Markus (2015, p. 62) offers a list of services and prices offered by corrupt Russian administrators in the mid-2000s, including inspection of a target firm by taxing agencies ($4000), opening of a criminal case against target owners ($50,000), a commercial court verdict against the target firm ($10,000–$100,000) and even arrest of a business competitor by the Ministry of Internal Affairs ($100,000).

As the transition period of oligarchic anarchy comes to an end, the market for grey raiding gradually loses its predominance, and grey raiding comes to be organized and restricted. As stateness is restored and the state strengthens, the ruling elite gains de facto access to the instruments of public authority. Yet in a democratic regime, such access would be shared among many competing factions, and no political leader could use the instruments of public authority at his whim. As North et al. (2009, p. 113) write, modern democracies "systematically provide services and benefits to citizens and organizations on an impersonal basis: that is, without reference to the social standing of the citizens or the identity and political connections of an organization's principals.… An important feature of impersonality is the rule of law: rights, justice, and enforcement are rule bound and impartial." In addition, the rulers in such regimes are limited by effective formal-legal control mechanisms, and executive heads face constitutional checks and balances that prevent them from discretionary use of state power (Sartori 1962; Sajó 1999; Lijphart 2012).

As Benson (2019) argues, even such states can engage in predation in the broader sense, in order to benefit themselves or interest groups at the expense of society (cf. Holcombe 2018). But in order to initiate *centrally led corporate raiding*, the holder of top-level public authority must be able to corrupt the state's apparatus: systematically diverting it from impersonal functioning, and making even formally normative state intervention *personal and discretionary*, targeting concrete productive assets they choose to take over. In the post-communist region, that is achieved by developing a *single-pyramid patronal network*, in which the main networks of power "are glommed together to constitute a single 'pyramid' of authority under the chief patron who is usually regarded as the country's leader, and any networks remaining outside this pyramid are systematically marginalized" (Hale 2015, p. 64). No longer are oligarchs or an organized underworld capturing the state, but instead a political enterprise, an "organized upperworld", monopolizes political power and captures the economy, including the oligarchs themselves (Markus 2017; Yakovlev 2006). In such regimes, which we call *patronal autocracy*, the state becomes the business venture of a political-economic clan, the *adopted political family*, managed through the instruments of public authority behind the façade of democratic institutions (Magyar 2016; Magyar and Madlovics Forthcoming).

Property in a patronal autocracy has a *conditional character*: those at the top of the social hierarchy get there and receive property by the decisions of the chief patron, whereas the same actor's decisions also can lead to the confiscation of their—as well as any other actor's—property on a discretionary basis. That process is called in the Russian literature *vlast* and *sobstvennost*, power and ownership: there is no ownership without power and there is no power without ownership (Ryabov 2019). The chief patron intervenes "selectively in the judiciary to reward supporters and punish opponents when needed, but also gives right-holders some confidence that their rights will be respected in more mundane cases. This allows right-holders to use their assets productively when they do not challenge interests of the ruler, while also generating tax revenue for the ruler" (Frye 2017, p. 137).

Going back to predation, Markus's (2015, p. 11) analogy is illuminating. As he writes, disorganized bureaucrat-predators act like "piranhas: voracious mini-beasts [that] never coordinate their attacks and habitually attack creatures larger than themselves." However, under a strong state they degrade into "cleaner fish", eating food remnants out of the mouth of the shark who tolerates such "theft" because the amount of prey lost to the cleaner fish is miniscule. Thus, "state agents may jeopardize some income streams that would otherwise benefit the state principal", but "attacks on more fundamental ownership rights are the prerogative of state rulers." This leads us to the final type of reiderstvo, when property is expropriated by the top authorities of the central state, typically at the command of and by coordinating with the supreme holder of executive power, a scenario that we refer to as centrally led corporate raiding.

Centrally led corporate raiding may involve grey raiding, relying on corrupt bureaucrats not corrupted in a bottom-up but in a top-down fashion, by top-level authorities to facilitate reiderstvo against a target company. According to Sakwa (2012, p. 84), the "classic weapons" of centrally led raiding include "the acquisition of a minority stake that is then used to disrupt the work of the existing management; the launching of civil proceeding against the company, combined with the commencement of criminal proceedings against senior management…; and various commercial approaches by groups connected in one way or another with the raider." However, an autocratic chief patron who has control over legislation has ample opportunity to use the last type of reiderstvo as well—*white raiding*. Breaking with the usual application of the term, we use "white raiding" for a form of corporate raiding when, *instead of the legal environment being misused, it is adapted and tailored to individuals and single companies in a targeted manner*.

The single-pyramid patronal system creates white raiding's "legal" room for maneuver through legislation and decrees. On the one hand, a feature of the resulting regulations is that the laws, contrary to their publicly stated function (namely, that they apply impartially to everyone), have been tailored to individuals or companies. Instead of identifying its target by name, a unique quality, such *custom-tailored lexes* circumscribe their target by listing many different qualities, each shared by several different actors, but in the given combination unique to the target (Magyar 2016, pp. 117–122). In corruption literature, white raiding is called "technicization": corrupt actors create regulations with extreme precision to make them applicable only to a single predetermined actor (Jávor and Jancsics 2012, 2016). On the other hand, such laws establish regulations (e.g., bankruptcy, tax evasion, various environmental protection and healthcare prescriptions) that make it possible for the adopted political family to drive the companies selected for reiderstvo into bankruptcy by politically selective law enforcement. That is how the legal environment serving the predatory character of patronal autocracy is brought into being—while the predatory action itself still remains illegal, for it involves abuse of authority and public service position for private gain (Magyar 2017).

In actual cases of centrally led corporate raiding, white- and grey-raiding techniques are often combined. Indeed, such combination is possible only when the chief patron has complete control over the instruments of public authority, for smooth cooperation is required between the legislative institutions (including the passage of decrees), on the one hand, and the tax authorities, secret services, prosecutor's office and police, on the other. The monopoly on power that is usually concentrated around the position of the president supplies the raw political force for replacing oligarchic anarchy with a *criminal state*, a state run as a criminal organization for the private gain of its operators (Magyar 2017; Friedrichs 2009).

Historically, each post-communist regime has varied in traversing the spectrum from black raiding to white raiding, from spontaneously violent to centrally directed and "legalized" corporate raiding. Russia progressed through all three stages, ultimately (largely) monopolizing, centralizing and appropriating the means of expropriation by establishing a centrally directed form of corporate raiding that facilitates the accumulation of both power and wealth. Paradoxically, in accomplishing that centralization, it also created a certain form of property protections that is in some tension with the lower-level, guerilla actions characteristic of grey and black raiding (Volkov 2002, pp, 181–191). The preconditions for secure ownership in the criminal state are, first, loyalty to the chief patron and, secondly, a situation wherein closer circles of the adopted political family do not want to grab the property in question. According to surveys conducted in 2008 and 2011, Russian managers with immobile assets but personal connections to the adopted political family viewed their property rights as far more secure than those who did not have such connections (Frye 2017, p. 77). However arbitrary the system may be, it creates more predictable security for private property than existed in the earlier period of oligarchic anarchy.

In Ukraine, the first two forms dominated, though corporate raiding directed from the presidential level became prominent when attempts were made by Leonid Kuchma and Viktor Yanukovych to establish single-pyramid systems (Rojansky 2014; Minakov 2019). The consolidation of those efforts was blocked by the Orange Revolution and the Euromaidan Revolution. In fact, after the latter event, the vacuum left by the dissolution of the state and the emergence of civil war was filled at the regional level by temporarily granting positions of public authority to locally dominant oligarchs (Konończuk 2015). In Hungary, by contrast, black and grey raiding never arose, because of the stability of its liberal political institutional system and the maturity of its legal institutions protecting private property. Skipping the first two "evolutionary" stages of raiding, centrally led raiding was introduced directly by the criminal state that Viktor Orbán established after 2010 (Magyar 2016, pp. 179–195; Sallai and Schnyder 2018).

## 3 Reiderstvo and the public choice literature on the predatory state: towards a model of centrally led corporate raiding

Centrally led corporate raiding is typically not considered one of the forms of state predation in the public choice literature. We argue that this is the case because, while the aim of the post-communist literature is *to explore the new ways* in which the economy and politics work in authoritarian regimes, the public choice literature aims at *reinterpreting the well-known ways* of state functioning, such as taxation and the nationalization of formerly private activities. From North's (1981) formulation of the "contract" and "predatory theory of state" to Olson's (1993) famous work on stationary bandits and Vahabi's (2016) theory of state-space development, all of the contributions interpret state functioning in a specific analytical framework. In that context, "predatory state" refers less to an independent state type and more to an understanding of the state as such, seeing it not as a provider of public goods and services, but as a coercive and extractive, predatory institution (Vahabi 2019). The articles that focus on contemporary regimes in the above-mentioned special issue of *Public Choice* also reinterpret well-known state functions: Vahabi et al. (2019) investigate the development of the French welfare state and, following Usher (1992), they consider taxation to be a form of predation; Murtazashvili and Murtazashvili (2019) analyze activities like land theft and trade restrictions by Afghani ruling groups as predatory and wealth-destructive; and Benson (2019) and Holcombe (2019) focus on the redistribution of wealth in the United States today.

While the aim of reinterpretation is completely legitimate, it limits the scope of the literature, which fails to consider new ways of predation that have been elevated to the rank of central politics only in the last few decades. In the post-Cold War era, so-called hybrid regimes comprise the most “fashionable” form of authoritarianism, wherein de facto autocratic politics is realized in *de jure* democratic environments (for a literature review, see Cassani 2014). The form of state predation that fits in such an environment is centrally led corporate raiding, where instead of direct takeover, the process is masqueraded behind formally democratic institutions like legislatures and tax offices. In that process, the executive head, who is *de jure* constrained constitutionally, is a de facto autocrat who can use institutions from all branches of centralized power in a coordinated manner to attack and capture a discretionally selected prey. Such centrally led predation would be *impossible under democratic conditions*, as the separation of power and the pluralism of competing groups are antithetical to autocratic control of the state by a single actor, but it also *differs from premodern tyrannies* in operating under the formal institutional setting of democracy. In short, modeling centrally led corporate raiding brings the benefit of understanding contemporary predatory practices and modern authoritarian regimes, to which existing models of public choice are not appropriate.

Let us consider Leeson’s (2007) model of state predation. Leeson investigates whether it is rational for a proprietor to predate on (i.e., in Leeson’s understanding, to tax) his tenants for his own ends. Earlier, Stringham (2006) argued that treating tenants as prey is just as irrational as treating any customer badly: in a voluntary relationship, one party can decide to exit in the event of the other party’s misbehavior, leaving the proprietor-predator with no customers and therefore no profit in the long run. Leeson, however, points out that such relationships can cease to be voluntary if the proprietor relies on his strength (monopoly of violence) to prevent exit. Using an infinitely repeated game, Leeson shows that the unique subgame-perfect Nash equilibrium of that situation is the tenant staying and the proprietor extorting, at least to the extent that the proprietor—a stationary bandit—can maximize revenue and ensure future revenue streams from his subjects (cf. McGuire and Olson 1996).

Leeson’s model is appropriate for an unconstrained, nonelected ruler who makes repeated deals with his subjects, including intermittent taxation of renewable sources of homogeneous property (e.g., money, plantation products). Centrally led corporate raiding, however, does not share those traits. On the one hand, the chief patron as a predator in the post-communist world is similar to Leeson’s proprietor in that he has predatory intentions as well as *the power to predate*, that is, the power (1) to initiate discretionary state action to take over a selected prey’s property and (2) to do so at his whim, meaning that it is his preferences, utility function or cost–benefit calculus that determines whether predation will take place. On the other hand, a substantial difference arises in that, unlike Leeson’s proprietor, *the chief patron is elected*. Election forces some accountability upon him even in an autocracy with restricted political freedoms (Petrov et al. 2014). In other words, the chief patron as stationary bandit can achieve maximum benefit in the long run only if he treats his subjects reasonably well, not only as sources of revenue that must be maintained (as in the Olsonian model), but also as *voters*. As a result, centrally led corporate raiding will be determined only dominantly by the chief patron’s preferences, and he must take into account, to some extent, social preferences as well. The latter consideration limits his room for maneuver, because the public might oppose state predation for various reasons. Moselle and Polak (2001) show that a predatory state with an unconstrained ruler (a “king”) is more detrimental to output and popular welfare than other, more plural forms of predatory rule (cf. Grossman 1995; Usher 1992). Such effects may be regarded as “social damage”. Other discrepancies between social and predatory preferences might stem from the scandalous nature of takeovers and of the corrupt transfer of the property to members of the ruling elite (political damage), or from the overwhelming macroeconomic effects of taking over a company operating nationwide (economic damage).

Beyond *preserving* his position by avoiding the large *political costs* of predation, the chief patron in a modern autocracy also may want to *strengthen* his position by predating for *political gains*. Such gains may include (a) weakening a rival oligarch or (nascent) patronal network, (b) taking back the property of an out-of-favor (disloyal) member of the adopted political family (Becker 2017), (c) using the seized asset in the political machinery, especially the media (Vásárhelyi 2017; Judah 2014) or (d) using the asset as a bargaining chip, to improve the positions of the predator in later political or economic bargaining (Magyar 2016, pp. 198–199).

The second point with respect to Leeson's model is that *no repeated exchange occurs in centrally led corporate raiding*. While Stringham and Leeson dispute whether the discipline of constant dealings applies to proprietors (cf. Friedman 2015), that concept becomes irrelevant when the predator is interested in the single event of taking over a company. The company is not renewable or homogeneous: it cannot be taken over again from the same owner in the next period (unlike a tax); the predator therefore does not need to consider post-predation exit by the current owner. True, predatory behavior may discourage entrepreneurship in general, and encourage the exit of *other* owners, which has negative effects at the macro level. However, that effect may be counterbalanced[2] by the third point we mentioned in the previous section, namely that *property rights are not violated generally, but only when the chief patron sees fit*. In the case of more mundane companies in the small and medium-sized enterprise (SME) sector or large companies that serve the chief patron's interests, property rights are respected and no predation will be initiated (Frye 2017). While Leeson's question is *whether* the proprietor will use his power to predate on tenants, a more refined formulation must ask *when* predation happens, or *which* companies will be targeted and for what reasons.

Vahabi offers insights into the question of targeting by introducing the concept of *booty value*, which refers to the attractiveness of an asset in the eye of the predator, or what can be transferred from the asset by coercive takeover. According to him, booty value "depends on [the asset's] *exit option*. This option is determined by two factors: (1) the degree of difficulty of appropriating an asset; (2) the ability of an asset to escape appropriation. From an anti-predatory perspective, the more an asset is *mobile* and *invisible* (i.e., either having hidden ability or easy to be hidden or disguised), the more resistant it is to confiscatory (appropriative) policies" (Vahabi 2016, p. 157; emphasis in original).

While Leeson's point can also be interpreted as linking the potential for exit to the rationality of predation, Vahabi's model is more relevant to centrally led corporate raiding because he discusses exit *before* the first (and only) act of predation rather than after it. Indeed, mobility and appropriability are useful aspects that can be used to develop a model of centrally led corporate raiding. According to Vahabi, mobility means the owners' ability to escape predation by removing their property from the reach of the predatory state. Escape may be accomplished by (a) hiding assets, for example by the various techniques of double accountancy and financial scheming used by small and medium-sized enterprises in Russia to escape predation (Ledeneva 2006, pp. 142–163), or (b) moving the company

[2] While we will assume the discouragement effect away for the sake of simplicity, it must be noted that, in real-world cases, it never is eliminated completely. To take an extreme case, experts estimate that at least half of Russia's GDP is produced in the shadow economy, at least some of which can be attributed to hiding assets from predation (Yavlinsky 2013, p. 109). However, some other predatory states like Hungary manage to attract large investments by offering various benefits and guarantees to foreign direct investment (Magyar 2016, pp. 172–173; Gagyi and Gerőcs 2019).

geographically (Soós 2017; Markus 2017). Appropriability, however, is also determined by asset specificity, which in the case of a company means that "the continuation of particular investments requires specific entrepreneurial capabilities, including marketing, financing, monitoring, coordinating and networking abilities", which the predator might not have (Vahabi 2016, pp. 157–160).[3]

On the other hand, even Vahabi does not consider the modern authoritarian framework, or the means and opportunities granted to the chief patron in such a framework of patronal autocracy. Based on the post-communist literature, we can mention two factors that can increase the attractiveness of the prey. First, the potential *integrity-breaking* effect of state activity. "Integrity breaking" refers to the use of coercion to make the current owner hand over the asset (with or without "just compensation" (cf. Sullivan 2018). If we were talking about black raiding, we might need to consider this effect as a negative one, because the direct use of violence that is involved in such cases of reiderstvo potentially can damage the prey, which could then be taken over only in a depreciated state.[4] However, in the case of grey and white raiding, integrity breaking is accomplished by the bloodless means of state authority, which create a stifling environment only until the target is taken over.

To carry out or facilitate predation, the chief patron can exercise *direct means* and *indirect means*. Direct means refers to state intervention targeted at the company. Intervention may take the following forms:

- burdensome and ad hoc normative intervention, such as abruptly introduced regulations, sectoral or custom-tailored taxes, renationalization or expansion of red tape;
- discretional intervention, such as custom-tailored laws, stopping governmental spending to a certain company by not giving it state advertisements or excluding it—informally and/or discretionally—from public procurement contracts, or extreme fines and continuous molestation by state authorities (e.g., tax inspections, police raids).

Markus (2015, p. 76) offers a survey of 516 Russian and Ukrainian firms from 2007, revealing the means that were perceived as most imminent. On average, the most serious danger from the state turned out to be "extortion by taxation agencies", followed by "illegal inspections", "illegal administrative barriers to obtaining licenses", and "illegal administrative barriers to purchase or sale of land, real estate, assets, etc."

It is common in the hunting phase of grey and white raiding that predators make attempts *to reduce the prey's mobility* (Markus 2015, pp. 58–60). First, they engage in *asset fixation*. "If raiders target specific assets of the enterprise, such as buildings, land, or machines", Markus writes, "they aim to make it impossible for the victim to transfer or alter these assets once the attacks become apparent. The courts often play the main role … by issuing temporary property arrests (*obespechitel'nye mery*) pending the outcome of

[3] Indeed, Vahabi lists four factors that influence appropriability (state accessibility, concentration or dispersal, asset specificity and measurability), but of those, only one—asset specificity—is relevant in the case of modern predation.

[4] True, often it is not the victimized company that is damaged, but its owner (physical abuse). However, asset depreciation is an important factor that needs to be taken into account *after* predation, or in the long run when the company remains in operation. As a reviewer pointed out, capital depreciates over time and as economic progress proceeds, firms will need entrepreneurial activity to enable them to keep up with the market. In our model, we treat the latter as being included in the Vahabian factor of appropriability, which involves entrepreneurial skills. Indeed, the chief patron engages in predation if he is optimistic about maintaining the value of the plundered asset.

ongoing or criminal cases against the enterprise or its owners." Second, the predators try to neutralize the principal owners, that is, "to restrict the decision-making powers of the assets' owners, anticipating the latter's defense efforts. State inspections on the ground are critical in this phase: the sanitation agency, the fire safety department, and a few dozen other regulators can legally shut down a firm based on code violations." Predators likewise can "generate a cascade of lawsuits against the target to disorient the owners and distract them from the main attack on assets."

Indirect means refers to the use of state and patronal media to carry out *reputation-dirtying*, that is, to cause damage to the reputation of a targeted actor. The aim of reputation-dirtying is to make it harder for the targeted company to conclude voluntary deals with consumers on the private market. Indeed, as the prey status of the targeted owner becomes obvious and damages their market position, other actors who do not wish to be hunted down will try to avoid contact with the prey.

Indeed, integrity breaking has a *positive* effect in the eyes of the predator: integrity breaking lowers the price the predator will need to pay to the targeted company's owner to capture the prey. The second factor that can enhance the attractiveness of the prey is the opposite of integrity breaking: the potential *shelter-providing effect* of state activity. As Vahabi (2016, pp. 160–162) notes, premodern predators, like various bandits,[5] did expropriate property for their own private gain, but they were interested in the property as loot: valuables, merchandise, food and so on that could be consumed or sold, gold that could be used as money, and so on. However, in cases of reiderstvo, the predator does not take over a company to sell or consume its (physical) assets. Indeed, he is interested in the property *not as loot but as capital*: predators want to use it to enter a market and operate there. And while a company has *market value* without the predatory state intervening in its functioning, the chief patron can boost that value to a higher level. For discretionary intervention can be both punitive (as in case of integrity breaking) and *promotive*: the chief patron can use the levers of public authority to boost the target company's value. That is what "shelter provision" refers to, which is a special case of the predator becoming a protector after the transfer (cf. Vahabi 2015, pp. 69–76).

Naturally, not every asset is equally suitable for benefitting from discretionary state intervention. As such, we may distinguish three kinds of company potential the predator considers: (a) *market potential*, which means that a single budgetary transfer or regulatory change can raise the company's value so that it can operate more profitably than before, even without further state support (e.g., a one-time capital injection, a building permit with better conditions than otherwise); (b) *rent-seeking potential*, which means that the market in which the company operates can be regulated in a way that the owner can capture (more) rents (e.g., generating artificial demand for its products, using its technological capacity more effectively in a supply chain); and (c) *kleptocratic potential*, which means that the given company is suitable for illegal rent-seeking (e.g., it can receive public procurement contracts at favorable prices, it can operate as part of a money laundering scheme to transfer public money into its coffers).

Based on the kind of potential the acquired company has, we may distinguish four pure types of use of predated assets, any combination of which in real-world cases is possible:

5 Meaning both roving and stationary bandits, in the Olsonian sense. Also, see Vahabi (2015, pp. 41–89).

1. *Competitive market functioning after one-time boosting*. This usually happens when the company does not have substantial rent-seeking or kleptocratic potential, but it has market potential. The means of boosting value include one-time capital injections, a building permit with better conditions than otherwise, but also favorable (state) loans to allow more cost-efficient capital formation. Two scenarios are possible after the boosting:

    (a) the company is run by a member of the adopted political family, possibly through a front man (but still without further continuous state support);
    (b) the company is sold to an outsider at a price higher than the original, pre-predation market price (unmolested value).

2. *Rent collection with appropriate discretionary regulatory intervention.* This scenario usually occurs when the company has substantial rent-seeking and/or kleptocratic potential. In that case, the company is not sold, but is run by a member of the adopted political family, providing an access point to rents under the discretionary auspices of the state. Different scenarios for the booty companies are possible:[6]

    (a) receiving competitive advantages from the state by introducing punitive measures for competitors (e.g., sectoral or discretional taxes, new market regulations with exceptions granted to the booty companies);
    (b) receiving competitive advantages from the state by giving the company favorable discretionary treatment (e.g., custom-tailored lexes, informally ordering the police and the tax office not to trouble the company);
    (c) receiving market support from the state by guiding demand to the company artificially, such as by (i) driving state companies' or departments' demand to the company by obliging them to do business with it (e.g., require the use of equipment that is sold by the company) or (ii) driving ordinary people's demand to the company (e.g., making employers give certain percentages of wages in vouchers that mainly can be used at the booty company);
    (d) receiving public procurement contracts by discretionally (and illegally) ensuring that the company wins them;
    (e) receiving an outright monopoly grant by the state to carry out the given activity.

3. *Building or solidifying the patronal network with the company's help.* This strategy is pursued when the company's potential political gains are high, as when the company can be incorporated into the political machinery of the adopted political family, but we include in the same category companies that can be used to extend patron-client relationships to the lower reaches of the private sector through a network of subcontractors and suppliers (Lakner 2017);
4. *Redistribution within the adopted political family.* After predation is accomplished, a "redistribution phase" potentially may follow. That is the case when the oligarch who

[6] Many examples are provided by Magyar (2016) and Magyar and Vásárhelyi (2017). More recent examples from Hungary can be observed in the ongoing case of Lake Balaton, the most popular destination for domestic tourism, where a large number of beaches, hotels and other facilities have been acquired by the adopted political family. For journalists' reports, see Dunai (2018), Tamásné Szabó (2019), Balla (2019), Fokasz (2018), Nagy (2019) and Keller-Alánt (2018).

received the booty falls out of favor, and their own companies become prey (Magyar 2016, pp. 82–88; Markus 2017). Unlike predation for prey outside the ownership orbit of the adopted political family, this strategy implies a redistribution of property within the ranks of the adopted political family from disloyal to loyal actors.

We may sum up the specificities of centrally led corporate raiding in a modern authoritarian regime by a simple model. Consider an autocrat with predatory intentions in a formally democratic environment. That he is an "autocrat" means that he has the power to predate, so we need to consider his preferences to find the determinants of predatory action. Because he considers no future dealings with the prey, a rational autocrat does not need to solve an infinitely repeated game, but rather to assess the potential costs and benefits of a single takeover. On the side of costs, he must take into account social preferences to some extent, meaning that he cannot afford political costs that are too high. The level of political cost is determined by social, economic and political damage, yielding the variable $p_{\mathrm{c}}(D_{\mathrm{s}}, D_{\mathrm{e}}, D_{\mathrm{p}})$. He also must consider the Vahabian factors of mobility and appropriability, which may be summed up as *resistance*, $r(m, a)$. On the side of benefits is the company's market value, $V_{\mathrm{m}}$, the integrity-breaking effect, $I$, the shelter-providing effect, which depends on the various potentials of the company, $S(P_{\mathrm{m}}, P_{\mathrm{r}}, P_{\mathrm{k}})$, and the expected political gains, $p_{\mathrm{g}}$. In algebraic form, we can say that if

$$V_{\mathrm{m}} + I + S(P_{\mathrm{m}}, P_{\mathrm{r}}, P_{\mathrm{k}}) + p_{\mathrm{g}} > p_{\mathrm{c}}(D_{\mathrm{s}}, D_{\mathrm{e}}, D_{\mathrm{p}}) + r(m, a)$$

then it is rational for the chief patron to engage in centrally led corporate raiding. Usually, if predation is carried out for economic gain, large companies are chosen and most of the small and medium-sized enterprises are left alone (as far as predation is concerned), because the cost of appropriation would be higher than the potential benefit.[7] When it comes to political gain, however, it is more difficult to ascertain, because $p_{\mathrm{g}}$ has no monetary manifestation and depends only on the subjective valuation of the chief patron. Yet when takeover is carried out in response to disloyalty, we can say that for the chief patron it is worth bearing virtually any cost to implement predation ($p_{\mathrm{g}}$ virtually is infinite). The simple reason is that, if the chief patron shows that he does not punish disloyalty, his clients will not be loyal and he eventually becomes a "lame duck" (Hale 2015). However, we can elaborate on that insight with the help of game theory, saying that it is rational for the chief patron to adopt *a strategy of commitment* to cracking down on disloyalty (Schelling 2007). If the chief patron shows that he is committed to oppose disloyalty even at the cost of hurting himself (financially), the members of the adopted political family will acknowledge that commitment and realize that disloyalty would lead to a "fight to the death", which makes disloyalty very unattractive. And as long as his clients remain loyal accordingly, the chief patron does not have to make good on his threat and bear the large costs, thereby making the strategy rational.

[7] The setup is analogous to feudal times in Scandinavia, where agriculture was barely taxed because weather conditions made average crop yields so low that the cost of the tax colleting apparatus would have been higher than the tax revenue itself. Professor Zoltán Balogh in the 1970s called that imbalance—in Marxist language—"uncollectible surplus value", which was the reason that an independent peasantry could develop in Scandinavia in the first place.

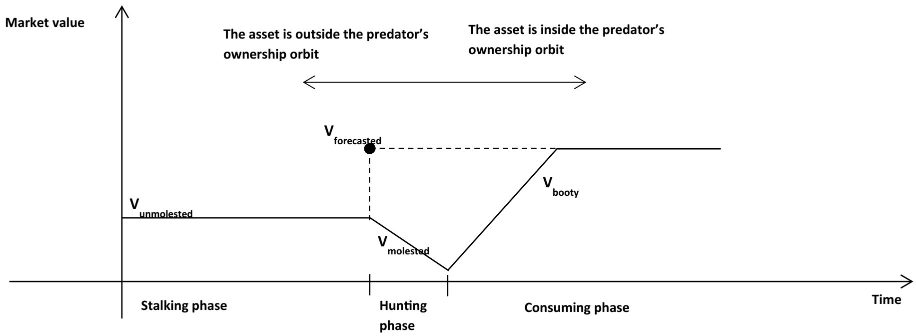


**Fig. 1** Dynamics of an ideal typical prey company's value during centrally led corporate raiding. *Source*: Own construction

## 4 Illustration: centrally led corporate raiding in Hungary

Instances of reiderstvo in the post-communist region are numerous, and centrally led corporate raiding has also been an integral part of the autocrats' arsenal in local hybrid regimes. We will illustrate the argument by turning to the externally constrained regime of Hungary, where we can see a remarkable variety of sophisticated raiding methods. To structure our analysis of real-world cases of raiding, it is useful to divide predation into three consecutive phases (Magyar and Madlovics Forthcoming):

- *the stalking phase*, when the predatory state is looking for a prey;
- *the hunting phase*, which starts when a prey is selected, and involves the "chasing" of the prey by means of state coercion;
- *the consuming phase*, which starts when the hunting phase ends successfully and the prey asset enters the ownership orbit of the adopted political family.

It may be observed that the stalking phase was at the center of our focus in the previous section. We discussed what a rational predatory state considers in choosing the prey, and that is precisely the action of "stalking" (although it involves the expectation of profit and loss that are to be realized in subsequent phases only). Yet real-world cases consist not only of selection: they involve the actual predatory action—*hunting*, applying grey and white raiding, as discussed in Sect. 1—which is preceded by targeting and followed by capturing and using the capital assets—and *consuming*, adopting shelter provisions as discussed in Sect. 2. An outside observer can distinguish between those phases, first, by observing the predatory actions and changes in the prey's ownership; second, by identifying the changing value of the targeted company. Indeed, the process of integrity breaking means that the value of the company that was determined by market forces (we may say, the *unmolested value* of the company) is being reduced by state forces (we may say, the molested value of the company). Shelter provision, on the other hand, increases the value of the prey as soon as it enters the ownership orbit of the adopted political family, giving the company preferential treatment it would not have received before the ownership change. In short, $V_{\text{molested}} < V_{\text{unmolested}} < V_{\text{booty}}$, which is also shown in Fig. 1 depicting the changes in value throughout the three phases.

Using available reports about value changes and about the methods of grey and white raiding, we will reconstruct the process of predation by the Hungarian predatory state. The political conditions of centrally led corporate raiding, namely total control over the state apparatus and dismantling of the separation of powers and other constitutional limits on the power of the executive, were met in Hungary after 2010. That was the year when Viktor Orbán and his party Fidesz won a supermajority at the national elections—a feat he managed to repeat in 2014 and 2018 as well—and instituted a regime he refers to as "illiberal democracy" (Orbán 2014, 2018). Critics have recognized the regime as a prime example of democratic backsliding, involving extreme concentration of political power through the erosion of checks and balances and the colonization of state institutions by Orbán's clients (Pappas 2019; Scheppele 2018; Bozóki and Hegedűs 2018; Vörös 2015; Kornai 2015; Krasztev and Til 2015). However, Orbán became not only a strong *de jure* prime minister but a de facto chief patron as well, presiding over a single-pyramid patronal network that extended beyond the realm of political institutions and the formal institutional setting in general (Magyar 2016). Instead of state capture, which refers to the bottom-up corruption of the state by oligarchs or the criminal underworld, Hungary represents a case of *oligarch capture*, whereby the chief patron disciplines and domesticates the oligarchs and settles them into his own chain of command (Becker 2017).

Both the development and everyday operation of Orbán's regime involve the coercive redistribution of productive assets to the ownership orbit of his adopted political family (Mihályi 2014, 2016). The first of two cases we exploit to demonstrate the operations of those "mafia tools", as Hungarian entrepreneurs describe them (Sallai and Schnyder 2018), will be that of ESMA, a single company occupied in the business of outdoor advertising in general and the provision of billboards to political parties in election campaigns in particular. The first case is a straightforward one, concentrating on a single company and involving the traditional "weapons" of white and grey raiding. The second case is more complex and involves the takeover of numerous assets in the Hungarian banking sector.

### 4.1 The case of an outdoor advertising company (ESMA)

Founded as early as 1989 with Spanish-Hungarian ownership, ESMA Ltd. is a company that provides outdoor advertising in various forms, particularly lamppost billboards in the capital city Budapest. It gradually expanded its range of services, gained concessions and merged with various companies, becoming a lead advertising company in Hungary by the 2000s (ESMA 2015).

Beyond its market value ($V_{\mathrm{m}}$), ESMA was also known for its rent-seeking potential already in this period ($P_{\mathrm{r}}$). It was a prime recipient of state advertisements, occasionally receiving half of the monthly spending of ministries and public companies, such as the gambling service provider Szerencsejáték Zrt. (Bátorfy 2019a). Taking into account the *stalking phase*, ESMA's operations indicated high potential shelter-providing effect ($S(P_{\mathrm{r}})$) and political gain ($p_{\mathrm{g}}$), particularly in the environment of patronal autocracy wherein state spending is de facto discretionally directed by the chief patron (Bátorfy and Urbán 2019). The attractiveness of ESMA to the predator was further elevated by a low level of resistance ($r(m, a)$), since the company was both immobile and appropriable, that is, a *captive asset* (Vahabi 2016, pp. 157–160). As for immobility, ESMA's billboards and assets were located in Hungary and could not be moved. Hiding was not an option either, as being visible was an essential part of ESMA's services: first, billboards must be seen in order to fulfill their function, and second, the company must be visible to the state, which is one of the company's main customers. To hide the company's assets by the above-mentioned methods of double accountancy and financial scheming would have meant eliminating the company's revenues. And as billboards required no special entrepreneurial skills or innovations to operate, ESMA was also readily appropriable. Indeed, innovation and competitive functioning already could be relegated to a secondary category of importance, because the company would receive preferential treatment from the predatory state when it became its protector in the consuming phase.

The dependence of ESMA on state advertisements indicated a potentially high integrity-breaking effect from discretionary state intervention ($I$), whereas its takeover posed no economic, social or political risks ($p_c(D_s, D_e, D_p)$). On the contrary, ESMA offered considerable political gain ($p_g$) for two reasons. First, it had strong ties to the Hungarian Socialist Party (MSZP), Fidesz's opponent and the main member of Hungary's coalition government between 2002 and 2010. As an investigative journalist reports, "the company [ESMA] is often referred to as MSZP-aligned because it was the owner of left-wing daily Népszava for one and a half years after 2002, whereas István Bleuer, who was the company's CEO for a long time, is in good personal relationship with socialist party director László Puch" (Pethő 2011).[8] A friendly public advertising company can be useful for a political party wanting to avoid breaking campaign spending limits because the company provides informal (and possibly illegal) political financing by giving large discounts on its billboards. The takeover of ESMA in such a context means that MSZP, which became an opposition party in 2010, could be deprived of an opportunity to spread its messages without state interference. Second, the outdoor advertising company was useful to Fidesz itself for the same reason: it was a medium that could be included in the state's political machinery. In sum, the takeover of ESMA promised to contribute to the development of an uneven playing field, typical in modern autocracies such as Orbán's Hungary (cf. Levitsky and Way 2010).

The first offers to buy ESMA came in 2009 by Lajos Simicska, who was the main oligarch and economic mastermind of Orbán's adopted political family (Rényi 2019; Bátorfy 2015). At the time, Simicska's bids were refused without further consequence (Sarkadi Nagy 2015). However, after Fidesz's victory in 2010 and the institutionalization of a criminal state, the predation of ESMA could proceed to the *hunting phase*. The refusal to sell the company to Simicska in 2012 meant the rejection of an irrefusable offer, which was now made with ministerial collaboration. The response was not long in coming: representatives of the tax authority appeared at the offices of ESMA's owner. Since that visit had not been persuasive enough to seal the "deal", the Hungarian parliament passed a motion by a Fidesz MP within the following weeks that prohibited all advertising on pedestrian sidewalks within five meters of a roadway on grounds of road safety. One aspect of ESMA's operations basically was banned; its value was reduced to almost nothing (Szabó 2012). It was, however, somewhat of a problem that the law also applied to the advertising boards of Simicska's company MAHIR, which was supposed to have been favored by the takeover. Eventually, with the aid of a motion by another Fidesz MP, the law was amended, exempting the latter company from the prohibition. In addition, the original motion that targeted ESMA was formulated by Zoltán Schváb, who had been a director in Simicska's main company Közgép before becoming deputy state secretary (Bátorfy 2012).

[8] The quotation, as well as others in the following discussion, were translated by us from Hungarian.

It is important to note that it was not Simicska by himself who corrupted state organs from below to orchestrate the attacks on ESMA. Besides the fact that Simicska had been Orbán's friend since the regime change and had constructed Fidesz's economic and media empire (Rényi 2019), the coordination of ministerial, governmental control, tax authorities and the legislature that was required in the case of ESMA would not have been possible without complete control over the branches of power. In other words, Orbán's power and the creation of an autocratic regime with him as a chief patron were required to execute the attacks on ESMA. True, Simicska was rumored to have had considerable autonomy in using the instruments of public authority (Rényi 2014), but that autonomy was conditional on Orbán's support. The absence of unilateral authority was shown after 2015, when Orbán broke with Simicska, who suddenly was excluded from receiving state resources. Fighting disloyalty, Orbán was ready to incur virtually any cost in the "mafia war", even the risk of Simicska starting to finance opposition (as was rumored with respect to the nativist right-wing opposition party Jobbik; see Pethő 2019). Eventually, many of Simicska's assets entered the redistribution phase and eventually were sold to more loyal members of the adopted political family (Rényi 2019; Magyar 2016, pp. 82–88).

Going back to ESMA, its economic performance produced a diagram similar to Fig. 1. In 2012, it had a turnover of HUF 1.547 billion, which was scaled back to 520 million in 2013, bringing a loss of 209 million to the company (Tóth 2018). After two similar years with a profit of HUF 5 million and loss of 112 million in 2014 and 2015, respectively, the company was finally sold to István Garancsi. Garancsi is one of Hungary's richest men and a close friend of Orbán's (Brückner 2015). In addition to being the owner of the Videoton Football Club, Orbán's favorite team, Garancsi is the owner of the only savings cooperative not to have been forcibly nationalized, namely the Duna Savings Cooperative (see below), as well as having been "given the opportunity" to buy the majority shares of the company Market Építő Zrt., which has won huge tenders from the state, also co-owning the offshore company that earned 55 billion on the gas deal concluded with Hungarian Electricity Ltd. (Jenei 2014), all of this while "subletting" a flat in Buda to Orbán's son (Ferenczi 2013). Deeply embedded in the adopted political family, Garancsi was a perfect candidate to obtain ESMA.

ESMA was sold in April 2015, the time when the predation entered the *consuming phase*. In July, the discriminatory legal provision that made the business impossible to run was repealed by the Hungarian parliament. While the original argument for ESMA's regulation was road safety, advertisements near roadways were now deemed perfectly safe and even important for providing information to the people (Kreatív.hu 2015). Thus, the new oligarch, who is loyal to the chief patron, can operate his firm at full capacity. ESMA's turnover grew from HUF 518 million to 1.724 billion by 2016, with a 117 million profit in the first year it was in Garancsi's hands. Using the terms of the previous section, ESMA was used for rent collection with appropriate discretionary regulatory intervention in the consuming phase, which further included a large state contract that ensured the company as the primary advertiser for the local government of Budapest for five years (Tóth 2018). The political potential of ESMA was also exploited: it offered billboards in the 2018 election at a 95% discount, mainly to Fidesz (Spirk 2018), whereas it later let the ruling party campaign for free on lampposts and refused to let the opposition party Democratic Coalition (DK) do the same (Spirk 2019). Thus, building and solidifying the patronal network of Orbán with the help of the company was another way ESMA was utilized post-predation.

### 4.2 The case of the banking sector

The raiding of the Hungarian banking sector has been documented by Király (2015, 2016) and Várhegyi (2017, 2019). Várhegyi explains what potential post-predation use the predatory state could count on in the *stalking phase*:

> the economic power of the banking sector can serve not only the nation but also a clearly defined circle of it. [Banks] can be made profitable with necessary state help even when their lendings are less viable: biased intervention and state contracts can make up for the losses, whereas with some regulatory kindliness acts of misdemeanor can be ironed. And money […] can be converted into political power. (Várhegyi 2019, pp. 3–4)

Unlike ESMA, where the predatory state's task was to take over a single captive asset, in this case a number of banks were targeted, each with their own specific ownership arrangements and ability and willingness to resist or escape predation (Soós 2017). Indeed, the sector's *hunting* may be divided into two parts: (1) *general predatory measures*, which aimed at making the entire sector shakier and less profitable for current owners in general, and (2) *specific predatory measures*, targeting specific banks that were to be taken over.

Király (2015, pp. 178–183) lists six general measures enacted in 2010–2014 with the aim of crowding out current—and mainly foreign—owners from the Hungarian banking sector. Three measures constituted single "punches" to the banks: (1) the banks were compelled to offer repayment of outstanding debts at discounted rates, generating hundreds of billions of costs, especially for large foreign banks; (2) a so-called debt relief act was passed, which resulted in another HUF 1000 billion loss for the already distressed industry; and (3) large banks were fined by the Hungarian Competition Authority (GVH) for circa HUF 9.5 billion in total, which was found by independent experts to be hugely excessive. On the other hand, three general measures had not single but continuing effects for years to come. First, a special tax was levied on the banking sector, the tax base of which was not the banks' profits, but their total assets in the previous year. Putting HUF 200–300 billion burden on the sector, the tax alone drove several banks into losses. Second, a new tax on financial transactions made banking services less attractive and drove customers to terminate 4.6% of all bank accounts in the next two and a half years. Finally, new banking regulations were enacted that "were either more strict than international regulations or were significantly different from them [which] demanded costly adjustments from the banks" (Király 2015, p. 181).

Among the means of integrity breaking, reputation-dirtying was also central in the hunting phase, with numerous derogatory statements by Orbán and other government officials about the vicious banks (Király 2015, pp. 175–178). That, as well as the "[r]egulatory actions and the resulting income situation … led foreign owners to rethink their strategy in Hungary: most of the large bank owners rejected and still decided against leaving the market, but have contributed to adjusting the allocation of funds within the banking group and stagnant lending activity" (Király 2015, p. 182). In such an uncomfortable environment, the *specific measures* could enter the scene, moving the targeted banks from their current owners into the hands of the adopted political family. In some instances, that was done by the method of *transit nationalization*, meaning that the respective banks were taken into "temporary state care" (Magyar 2016; Várhegyi 2017). That is, nationalization appeared as an interim phase of predation after the hunting was successful, but before the prey would be transferred to the predefined private owners. In the interim phase, the state reorganized the bank, cleaned its portfolio and provided capital injections, after which the bank could be reprivatized to loyal members of the adopted political family.[9]

To take one example, Várhegyi explains the transit nationalization of MKB Bank—one of Hungary's eight major banks[10]—as follows:

> In fall 2014, the government … bought MKB Bank, the Hungarian subsidiary of Bavarian BLB [Bayerische Landesbank]. As the fifth-largest player on the Hungarian banking market, MKB Bank suffered heavy losses due to bad real estate investments and considerable tribute payments to the Orbán government, but its owner, the Bavarian state, continued to replenish its capital. Thus, it was surprising when the Hungarian National Bank (MNB), also vested with supervisory powers and invoking the recently adopted reorganization law, took the bank under its management and appointed commissioners to head it shortly after it was taken over by the state. The bad investments and loans were removed from the bank's portfolio and […] sold in a publicly nontransparent manner, leaving ample room for profiteering by its clientele. (Várhegyi 2017, p. 304)
>
> As a final step in the reorganization, the MNB sold the bank's shares, which went to Blue Robin Investments, Metis Private Equity Fund and Pannonia Pension Fund at a 45-45-10 percent stake, respectively.… The MNB had promised to sell at least 51 percent of its shares in an international tender, with a preferred ownership structure that includes foreigners and may later be traded on a stock exchange. In the end, nothing happened.… One buyer, Metis Private Equity Fund was launched by the Minerva Equity Fund just a few days before the bid was submitted, although it had put (from a mysterious source) HUF 42 billion into it before the MNB's decision. The other major shareholder, Blue Robin, with a Singapore-based capital of a few million forints, was not even registered at the time of the bid, nor could it be later seen how the company was able to pay the nearly HUF 17 billion purchase price.… Blue Robin quickly handed over 10 percent of its stakes to the bank's employees…, followed by the selling of two-thirds … of the remaining 30 percent to BanKonzult, owned by Tamás Szemerey [the cousin of MNB president György Matolcsy], and one-third … to the company of former MNB Vice President Ádám Balog, who used the preferential credit of Gránit Bank [a private bank that received capital injections from the state after 2014] for this purpose. [In the end,] the once-foreign-owned bank landed in the hands of pre-selected Hungarian private owners close to the head of government following a two-year intermezzo of state existence. (Várhegyi 2019, pp. 8–9)

Other specific measures applied in the hunting phase can be illustrated by the example of savings cooperatives, which involved a network of about 1600 small branches with nearly one million depositors, located mainly in the rural areas of Hungary. Those characteristics indicated high market value ($V_{\mathrm{m}}$) and low resistance because the assets clearly

[9] The literature also uses the term "'repeated privatization': nationalization of the already privatized companies followed by the alternative 'fair' privatization" (Chernykh 2011, p. 1240).

[10] The eight great banks at the time of predation were (in alphabetical order): Budapest Bank, CIB Bank, Erste Bank, K&H Bank, MKB Bank, OTP Bank, Raiffeisen Bank, UniCredit Bank (Király 2015, p. 192).

were immobile and also appropriable ($r(m, a)$). As Várhegyi's description shows, the case is a clear application of white raiding:

> Adopted in late June 2013, the law on the integration of the cooperative credit institutions disenfranchised and deprived hundreds of thousands of private owners of their stakes in the cooperative credit institutions, which represented the largest segment of the "national" banking system: it nationalized their accumulated wealth and ousted them from the banks they themselves established, while the government retained the right of all substantive decisions on the matter.
> In spring 2013, the government opened the way for a large-scale operation by acquiring a 38.5% stake in Takarékbank (Savings Bank), majority-owned by the cooperatives, through the Hungarian Development Bank as an intermediary.… Under the legislation, the cooperatives could only remain owners of Takarékbank if they complied with the requirements set out in statutory regulations: if they voluntarily handed over the wealth that had accumulated in institutional protection funds to the state-orchestrated Integration Organization, and if they accepted a new company charter that was drafted with guidance from the government. If they were unwilling to do this, then their status as a cooperative credit institution would be relinquished, and they would be required to transfer their Takarékbank shares to the publicly owned MFB. This new charter forced onto the savings cooperatives does not allow them to have a say in any substantive decisions, while the management of Takarékbank is able to have a say in the personnel decisions of the cooperatives, and can even replace their democratically chosen leaders. (Várhegyi 2017, pp. 299–300)

The coercive nature of the takeover of savings cooperatives is further demonstrated by the fact that the above-mentioned new company charter was not known to those concerned until the day *after* they had to vote on it at the general meeting of the National Association of Savings Cooperatives. According to Várhegyi (2019, p. 7) the cooperatives at this point "had decided to vote for whatever they were forced to do." That conclusion is congruent with other reports about the opinions of the attending owners on the procedure (Dávid 2013).

After a long and complex process of transition (Brückner 2019), the network of savings cooperatives and the Savings Bank's management rights went to FHB banking group, with state capital channeled to oil the integration process. FHB was originally led by Zoltán Spéder, but the previously mentioned Orbán-Simicska war led to his replacement by József Vida, previously known as the leader of B3 Savings formed by the merger of ten savings cooperatives (Várhegyi 2019, pp. 7–8). Vida is a trusted collaborator of Lőrinc Mészáros, a former gas fitter who became Hungary's richest man within a matter of years from public procurement projects (Simon 2017; Erdélyi 2019; Bátorfy 2019b; Csurgó and Szémann 2017). According to a survey published by Medián Public Opinion and Market Research Institute in 2017, more than two-thirds of Hungarians believe that he is a front man for Orbán, who enriches himself through association with Mészáros (*hvg.hu* 2018).

As *Forbes Hungary* reports, Mészáros and his family have produced fivefold wealth growth from 2018 to 2019—the fastest the magazine has ever recorded—and they have become "unavoidable actors" in construction, tourism, heavy industry, energy and agriculture (*Forbes Magyarország* 2019). No wonder Mészáros also is one of the prime beneficiaries of the raided banks' *consuming phase*. As the ownership reorganization succeeded, the three general predatory measures with continuous effect were scaled back, including the special tax on the banking sector and on financial transactions (Jenei 2018; Dull 2018). The banks engaged in preferential lending to finance real estate investments and media buyouts, as well as the purchase of a hotel chain for Mészáros (Várhegyi 2019, p. 11). According to investigative journalists, MKB lent HUF 41.5 billion, Eximbank 28.1 billion, Savings Bank 6.16 billion and Gránit Bank 0.9 billion to oligarchs related to Orbán (Rádi 2018).

## 5 Conclusion

In this paper, we attempted to bring together two branches of literature that have evolved independently: the economics of the predatory state and the literature on post-communist predatory practices in countries such as Ukraine, Russia and Hungary. Focusing on the illegal takeover of productive assets for private gain (*reiderstvo*), we developed in the second section of the paper a typology of black, grey and white raiding, pointing out how the initiators of coercion can be criminal groups, independent members of low- and middle-state apparatuses, and top-level public authorities. In the third section, we started with the insights of public choice scholars on the predatory state. We argued that the aim of reinterpreting well-known ways of state functioning has focused research interest on general forms of state predation, like taxation, and has not encouraged the exploration of newer methods of predation in modern authoritarian regimes. Discussing the works of Leeson (2007) and Vahabi (2016), we attempted to expand their models, as well as the insights of other public choice scholars, to incorporate centrally led corporate raiding as a specific form a state predation. We also enumerated the various aspects a rational predatory leader of a modern authoritarian regime would consider.

In the paper's empirical part, we illustrated the model with the case of Hungary, the only autocratic predatory state in the European Union. We started with the more straightforward case of ESMA, an outdoor advertising company that was hunted down and has been exploited successfully in the consuming phase of predation ever since. The next illustration was Hungary's banking sector, involving transit-nationalizations as well as the raiding of savings cooperatives. While the consuming phase in case of ESMA reaped mainly political benefits, the centrally led corporate raiding of banks has contributed to the building of the economic leg of the adopted political family of Viktor Orbán.

The phenomenon of predation is not accidental in today's Hungary. Local businessmen who were surveyed claimed that people connected to Orbán take over companies by "mafia tools", such as blackmail and existential threats (Sallai and Schnyder 2018), whereas investigative journalists have found that the predatory state has set up informal "agents" who check on every firm with a turnover above 1 billion forints (roughly $3.4 million) and decide whether it should be taken over (Szabó 2019). Also, while we focused on advertising and the banking industry, the economic power that Orbán and his adopted political family have accumulated since 2010 extends to many other sectors of the economy, particularly those involved in EU transfers (CRCB 2016; Magyar 2019a). Such involvement leads to a qualitative change in the character of Hungarian capitalism, wherein captured markets begin ceasing to operate by the logic of competitive markets and turn into *relational* markets, constituting a *relational economy* (Magyar and Madlovics Forthcoming). Future research must precisely identify the markets and the extent to which they are subordinated to the relational logic, how many companies have been victims of predation, and in what ways it changes the behavior of potential prey companies such that the primary question of operation is not whether they can remain in competitive markets but whether they become part of the predatory state's food chain. Research that focuses on Hungary, the post-communist region or beyond will contribute to both our knowledge about contemporary predatory regimes and to theoretical discussions about the economics of predatory states.

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