



TRANSFORMATIVE TRANSFORMATION? 30 YEARS OF CHANGE IN CEE

4liberty.eu is a network of several think tanks from CEE (Poland, Hungary, Slovakia, Slovenia, the Czech Republic, Bulgaria, Estonia, Lithuania, and Germany) and our partners from EaP countries. Our goals: to make the Central European perspective accessible to an international audience, to be a reliable source of information on regional issues, and act as the voice of the region. Our authors are experts, intellectuals, and researchers. We publish high-quality analyses, polemics, and articles in English, building bridges between nations to further understanding among experts from particular countries. Our website, 4liberty.eu, is designed to become a platform where experts and intellectuals representing liberal thought from Central and Eastern Europe can share their opinions and ideas.

EDITOR-IN-CHIEF OF 4LIBERTY.EU REVIEW

Olga Labendowicz

CONTENT EDITOR OF 4LIBERTY.EU REVIEW NO. 11

Krassen Stanchev

PUBLISHER

Fundacja Liberté! (102 Piotrkowska St., 90-004 Lodz)

Błażej Lenkowski – President of the Board, Leszek Jażdżewski – Vice-President of the Board, Kamil Janiszewski – Secretary, Filip Miloszewski, Rafal Szkudlarek

L I B E R T É !

SUPPORTED BY

Friedrich Naumann Foundation for Freedom (FNF)

FÜR DIE FREIHEIT

WEBSITE

www.4liberty.eu

PROOFREADING

Carter Oswood

COLLAGES:

4liberty.eu

LAYOUT

2x3 Studio Kreatywne

PRINTDrukarnia Poldruk s.c. Józef Grzywa, Marek Kawka
39a Wroclawska St., 58-309 Walbrzych

2x3

Transformative Transformation? 30 Years of Change in CEE

Central and Eastern Europe, a home to around 190 m individuals. Each with their own hopes, dreams, and agendas. All of them with a unique set of experiences and access to their *sui generis* historical past. Most of them, however, shared similar routes on their way to becoming liberal democracies. Whether or not the achievements of the early 1990s have been retained is another story. One thing is certain: the importance of the changes introduced back then has been undeniable.

Thirty years ago, a wind of change swept through the region. The Eastern Bloc experienced a series of structural, political, and social changes that have forever shifted the mindset of its inhabitants. Once the countries long oppressed by the communist regime regained their sovereignty, the hankered-after freedom entered every possible sphere of life.

Let us take Poland, my homeland, as an example. Within the past three decades it has managed to join the ranks of other well-developed Western democracies, with a booming economy and an open society. Has the Polish transformation been truly *transformative*? Yes. Was it permanent? Well, is any change permanent? Not really. After all, “the world turns and the world changes”, as T.S. Eliot once stated. What matters is that any real transformation needs to progress, never stagnate or be reversed – a phenomenon recently visible in the country that inspired so many other societies.

Sadly, as the phrase goes, *plus ça change* – even after going through complex stages of transformation, some people in Poland still question the achievements of transformation, trying to bring about a kind of a come-back of the “good old days” from before the democratic changes started. However, any reversal of the said accomplishments in the region is unacceptable.

There is only one way out of the recent conundrums most of the CEE citizens have been facing: keep moving forward. Embracing the positive developments while at the same time trying to simply work out the kinks that still have not been addressed. This is what the 11th issue of *4liberty.eu Review* is about. We explore the extent of the transformation processes in a number of CEE countries – from Poland, to Ukraine, the Czech Republic, Slovakia, and Bulgaria. Because we believe that even though “everything changes, nothing perishes”, to quote Ovid.

Enjoy your reading,
Olga Labendowicz
Editor-in-Chief of the *4liberty.eu Review*
Coordinator of 4liberty.eu network

Contents

TOMASZ KASPROWICZ / 30 YEARS OF FREEDOM IN CEE: VARIOUS PATHS
AND DESTINATIONS / **004**

MARTIN REGULI / EU ACCESSION AND REVIVAL OF NATIONALISMS IN CEE / **020**

IRYNA FEDETS / 30 YEARS LATER: WILL SOVIET LEGACY STILL SHAPE UKRAINE'S FUTURE? / **034**

MATE HAJBA / ORBANIZATION OF THE MAGYAR STATE: HUNGARY IN THE PAST 30 YEARS / **056**

JANOS KARPATI / MEDIA UNFREEDOM, HUNGARIAN STYLE: FROM "APO" TO "KESMA" / **072**

ROMAN MÁČA / "GOOD OLD TIMES": FAKE NEWS MACHINE IN THE CZECH REPUBLIC / **084**

MIŁOSZ HODUN / THE END OF AN ERA: RANKINGS WILL TELL YOU THE TRUTH
ABOUT POLAND / **094**

MAREK TATAŁA / IT'S NOT ONLY THE ECONOMY, STUPID: PROGRESS IN POLAND
AFTER SOCIALISM / **114**

ADRIAN NIKOLOV / BULGARIA ON THE PATH TOWARDS ELECTED AUTOCRACY:
HOW FAR HAVE WE GONE? / **128**

GÁBOR HORN / THERE WILL BE A LIBERAL EAST-CENTRAL EUROPE AGAIN! / **140**

KRASSEN STANCHEV / THE LAST 30 YEARS IN A HISTORIC PERSPECTIVE // AFTERWORD / **148**

30 Years of Freedom in CEE: Various Paths and Destinations



*

TOMASZ
KASPROWICZ

The division of the world into the first (capitalistic) world and the second (communistic) one for decades seemed very stable. If anything, Communism was often supposed – and even more often advertised – to be more efficient. Western economists were estimating when the second world will surpass the first one. In 1961, Nobel Prize winner Paul Samuelson predicted that the Soviet Union would have higher per capita product than the United States sometime between 1998-1997¹ and he maintained his forecast up to 1980, pushing the nefarious moment to between 2002 and 2012. Luckily, Nobel Prize winners tend to be very wrong in their anticipations and around 1989 the Communist Block collapsed – mainly due to economic reasons. This turn of events opened a new path to many nations, which were formerly under Soviet rule.

THE LANDSCAPE

Former socialist countries span most of the Asian continent, and a good part of Africa and Europe [See: Figure 1]. After the collapse, Communism became almost extinct – with the notable exception of China and its satellites. It is hard, however, to call China communist anymore – especially when it comes to the economy. Let us therefore take a look into the European post-Soviet countries, as well as the Asian ones that appeared after the deconstruction of the USSR.

It is important to understand that for most of the countries, the transformation was a complete overhaul of politics, economics, and mentality. In fact, it was a true reemergence after decades of oblivion – and for many, the first shot at independence. The cases of Poland, Bulgaria, Romania, or Hungary, which remained in the same shape and

”
AFTER
THE COLLAPSE,
COMMUNISM
BECAME ALMOST
EXTINCT –
WITH THE NOTABLE
EXCEPTION
OF CHINA
AND ITS SATELLITES

‘just’ had to change the political and economic regime, were exceptions. It was a turbulent time when countries split. Sometimes it was surprisingly peaceful and efficient – as in the case of Czechoslovakia, which was divided into the Czech Republic and Slovakia.

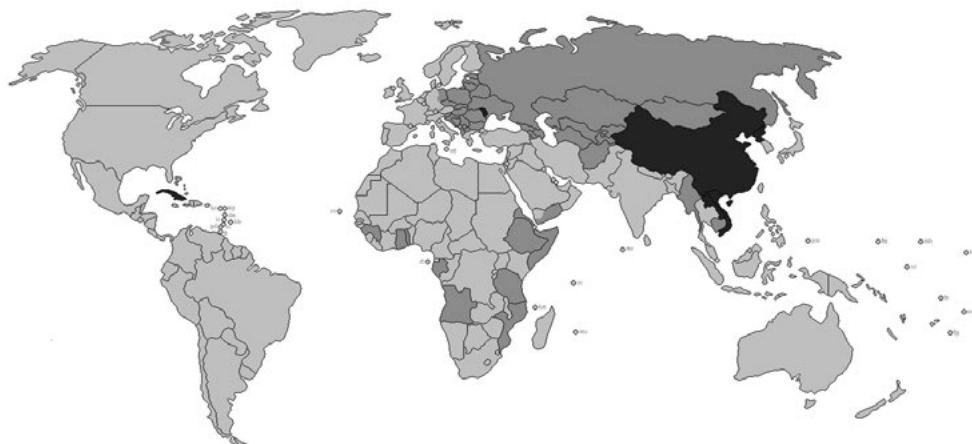
However, this was not always the case. One notable example would be Yugoslavia. There, the decomposition resulted in bloodshed that lasted five years, with “follow ups” – Kosovo and Macedonia – leading to almost a decade of genocide, ethnic cleansing, and a total of 140,000 deaths². Yet, such events were not localized to the Balkans and we need to remember about other conflicts – like the one between Azerbaijan and Armenia, which caused the deaths of over 17,000 people and further displacement of another 750,000³. Even up to today, it is

² International Center for Transitional Justice (2009) *Transitional Justice in the Former Yugoslavia*, January 1.

¹ Samuelson, P. A. and A. Scott (1961) *Economics: An Introductory Analysis*, New York: McGraw-Hill.

³ Popescu, N. (2010) *EU Foreign Policy and Post-Soviet Conflicts: Stealth Intervention*, London: Routledge.

Figure 1: Abandoning communism in the world in 2019 [dark gray – former communist countries; black – communist countries]



Source: Sjorskingma // CC BY-SA 3.0

reported that there are approximately 200 sniper casualties per year, despite the ceasefire that was signed in May 1994.

The time when nations could decide to go their own way did not last long. Russia quickly decided to stop further decomposition of its empire. One way was tying newly formed countries of 'near abroad' in international organizations like the Commonwealth of Independent States or the Eurasian Economic Community. Also, an initially peaceful breakup became far more violent.

Two Chechen wars cost the life of more than 200,000 people⁴ and their sole purpose was to keep Chechnya a part of the Russian Federation. Soon, Russia went on an offensive to rebuild its empire. Border quarrels became the tool of choice to discipline now independent former parts of the USSR that decided to adopt a more pro-Western attitude. This is why Russia is directly or indirectly engaged in invasions and land

grabbing in disobedient former republics creating, Transnistria from the part of Moldova, Abkhazia and South Ossetia from the part of Georgia, and most recently embarking on the annexation of Crimea and the creation of puppet republics in Donbas and Lugansk. Such state of frozen conflict serves as a means of maintaining pressure on these countries, making sure they cannot integrate into the Western institutional system.

Even when the transition was peaceful, most of the countries had to face the issue of rebuilding their identities in addition to reforming their economies. This was especially pronounced in the countries that had very little former experience of being independent. In most cases, their nations were under heavy Russian influence, and had previously undergone extensive Russification, as well as active colonization by ethnic Russians.

POST-SOVIET IDENTITIES

In 1991, after the dissolution of the USSR, about 25 million ethnic Russians were living outside Russia, creating large minorities

(over 20% of population in Kazakhstan, Latvia, and Estonia)⁵. So one of the first tasks of the new nations was to distinguish their own national identity from that of a Russian identity. This meant the reintroduction of national languages. They were often not a default language for inhabitants, as Soviet politicians tried to make national languages mostly a matter of folklore, while Russian was the language of art and science. Yet, such transitions had to be made carefully so as not to anger the powerful neighbor and a large part of their own populations that spoke Russian. Even today, about 30% of the population of Ukraine does not speak Ukrainian, and in 2016, only a quarter of all magazines and a third of newspapers were printed in Ukrainian⁶.

Nonetheless, most of the post-Soviet countries managed to officially raise the rank their native languages and keep Russian as a secondary language, despite the fact that some politicians (eg. Ukrainian President Leonid Kuchma in 1994⁷ or Vladimir Voronin in Moldova in 2001⁸) rose to power on the promise of making Russian the official language in their respective countries⁹. This policy seems more and more controversial considering the idea of 'ruskij mir' – a protectorate proclaimed by Russia extending over all places where Russian is spoken.

⁵ Greenall, R. (2005) "Russians Left Behind in Central Asia", [in]: *BBC News*, November 23.

⁶ https://www.bbc.com/ukrainian/rolling_news_russian/2016/11/161108_ru_n_language_rates

⁷ Bilaniuk, L. (2005) *Contested Tongues: Language Politics and Cultural Correction in Ukraine*, Ithaca, New York: Cornell University Press.

⁸ Ciscel, M. (2008) "Uneasy Compromise: Language and Education in Moldova", [in]: *International Journal of Bilingual Education and Bilingualism*, Vol. 11(3-4), pp. 373-395.

⁹ Pavlenko, A. (ed.) (2008) "Multilingualism in Post-Soviet Countries", [in]: *Multilingual Matters*, Vol. 11(3-4), pp. 1-40.

”

IN 1991, AFTER THE DISSOLUTION OF THE USSR, ABOUT 25 MILLION ETHNIC RUSSIANS WERE LIVING OUTSIDE RUSSIA, CREATING LARGE MINORITIES

It seems that language, as a matter of identity, became an issue of sovereignty. This was confirmed by the case of Belarus – the only country that allowed Russian to be the second official language. As a result, Belarusian is rarely used and limited mostly to ceremonial applications. At the same time, Belarus is clearly on the path to being incorporated by Russia¹⁰.

Despite defining their identities in opposition to Russia, the post-Soviet countries were not anti-Russian. On the contrary – they felt a deep connection with Russia, and most of them gladly entered such organizations as the Commonwealth of Independent States that oversaw most of the former USSR. In contrast to Central European countries, the societies of many post-Soviet countries were not condemning communism either. It is enough to mention a continued reverence

⁴ *The Moscow Times* (2005) "Death Toll Put at 160,000 in Chechnya", August 16.

¹⁰ Marples, D. (2006) "Color Revolutions: The Belarus Case", [in]: *Communist and Post-Communist Studies*, p. 39.

to infamous Vladimir Lenin – for instance, in the main State History Museum of Bishkek, Kirghistan (formerly Lenin Frunze Museum) is still dedicated chiefly to this leader. Such sentiments are clearly unfathomable in Europe, where in some countries (eg. Poland) the symbols of Communism have been banned along with the symbols of Nazism.

In contrast, Central European countries became far more anti-Russian and anti-communist from the start of the transformation. The political opposition and uprising against Soviet domination were frequent in Czechoslovakia, Poland, and Hungary – even if brutally extinguished either by local collaborators or by foreign intervention. The political movement of Solidarity under the leadership of Lech Walesa is often credited with toppling Communism, but this time it succeeded only because of a lack of will-power on the side of Soviets.

The Polish bloodless revolution of 1989 was from the beginning conducted in fear of the reaction to the Russian military. Remembering the suffering that came at the hands of Russians, the V4 countries (Poland, Hungary, Czechia, and Slovakia) along with Baltic states (Latvia, Lithuania, and Estonia), Romania and Bulgaria set firmly their allegiance to the Western world by applying for membership into NATO and the European Union (EU). This strategy has proven to be successful, which was not obvious in the early 1990s, and required careful lobbying mostly in the United States.

Strangely, even greater suffering at the hands of Russians in the form of 'hloodomor' (great hunger that was induced at the order of Joseph Stalin, which cost the life of 10 million people) did not create the same effect in Ukraine. This was, however, accomplished by the invasion of Crimea and Donbas. It seems that these events have permanently changed public sentiments towards Russia

”

DESPITE DEFINING
THEIR IDENTITIES
IN OPPOSITION
TO RUSSIA,
THE POST-SOVIET
COUNTRIES WERE
NOT ANTI-RUSSIAN

and the emancipation of Ukraine, which is evident, for example, with the Ukrainian Orthodox Church gaining autocephaly (independence from Russian patriarchs in Moscow)¹¹ despite protest from both the Russian church and authorities.

POLITICAL TRANSFORMATION

The changing of the political regime was yet another task. One needs to remember that Communism in the late 1980s was quite different than that in the first half of the 20th century. Since 1953, the regime was slowly easing from totalitarian to autocratic. After the fall of the Communism, the newly formed states declared to be democracies. Still, we need to remember that the USSR also considered itself a form of democracy, so this term is quite ambiguous. The Central European countries, along with the Baltic States, became liberal democracies, at least for the time being. The aspiration to join the EU, along with society's sentiment, forced such a solution.

¹¹ Ecumenical Patriarchate (2018) *Announcement (11/10/2018)*. Available [online]: <https://www.patriarchate.org/-/communiq-1>

Table 1: GDP per capita PPP constant dollars 2011 dollars in 1990

Country	GDP	Year other than 1990	World rank
Russian Federation	\$ 20 639		36
Czech Republic	\$ 20 023		37
Slovenia	\$ 18 899		38
Hungary	\$ 15 156	1991	39
Kazakhstan	\$ 13 050		39
Slovakia	\$ 11 633	1992	40
Romania	\$ 11 446		40
Croatia	\$ 12 754	1995	41
Estonia	\$ 10 626	1993	41
Ukraine	\$ 10 464		41
Poland	\$ 10 277		45
North Macedonia	\$ 9 633		48
Bulgaria	\$ 9 297		51
Lithuania	\$ 9 357	1995	51
Montenegro	\$ 10 531	1997	52
Azerbaijan	\$ 8 790		52
Latvia	\$ 8 316	1994	52
Belarus	\$ 8 367		53
Turkmenistan	\$ 8 317		55
Georgia	\$ 7 984		62
Albania			66
Serbia	\$ 7 349	1995	67

Country	GDP	Year other than 1990	World rank
Armenia	\$ 3 742		67
Tajikistan	\$ 3 661		69
Kyrgyz Republic	\$ 3 475		73
Uzbekistan	\$ 3 089		74
Moldova	\$ 3 154	1992	95
Kosovo	\$ 4 626	2000	103
Bosnia and Herzegovina	\$ 1 476	1994	104

Source: World Bank

The recent rise of illiberalism, especially pronounced in Central Europe, puts these achievements at risk. Freedom House downgraded Hungary to “partially free”¹². Poland is heading the same way, albeit at a much slower pace, due to resistance in the EU that does not want to allow for the repetition of the Hungarian scenario. Luckily, it seems that these trends have been reversed in Slovakia with the election of a new liberal president, Zuzana Čaputová.

The Balkan states on the other hand, are quite a mixed batch – mostly due to a violent history as wartime promoted authoritarianism. According to Freedom House, Croatia and Slovenia, also EU members, are considered “free”, while the rest of the countries of former Yugoslavia remain “partially free”. This situation is expected to improve as these states have aspirations to join the EU, and must first comply with liberal democracy standards.

This is not the case with post-Soviet countries. According to Freedom House, Armenia, Georgia (performing very well in all other indexes), Kyrgyzstan, Moldova, and Ukraine were considered “partially free”. Azerbaijan, Belarus, Kazakhstan, Russia, were deemed not free while Tajikistan, Turkmenistan and Uzbekistan were on the “worst of the worst list”.

The autocracies in these countries are not necessarily without democratic mandate. Dictators like Vladimir Putin, Alexander Lukashenko, or Nursultan Nazarbayev (who has just stepped down after ruling Kazakhstan since the collapse of USSR, as it was the political pattern in Soviet successor states of the Central Asia) are extremely popular and would win the popular vote in a landslide. Still, they choose to falsify the elections in order to present their strength both by proving that they can perform such feat with impunity and showing exaggerated support, which is supposed to justify their actions as following the will of the people. This is a kind of benevolent (as long as the approval ratings are high) dictatorship. Yet, in some cases, it was still the case of dealing with bloody dictatorships of the worst

”

WITH THE STEADY GROWTH OF 3.7% PER YEAR, POLAND HAS BEEN A CLEAR WINNER OF TRANSFORMATION

kind, and for these nations the fall of USRR was actually a step-down from the point of their freedom.

ECONOMIC TRANSFORMATION

We need to remember that the fall of Communism was mostly induced by a highly inefficient economy. Noteworthy, in 1990, not all second-world countries were poor and the picture was rather complicated [See: Table 1]¹³. In order to keep the values in Table 1 in perspective, the countries were ordered by the rank they achieved in the World as measured by their GDP per capita (PPP, constant 2011 dollars). Clearly, we can see the situation is far from homogeneous. The top of the list is occupied by a collapsing Russia, which had quite a high standing in the world (36th) with respect to economic product. The problem was, however, the quality of the production – central planning lead to the situation in which strategic, but mostly useless, products and technologies were promoted at the expense of innovation and entrepreneurship.

When we look at the list in Table 1, we see Czechia followed by Russia and Slovenia.

Then there is a rather long list of countries with GDP per capita of over USD 10,000 with a rank over fifty in the global wealth ranking. This part of the list starts with Hungary and ends with Poland. The bottom part contains countries that fit between 50th and 100th in GDP per capita in the world. That part starts with Bulgaria, and ends with Moldova. As one may see, second-world countries were not that poor even at the time of the collapse of the economic system.

So how has economic transformation worked out once the shackles of central planning were removed? Surprisingly bad. There are countries that actually are in worse condition than in 1990. Most notably, Ukraine lost about 1% of its GDP per year until 2017. Tajikistan is not much better – oscillating at the level of 0.64% loss per year. Kirghistan is virtually in the same situation as it was thirty years ago, and we have to keep in mind that the past thirty years were mostly a time of excellent prosperity – event taking into consideration the 2007 global financial crisis.

The mentioned losers of transition actually dropped about 35-55 places in the global ranking of GDP per capita. Just to keep the same relative place, these countries had to develop at the pace of 2% per year – if they were rich to start with. For the poorer ones, the pace had to be even greater.

The last three decades were the times that required “running to stand still”, as many countries have been rising from poverty – mostly in Asia. Actually, from all of the countries for which we have data since 1990, just seven improved their standing, and only one (Poland) significantly so. With the steady growth of 3.7% per year, Poland has been a clear winner of transformation, surpassing Hungary, Russia, Ukraine, Romania, and Kazakhstan. The Polish result is matched only by Albania (which started from a much lower

¹² Freedom House (2019) *Freedom in the World 2019*. Available [online]: https://freedomhouse.org/sites/default/files/Feb2019_FH_FITW_2019_Report_ForWeb-compressed.pdf

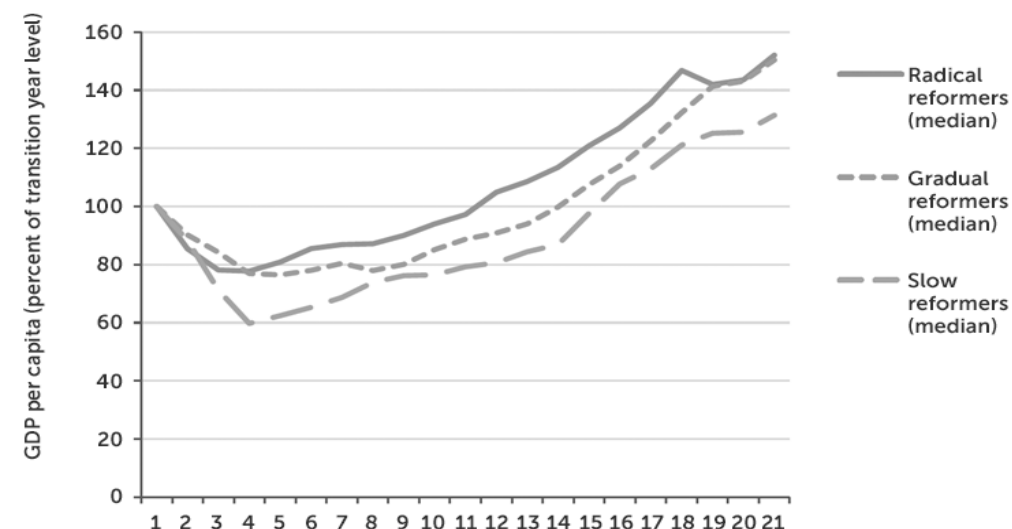
¹³ The data series start in various years as the countries emerged.

Table 2: Economic performance after 30 years of transformation

Country	GDP 2018	Average growth	Improvement in global ranking
Poland	\$ 28 752	3,74%	22
Albania	\$ 12 306	3,69%	14
Bulgaria	\$ 19 321	2,65%	8
Belarus	\$ 17 742	2,72%	8
Turkmenistan	\$ 17 129	2,61%	6
Slovenia	\$ 32 743	1,98%	5
Czech Republic	\$ 33 414	1,85%	4
Romania	\$ 24 544	2,76%	0
Kazakhstan	\$ 24 738	2,31%	-2
Azerbaijan	\$ 16 011	2,16%	-2
Armenia	\$ 9 178	3,26%	-2
Uzbekistan	\$ 6 240	2,54%	-8
Russian Federation	\$ 24 791	0,68%*	-13
North Macedonia	\$ 13 483	1,21%	-18
Georgia	\$ 10 152	0,86%	-27
Kyrgyz Republic	\$ 3 447	-0,03%	-34
Tajikistan	\$ 3 061	-0,64%	-43
Ukraine	\$ 7 907	-1,03%*	-54

* Data for 2017
Source: World Bank

Figure 2: GDP per capita during the transition [transition year = 100]



Source: Shleifer, A. and D. Treisman (2014) "Normal Countries: The East 25 Years After Communism", [in]: *Foreign Affairs*, Vol. 93, pp. 92

level of development), and Slovakia¹⁴. The Polish 1990s reforms authored by Leszek Balcerowicz are treated as the template for many other countries with an economy under transformation. Other winners are Bulgaria, Belarus, Turkmenistan, Slovenia, and Czechia. Meanwhile, Romania, Kazakhstan, Azerbaijan and Armenia nearly maintained their standing.

Probably the biggest loser, besides Ukraine, is Russia. With a mere 0.7% yearly growth, it did not only drop thirteen places in the said global ranking, but also fell below Poland, Slovenia, and Czechia. It is clearly a painful blow to this proud nation that in many aspects used to be on par with the United States. This also explains many aggressive moves by Russia against its neighbors. If the government cannot provide an increase in

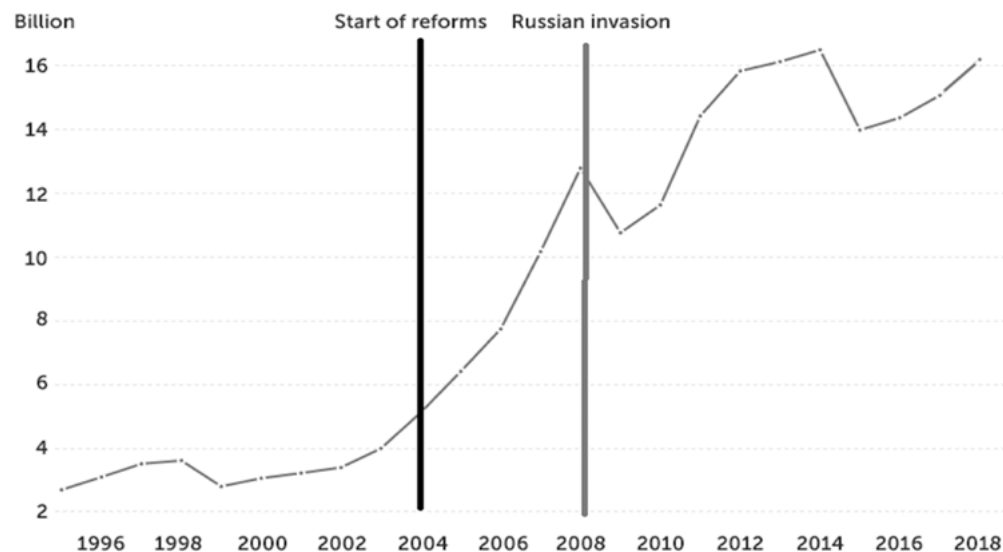
living standards comparable to its formerly poorer neighbors, it must provide for other needs of the nation in order to keep the power. In this light, the Russian need of national pride was chosen as a way to neutralize frustration coming from weak economic performance.

EXPLAINING VARIOUS OUTCOMES

This puzzle of very different outcomes of economic transformation begs for an explanation. The anecdote says that there were three models of economic transformation in communist countries: the first was to sell public companies to foreign corporations; the second was to steal them with friends; and the third, to steal them with family. The former applied mostly to Central Europe, the second applied to Russia and Ukraine, whereas the third one to Central Asia. Of course such a view is a gross oversimplification, it still holds at least part of the answer.

¹⁴ <https://www.economist.com/graphic-detail/2016/05/05/comparing-crony-capitalism-around-the-world>

Figure 3: Georgia GDP per capita PPP vs major events



Source: Based on the World Bank data

Selling everything to western corporations and applying for membership in western organizations had profound effects. Firstly, it meant the import of Western institutional governance, the rule of law, and anti-corruption measures. Secondly, for the most part it prevented the creation of local oligarchy as inflows from privatization were spent on supporting heavily underfunded state functions. Hence, no local “strong men” that could easily corrupt politicians appeared, and democracy could resume its normal functions supported by a system of checks and balances.

Echoes of this situation are clearly visible in *The Economist's* Crony Capitalism Index, which is supposed to measure how much oligarchs are intermingled with government. The first place, out of twenty-two countries measured, went to Russia, while fifth place went to Ukraine. The only other ranked post-communist country is Poland – it occupies

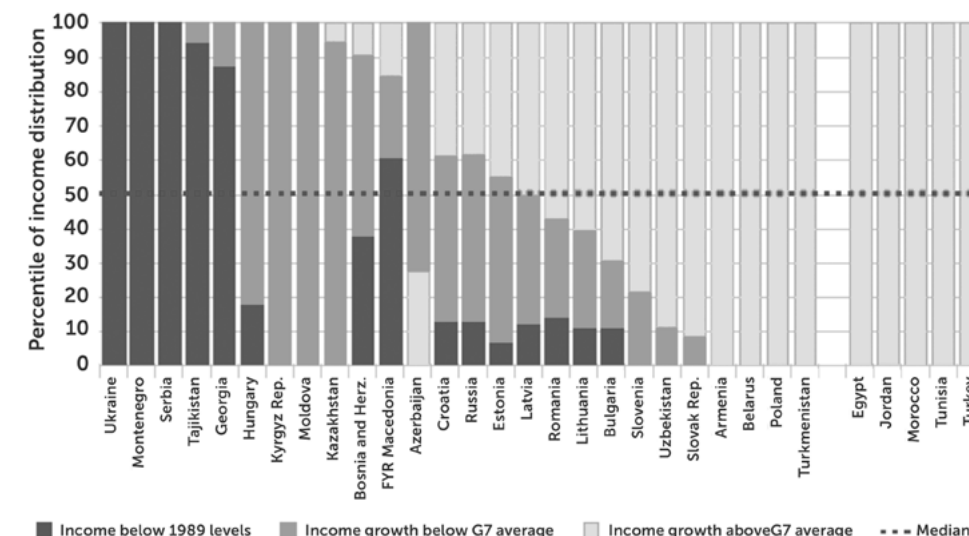
the 21st place, thus being almost at par with Germany, which is 22nd (and last)¹⁵.

The same was not true in the case of other countries where people that seized state-owned assets quickly took hold of political power too (or, the other way around – at this point it is hard to determine which came first). These people became entrenched in authority and limited any innovation and entrepreneurship in their country. This approach was to make sure their position was unchallenged, but, at the same time, severely limited economic growth and benefits arising from globalization.

This slow-down in many cases meant stagnation, unless a particular country had access to natural resources – mainly oil and natural gas. In such a case, the key to power was controlling this resource. But even this did not guarantee constant prosperity, and

¹⁵ Ibid

Figure 4: Percentiles of the population with income growth above/below the G7 [average] (1989-2016)



Source: European Bank for Reconstruction and Development (2016) *Transition Report 2016-17*

exposed countries to the great instability of global commodity markets. This led to a temporary surge of income during good times, and a slide into despair when oil prices dropped. That is the reality of oil-dependent countries like Russia, Kazakhstan, or Azerbaijan.

Reliance on natural resources is another reason for different paths of economic development. Oil extraction and export is a low-hanging fruit yielding large profits, hence it does not seem worthy to pursue other activities. Because of that, the economy becomes too focused on a single industry, while other sectors remain underdeveloped – even such crucial ones as agriculture.

This was especially visible in the case of Russia, where most foodstuffs were traditionally imported: about 40% of the domestic fruit consumption, approximately 80% of the meat and meat products consumption, fish and seafood, milk and dairy products,

and approximately 90% of vegetable consumption¹⁶. The Russian counter-sanctions introduced in 2014 on food from the West caused immediate shortages on the market. This was presented as the chance to rebuild local farming. Indeed, production of some foodstuffs increased, but Russia still struggled in many other respects – e.g. dairy products¹⁷. Anyhow, the prices of food spiked (an increase of 18% in the first year of the embargo, and 11% in the second year), while the economy was very weak. This translated into additional hardships for the poorer part of the population.

Ironically, the countries devoid of valuable natural resources have fared much better, as they were forced to transform their

¹⁶ <https://financialobserver.eu/cse-and-cis/banning-food-from-the-west-will-not-bring-success-to-russian-manufacturers/>

¹⁷ <https://www.usnews.com/news/best-countries/articles/2017-08-18/3-years-of-sanctions-changes-russias-food-market>

economy much more rapidly. The pain of transformation was greater, but the yield significantly higher. Apparently, the depth of the initial reforms had a direct relation to the successful transition to a market economy and so the effects lasted for decades¹⁸ [See: Figure 2]. This phenomenon was an answer to a debate from the beginning of transformation: should reforms be gradual to minimize the pain, or should they be deep while there is still social acceptance for them? Clearly, the first approach leads to a situation in which the reforms are not implemented at all.

ATTEMPTS TO CATCH UP

Some countries that used to be slow reformers decided to repeat the success story of Poland – even asking for direct help from the authors of the reforms. This was the case of Georgia under the first presidency of Mikheil Saakashvili when he basically eliminated corruption, the influence of oligarchs, cut red tape, and attracted foreign investment. As a result, Georgia has for years been among the top friendliest countries to start and run a business in¹⁹.

After that, the Georgian economy started growing at a much faster pace and became quite resistant to external shocks. Even the Russian invasion in 2008 gave the economy only a temporary pause [See: Figure 3]. It seems that despite late reforms, Georgia is on its way to developing a modern and vibrant economy that is already quite integrated with the developed world. If it was not for the frozen conflict with Russia, Georgia might very well be a member of the EU.

¹⁸ Shleifer, A., D. Treisman (2014) "Normal Countries: The East 25 Years after Communism", [in]: *Foreign Affairs*, Vol. 93, p. 92

¹⁹ World Bank (2019) *Doing Business 2019*. Available [online]: https://www.doingbusiness.org/content/dam/doingBusiness/media/Annual-Reports/English/DB2019-report_web-version.pdf

“OUT OF FIFTEEN COUNTRIES WITH THE LOWEST FERTILITY IN THE WORLD, SIX ARE POST-COMMUNIST COUNTRIES

It seems that the case of Georgia was also one of the role models for reforms in Ukraine, which was facing stagnation similar to the one in Georgia before 2000. However, being far larger and having wealthier and more entrenched oligarchs, the road for Ukraine has been much more difficult. This could be seen, for example, when looking at how slowly the anti-corruption measures have been introduced²⁰.

It remains a great hope for the region that they eventually will succeed in their struggle to build a strong and efficient state. Ukraine is far too important for the region, but has remained largely unreformed and a hostage of its past.

INEQUALITY AND TRANSFORMATION

It is also interesting to look at how the effect of transformation was distributed between members of the society. Initially, the wealth

²⁰ Lough, J. and V. Dubrovskiy (2018) *Are Ukraine's Anti-Corruption Reforms Working?*. Available [online]: <https://www.chathamhouse.org/sites/default/files/publications/research/2018-11-19-ukraine-anti-corruption-reforms-lough-dubrovskiy.pdf>

(or lack thereof) was distributed quite equally (apart from a narrow governing caste). The introduction of capitalism and privatization quickly increased inequality. If state-owned property was seized by local oligarchs, inequality was much larger than in the case of selling it to foreign corporations, where cash inflows were redistributed through the state budget. As a result, the GINI coefficient in Russia is almost twice as big in Slovakia, and 30% higher than in Poland²¹.

Secondly, the effects of the growth were not equally distributed in the post-communist countries. In 2016, in many countries, the income level for many income deciles was worse than in 1989. This is true for virtually anyone in Ukraine, Tajikistan, Georgia, and the Balkan countries that engaged in warfare in the 1990s: Montenegro, Serbia, Bosnia and Herzegovina, and Northern Macedonia.

The poorest inhabitants of Hungary, Croatia, Russia, Latvia, Estonia, Lithuania, and Bulgaria still have a lower income than in 1989. There are very few countries where income growth was fast and dispersed across all income groups – among this elite group we may find Poland, Armenia, Belarus, and Turkmenistan. In other countries, fast income growth was seen only by the highest income groups – with the curious exception of Azerbaijan, where the poorest are the ones that have seen the fastest income growth [See: Figure 4].

WHAT LAYS AHEAD?

What lays ahead for post-communist countries? One may say that after thirty years, the transformation is all but complete. Of course, this is not true – or at least not entirely so.

²¹ CIA Factbook. Available [online]: <https://www.cia.gov/library/publications/the-world-factbook/rankorder/2172rank.html>

The Central European and Baltic countries may be considered finished with transformation, and now they are undergoing similar processes as the rest of the Western world – including facing the troubling rise of illiberalism. The host of countries from the Balkans that are far along in the EU membership negotiations seem to be nearly transformed. There are countries at the beginning of their transformation process, but who are determined to finish it – at least for now (Ukraine, Georgia, and Moldova). Still, there are some states that stagnated in their oligarchy (Russia, Belarus, or Kazakhstan).

Finally, there are countries that took a step back from the times of the USSR – like Tajikistan, Turkmenistan, and Uzbekistan. It seems that after thirty years of grouping countries on the basis of the fact that they used to be communist has, to a large degree, lost its merit.

Even so, there are issues common to all of them. The first one is clearly Russia. It has proven to be a predatory and aggressive state. This arises, among others, from the failure of its own economic transformation. Nonetheless, or even more so, the Russian government successfully tries to maintain popular support in the society by projecting its military power abroad.

Yet, such feats weaken Russia even further – due to military spending, a need to support puppet states, and international sanctions, which leads to a viscous circle. Nevertheless, the situation may be even worse. A demographic and economic collapse may lead to positive changes in the country, but in all likelihood may instead bring an even more aggressive regime to power.

This threat is a large concern for all neighboring countries – especially the ones that are not members of NATO. But even these that are worried feel exposed – as military

aggression would bring them to their knees within hours, or days at most. This is an insufficient amount of time to mobilize NATO forces and create a counterstrike. This is precisely why there is a fear in eastern flank of NATO that such a reaction would never happen – akin to the situation at the start of World War 2, when western allies abandoned Central Europe. These fears are aggravated by remarks of President Donald Trump, who questions Article 5 of the NATO treaty²².

The second common problem is demographics. The transformation accelerated demographic transition in the post-Soviet countries. Nowadays, just three of them have a fertility ratio of more than the replacement rate (Tajikistan, Kyrgyzstan, and Kazakhstan). Out of fifteen countries with the lowest fertility in the world, six are post-communist countries (Bosnia and Herzegovina, Poland, Romania, Slovenia, Croatia, and Slovakia)²³.

For these countries, at a total fertility ratio of about 1.3–1.4, each new generation is about half the size of the previous one. This trend, coupled with large-scale emigration – especially in the case of the countries that have access to a single European market – will cause significant disturbances in the economy and societal fabric of post-communist countries, especially in pension systems, healthcare, and long-term care. The first cracks in these systems are already visible and require a higher tax burden for younger generations²⁴. This, in turn, may

induce further waves of emigration to the West – which is facing similar kinds of problems, and only new migrants will help developed countries to deal with it.

The real but frightening perspective for many post-communist countries is becoming “a country of old men” – meaning a sizable portion of population is above the productive age. When Poland was joining the EU in 2004, at the time it was one of its “youngest” members. Now, it is on its way to becoming the oldest one in a mere twenty years²⁵. This is precisely the scale of incoming challenges for post-Soviet states.

In what we know now as Eastern Europe, transformation into a market economy was fueled mostly by an abundance of cheap, well-educated, and motivated labor. Currently, these countries face a need to support a large population of old people without social disruption; a monumental task about which no politician is ready to talk yet. Let us hope they acknowledge it and take any and all necessary precautions before it is too late.

²⁵ http://www.tokfm.pl/Tokfm/1,103454,10865218,Za_30_lat_bedziemy_najstarszym_spoleczenstwem_Europy_.html [in Polish]

²² <https://www.nytimes.com/2018/07/18/world/europe/trump-nato-self-defense-montenegro.html>

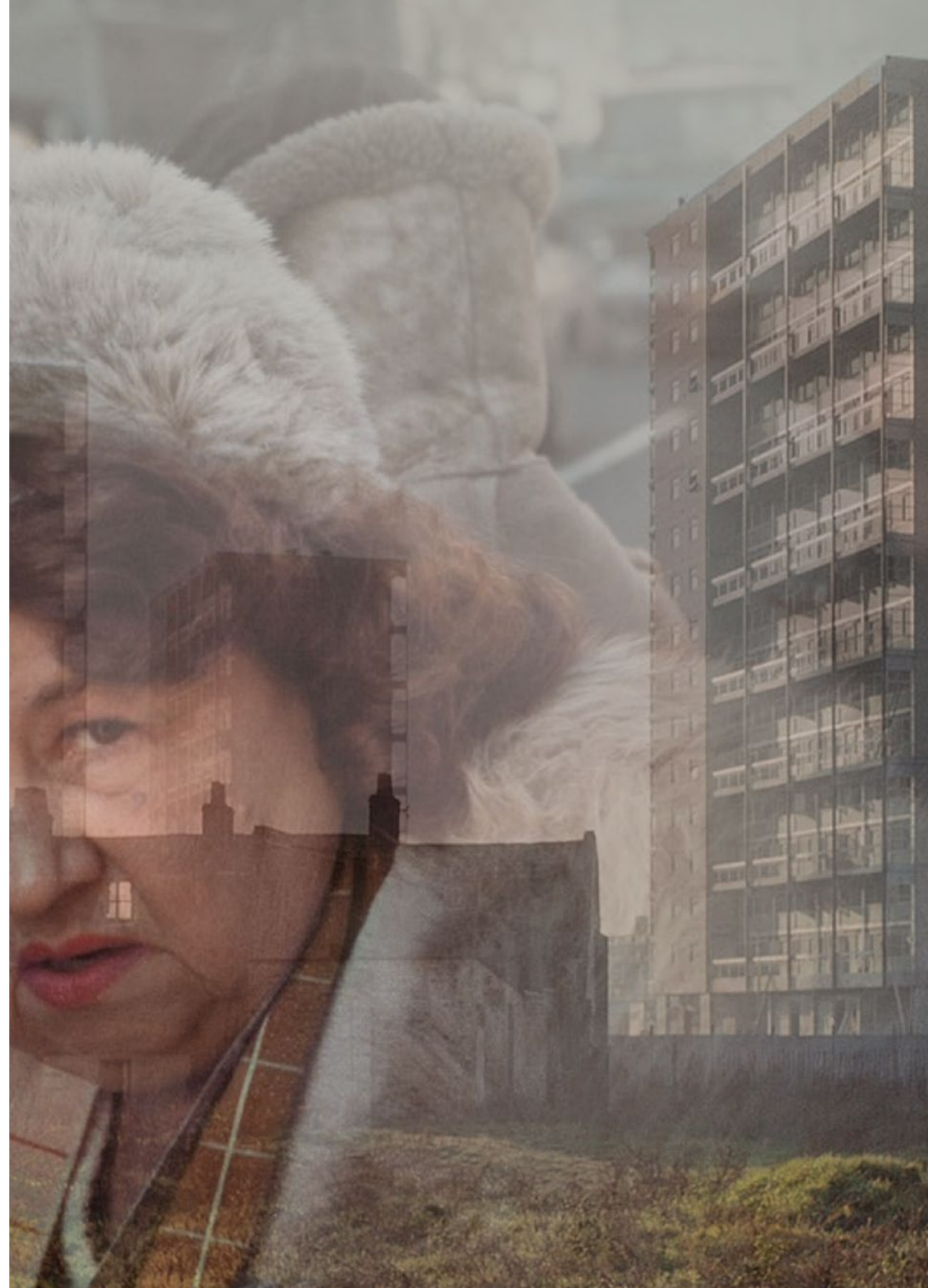
²³ <https://www.cia.gov/library/publications/the-world-factbook/rankorder/2127rank.html>

²⁴ Kasprowicz T. (2016) “Polskę czeka twardy emerytalny karambol”, [in]: *Obserwator Finansowy*. Available [online]: <https://www.obserwatorfinansowy.pl/forma/rotator/polske-czeka-twardy-emerytalny-karambol/> [in Polish]



TOMASZ
KASPROWICZ

Vice-President of Res Publica Foundation. Managing partner of Gemini, an IT company specializing in business process automation. Editor at *Liberte!* and *Res Publica Nowa*



EU Accession and Revival of Nationalisms in CEE



*
MARTIN
REGULI

Many Westerners have seen the break-up of the Eastern Bloc as the long-expected moment of reconnection with the countries of Central Europe. Formerly, in the interwar years, these states formed a crucial part of the order within the region. With the conclusion of USSR domination, there was a natural expectation that these countries would use this transition to make a quick transformation into democratic and economically free and open regimes that would reap the benefits in terms of economic and political liberalization.

The two regions where this expectation was the strongest were the Baltic region (which became part of the USSR as a result of the Second World War and thus had a reason to want to become Westernized), and Central and Eastern Europe (CEE) (which found itself at the border between the East and the West and comparatively could see their deterioration vis-à-vis the capitalist countries located just a few kilometers away).

The countries of the former Eastern Bloc managed to switch lanes from the early moves away from the nationalistic and extremist rhetoric, up until the European Union (EU) accession. At that point they opted for the Eurosceptic, nationalist, and extremist rhetoric since 2005, has strengthened through the years of the economic recession.

Multiple issues affected this transition and the four countries had their specific flavors of nationalism and extremism reflecting the past experiences with an "external enemy" (as was the mutual case of the Slovak and Hungarian nationalists) of the country and the presence of the Roma minority.

Over the past two decades there was at first, a positive honeymoon period between

the EU and the CEE countries, and a sharp break with Western Europe with the growing resentment and the gradual divergence between the two political blocs. This has resulted in the slow-down of the integration process in terms of the adoption of the Euro as a common currency, and later led to political animosity for the proposals of the EU. This can be illustrated by the lack of cooperation of the V4 countries with the EU during the migrant crisis.

While Slovakia has gone the farthest to show that it is a reliable partner for the EU, it still prefers to respect the unity of the V4 countries over the full support for the policies of its main economic partners. With recent Russian military aggression, the information warfare deployed through Russian paid channels, as well as the economic integration needed to make the most to the Industry 4.0 revolution, the restarting of the convergence process may be crucial to save the future of the European project for the CEE region.

”

THE RESTARTING
OF THE
CONVERGENCE
PROCESS MAY
BE CRUCIAL
TO SAVE THE FUTURE
OF THE EUROPEAN
PROJECT
FOR THE CEE REGION

EARLY PROMISE LEADING TO THE EU ACCESSION

The years between 1989 to the early 2000s presented a very positive story for both of these regions. All of the countries within the bloc have put themselves on the clear path towards both membership of the European Union and the North Atlantic Treaty Organization.

However, this path was not without hurdles – especially in the case of Slovakia, which has suffered six years of control by the governments of authoritarian Vladimír Mečiar, who was finally ousted in 1998.

The final admission of the four Central European countries into the EU in May 2004 was supposed to be a recognition of the working protection of minority rights and stabilization of the democratic discourse in the newly re-established free societies. The reasons for such optimism came from the fact that a part of the accession criteria was directly related to the protection of minorities under “the 1990 Copenhagen Document, the 1991 Geneva Report, and the 1995 Framework Convention for the Protection of National Minorities”.¹

Furthermore, accession to the club of Western democracies was supposed to bring stabilization and the decrease in the salience of nationalist/extremist discourse, which were dominant in the 1990s period in some countries². Some authors directly focused on the case of the Czech Republic and Slovakia, pointing to the near disappearance of the nationalist discourse from the Slovak and Czech debate in the 2002 elections.

¹ Tesser, L. M. (2003) “The Geopolitics of Tolerance: Minority Rights under EU Expansion in East-Central Europe”, [in]: *East European Politics and Societies*, Vol. 17(3), pp. 483-532.

² Henderson, K. (2004) “The Slovak Republic: Explaining Defects in Democracy”, [in]: *Democratization*, Vol. 11(5), pp. 133-155.

In addition, Slovakia closely observed the Hungarian minority party entering the government coalition for the second time in 2002, coupled with the split and the failure of the leading nationalist party (SNS). Thus,

“THE FINAL ADMISSION OF THE FOUR CENTRAL EUROPEAN COUNTRIES INTO THE EU IN MAY 2004 WAS SUPPOSED TO BE A RECOGNITION OF THE WORKING PROTECTION OF MINORITY RIGHTS AND STABILIZATION OF THE DEMOCRATIC DISCOURSE IN THE NEWLY RE-ESTABLISHED FREE SOCIETIES

“IN SLOVAKIA, THE SUPPORT FOR EU ACCESSION REACHED NEARLY 94%, ALBEIT WITH A 52.1% TURNOUT

there were strong reasons for optimism in numerous countries.

A similar situation occurred in Hungary and Poland. In the case of the former, while there were nationalist and extremist parties active at the break of the century within public life, the 2002 election resulted in the exclusion of the Hungarian Life and Justice Party (MIEP) – which was the main party representing the extreme nationalist spectrum in the late 1990s and early 2000s – from the Hungarian parliament³. As regards the latter, the political life stabilized in 2001, when the main problem was the break-up of the Solidarity Electoral Action (AWS) and the formation of the numerous new parties emerging from its legacy⁴.

Support for the populist conservative voices within these countries was manifested with the even quicker accession process to NATO as the organization was

³ Nikolenyi, C. (2004) “Strategic Coordination in the 2002 Hungarian Election”, [in]: *Europe-Asia Studies*, November, Vol. 56(7), pp. 1041-1058.

⁴ Palovský, T. (2006) “Polsko”, [in]: Havlík, V. and Kaniok, P. (eds.) *Euroskepticismus a Země Střední a Východní Evropy*, Brno: Masaryk University. [in Slovak]

to guarantee the CEE countries sovereignty, and distinctively made them a part of the Western geopolitical bloc finally detached from the previous threat of Russian military and geopolitical influence. While this issue was not confirmed through the referenda (unlike the case of the EU accession), and one can reasonably doubt whether these measures did not face serious political opposition that would campaign to stop this process. In hindsight, with the current scope of Russian influence in the region in terms of both the political friendships and the cultural influence in mind, NATO accession was a relatively smooth process with a broad spectrum of political parties supporting the convergence to the West.

A similar story took place with respect to the fulfillment of the accession criteria in the form of *Acquis Communautaire*. With the exception of some areas, where the liberalization of the CEE countries was somewhat painful due to the impacts of the economic transformation, this era was very much defined by a lack of the political hurdles present for the pro-European governments that have successfully prepared their respective countries for EU accession.

The success of this convergence could be seen also in the referenda for the accession to the European Union. In Slovakia, the support for EU accession reached nearly 94%, albeit with a 52.1% turnout. Hungarian turnout was even lower, with a 45.6% turnout and 83.8% in support for EU membership. The Polish rate of support was only slightly lower – 77.6% support with a 58.9% turnout. The Czech referendum had a similar result – a 77.3% support with a 55.21% turnout.

These results show that, overall, there was a reasonable expectation that this particular region would not pose a serious threat for the further integration of the countries in

the economic and political bloc supporting the Western values of democracy, political liberalism, and the cultural proximity towards modern Western societies.

A NOTABLE SPLIT SINCE THE ACCESSION

It was, therefore, all the more surprising when CEE started to slide into the sway of populism, with each of the countries following the backward direction in one way or another within the two years of EU accession.

Needless to say, the term *populism* refers to the strategy of the politicians to appeal to the conservative and often reactionary sentiments of the population with respect to ethnic hatred, Christian values in opposition to Western liberalism, and the protection of traditions in the face of the perceived threat from the cosmopolitan societies.

POLAND

In Poland, the populist tendencies started anew in 2005 – a year that signalled the change of direction of the entire region.

For the first time in the 21st century, the 2005 parliamentary election campaign and its results in Poland paved the way for the return of the nationalistic, xenophobic, and strongly Eurosceptic rhetoric, resulting in the victory of the Law and Justice (PiS) party, which formed a coalition government with an openly nationalistic, religiously conservative, and anti-EU League of Polish Families (LPR, associated with xenophobic and anti-Semitic claims) and an agrarian protest-party Self-Defence (Samoobrona).

The leading Law and Justice party started adopting a nationalist discourse associated with a vision of a strong and independent Poland as one of the main parts of its programme⁵. The forming of the coalition

⁵ Ibid.

with the League of Polish Families further strengthened an already nationalist and Eurosceptic tone of the Kaczynski brothers, who used these statements in the process of

”
FOR THE FIRST
TIME IN THE 21ST
CENTURY, THE 2005
PARLIAMENTARY
ELECTION
CAMPAIGN AND ITS
RESULTS IN POLAND
PAVED THE WAY
FOR THE RETURN
OF THE
NATIONALISTIC,
XENOPHOBIC,
AND STRONGLY
EUROSCEPTIC
RHETORIC,
RESULTING
IN THE VICTORY
OF THE LAW
AND JUSTICE (PIS)
PARTY

the signing of the Lisbon treaty⁶. Although the Law and Justice party was pushed out of power between 2007 and 2015 – an era that saw two governments of Donald Tusk, a leader of the Civic Platform party, a pro-European centre-right bloc – which seemed a very positive sign, this did not mean that the Eurosceptic nationalist bloc would get any weaker. Quite the contrary, the Eurosceptics got back to the forefront.

In 2015, the Law and Justice party regained power again and has used its influence to undertake a series of perceived illiberal reforms that strengthen the control of the system under the party rule for a considerable time to come. The main area of criticism has been the changes introduced in the judicial branch of the government. The reforms – including, for instance, the lowering of the retirement age for the current judges – have given control over replacement of judges to Law and Justice, allowing the party to reshape up to two thirds of the Supreme Court. Similar control has been exercised in the area of the public media channels, which has contributed to effectively turning these channels into a propaganda machine⁷.

The recent period was again characterized by a sharp increase in anti-EU rhetoric, which was revived in the aftermath of the Brexit vote in 2016. However, what differentiates it from the previous era is the fact that these steps no longer mean electoral troubles for the party conducting itself in this way, while in power.

⁶ Mulvey, S. (2007) “Poles in War of Words Over Voting”, [in]: *BBC News*, June 21. Available [online]: <http://news.bbc.co.uk/1/hi/world/europe/6227834.stm>

⁷ Zerofsky, E. (2018) “Is Poland Retreating from Democracy?”, [in]: *The New Yorker*, July 23. Available [online]: <https://www.newyorker.com/magazine/2018/07/30/is-poland-retreating-from-democracy>

”
IN 2010,
THE GOVERNMENT
PARTIES WERE
DEFEATED RATHER
BADLY. THE PARTY
OF VLADIMÍR
MEČIAR WAS
KICKED OUT
OF THE PARLIAMENT,
WHILE THE SLOVAK
NATIONAL PARTY
AVOIDED THE SAME
FATE

According to the 2019 polls, when the next parliamentary election is soon to take place (late October or early November), the Law and Justice party might hold around a 15-percentage-point lead, thus giving the party over 40% of stable support. In light of these predictions, it is unlikely that the Law and Justice party would be punished for their illiberal tendencies. This phenomenon marks an even sharper shift away from the situation that started back in the year 2005. The voters seem to accept the policies adopted by the parties with the Eurosceptic and nationalistic rhetoric⁸.

⁸ PTWP (2019) *Sondaże poparcia partii politycznych (wybory)*. Available [online]: <https://www.wnp.pl/parlamentarny/sondaze/> [in Polish]

”

THE FOUR YEARS OF THE SMER'S SINGLE-PARTY GOVERNMENT WERE A COMBINATION OF POPULIST SOCIAL-POLICY AND NATIONALIST MEASURES

SLOVAKIA

Poland provided a blueprint for Slovakia's story. Having beaten the nationalist populist government of Vladimír Mečiar in 1998, the center-right governments of 1998 and 2002 placed Slovakia on the path of much needed reforms. They have, however, lost the 2006 election badly to the coalition of the social democratic SMER party, which joined forces with the populist nationalist parties of Mečiar (Movement for a Democratic Slovakia) and Ján Slota's reunited Slovak National Party⁹.

This unholy, at least by the European Standards, coalition for a Social Democratic party meant that SMER faced the threat of suspension of the membership of the Party of European Socialists (PES). Despite these

pressures, the coalition with the nationalist and populist forces held full four years and the nationalist and strongly populist rhetoric started to define the discourse of its social-democratic leader, Robert Fico, himself. Some of the notorious examples of this rhetoric included the enactment of the Language Act or the steps taken to deny the Hungarian president's entry to Slovakia during his unofficial visit in August 2009¹⁰.

Moreover, in addition to these established parties, there was a gradual growth of the extremist group Slovenská Pospolitosť (Slovak Togetherness) and its main figure Marián Kotleba. Along their rising activity against the "Roma criminality", which gained them considerable publicity, in the 2013 election for the regional governor Mr. Kotleba managed to gain over 10% (or 13,000 votes) in his home region of Banská Bystrica¹¹. Subsequently, in 2014 he actually won the seat of the regional governor, and after the court had disbanded his original party, he simply founded a new party to contest the national election.

A similar situation followed in Poland. In 2010, the government parties were defeated rather badly. The party of Vladimír Mečiar was kicked out of the parliament, while the Slovak National Party avoided the same fate (by 0.07 percentage points, or just 2,020 votes). The victory was celebrated by the center-right bloc, which suffered from internal tensions in the coalition of four diverse parties.

¹⁰ Viliková, Z. (2009) "Prime Minister Fico Says State Language Act Is Diplomatic Success for Slovakia", [in]: *The Slovak Spectator*, December 18. Available [online]: http://spectator.sme.sk/articles/view/37460/10/prime-minister_fico_says_state_language_act_is_diplomatic_success_for_slovakia.html

¹¹ Viliková, Z. (2009) "VÚC Election Results Mirror Party Sympathies at National Level", [in]: *The Slovak Spectator*, November 16. Available [online]: http://spectator.sme.sk/articles/view/37147/10/vuc_election_results_mirror_party_sympathies_at_national_level.html

⁹ Bakke, E. and Siter, N. (2005) "Patterns of Stability: Party Competition and Strategy in Central Europe since 1989", [in]: *Party Politics*, Vol. 11(2), pp. 243-263.

”

THE LEADER OF THE MAIN OPPOSITION PARTY (FIDESZ), VIKTOR ORBÁN, RADICALIZED HIS ALREADY FIERCE RHETORIC

The last straw was the vote about the European bailout fund. This was a point which disappointed so many of the voters who have had high hopes of this government and led to a landslide victory of the SMER-Social Democracy. As a result, in the 2012 election it became the first party in history to form a single-party government in Slovakia after 1989.

The four years of the SMER's single-party government were a combination of populist social-policy and nationalist measures. After this term, the main party was weakened considerably, gathering less than 30% of the total vote.

What was shocking in this election was the fact that it saw the fascist People's Party (Our Slovakia) receive nearly 8% of the votes, resulting in their entering the parliament. Since then, their position has not weakened, meaning that the fascist party defending the puppet regime of the first Slovak Republic has become an accepted party of Slovak politics.

Given that the populist and very strong anti-media rhetoric is keeping the SMER party at the level of around 20% of voter support, with roughly 8% for both the Slovak National Party and the fascist party Our Slovakia and a similar percentage for the populist conservative party We Are Family, this means that, nationally, the conservative nationalist forces have a hold on over 40% of the vote. While this tendency has been countered by the growing support for the progressive center-left coalition of the two new parties – Progressive Slovakia and the Together (Spolu) party – the pool of the voters for these and similar parties remains low.

HUNGARY

Moving to the developments in Hungary, the situation also began with the general election, but not quite in the same way as in the two previous cases. The 2006 election itself ended with a victory for the previous coalition of the Hungarian Socialist Party (MSzP) and the Alliance of Free Democrats (SzDSz). The only other parties to enter parliament were the coalition of two right-wing parties under the leadership of Fidesz – Hungarian Civic Union and the Christian Democratic People's Party on the one hand, and the Hungarian Democratic Forum (MDF) on the other. However, the previous state of things only lasted for a very short time.

The breaking point happened shortly after the election, as Prime Minister Ferenc Gyurcsány was caught on tape saying that the government lied to win the election, while bringing the country to the brink of bankruptcy¹². This event resulted in massive riots across the country, which lasted several weeks.

¹² Boyes, R. (2006) "Prime Minister Refuses to Stand Down after Lies and Street Battles", [in]: *Times Online*, September 20. Available [online]: <http://www.timesonline.co.uk/tol/news/world/europe/article644751.ece>

”

UNLIKE IN THE CASE OF POLAND AND SLOVAKIA, HUNGARY HAS NOT SEEN A MOMENT OF MODERATION SINCE THE CRISIS IN ITS POLITICS ERUPTED IN 2006

The leader of the main opposition party (Fidesz), Viktor Orbán, radicalized his already fierce rhetoric. He went towards making claims concerning the term 'Felvidék' or 'Upper Hungary', which is a historic term for Slovakia, and thus called for territorial autonomy for the Hungarians in the neighboring countries (mainly Slovakia, Serbia, and Romania)¹³. With the Fidesz party being the likely winner of the 2010 election, as it eventually happened it was preparing the ground for even more radical elements within Hungarian public life.

The main concern was the success of an extreme right party called Jobbik – Movement for a Better Hungary, which rallied its support around two main issues – of the Roma minority and the revival of the

strong nationalist sentiment¹⁴. This process strengthened domestic levels of the criminality against the minority and the creation of the Hungarian Guard. The outcome was the result of the 2009 European Parliament election and a clear victory of Fidesz (with more than 50% of all the votes cast) and 14.77% of the votes for the extreme right-wing Jobbik party¹⁵.

Unlike in the case of Poland and Slovakia, Hungary has not seen a moment of moderation since the crisis in its politics erupted in 2006. The coalition of Fidesz and the KDNP scored 52.73% of all the votes in the 2010 election and decided to use the constitutional majority to introduce changes in the Constitution to make life easier for itself, or as some media outlets put it, to cement itself in power¹⁶.

Similarly to Poland, Hungary went through a series of changes in media legislation, granting a single public entity the control over all of the private media. These two goals gradually undermined the system of checks and balances within the Hungarian political system that were supposed to protect the civil liberties in the country¹⁷.

¹⁴ Jobbik (2010). *Jobbik – The Movement for a Better Hungary*. Available [online]: <http://www.jobbik.com/>

¹⁵ Waterflied, B., Samuel, H., and Squires, N. (2009) "European Elections 2009: Far-Right and Fringe Parties Make Gains Across Europe amid Low Turnout", [in]: *The Telegraph*, June 8. Available [online]: <http://www.telegraph.co.uk/news/worldnews/europe/eu/5471893/European-elections-2009-far-right-and-fringe-parties-make-gains-across-Europe-amid-low-turnout.html>

¹⁶ Verseck, K. (2012) "Orbán Cements His Power With New Voting Law", [in]: *Spiegel Online*, October 30. Available [online]: <https://www.spiegel.de/international/europe/hungarian-parliament-amends-election-law-a-864349.html>

¹⁷ Kingsley, P. (2018) "Orban and His Allies Cement Control of Hungary's News Media", [in]: *The New York Times*, November 29. Available [online]: <https://www.nytimes.com/2018/11/29/world/europe/hungary-orban-media.html>

¹³ Mesežnikov, G. (2009) "Who Really Won the 2009 European Elections in Slovakia?", [in]: *Institute for Public Affairs*, June 23. Available [online]: http://www.ivo.sk/buxus/docs/publicistika/subor/Mesez_Elect_09_HBF_Eng.pdf

”

HUNGARY HAS TRAVELED PERHAPS THE LONGEST ROAD FROM THE LIBERAL TRANSFORMATION OF THE 1990S AND EARLY 2000S AND THAT, SO FAR, THERE IS NO SIGN OF ANY LIBERAL OPPOSITION THAT COULD REVERSE THIS TREND

Lastly, Viktor Orbán has started using a public scarecrow in terms of the Hungarian expatriate, George Soros – a billionaire financier, hedge fund manager, political activist, and philanthropist of Jewish descent who funded pro-liberal think tanks in Hungary and other Central European countries.

The Hungarian Prime Minister has directed a considerable amount of hatred towards George Soros based on his political views, billionaire status, and his Jewish origins. This push has been strengthened by a law aimed directly at the Central European University (CEU), which was founded by Soros. The institution has been seen as the last major remaining intellectual institution challenging

the regime of Viktor Orbán. As a result of this legislative proposal the CEU had to relocate a considerable majority of its operations and educational activities to Vienna, Austria¹⁸.

These developments show that Hungary has traveled perhaps the longest road from the liberal transformation of the 1990s and early 2000s and that, so far, there is no sign of any liberal opposition that could reverse this trend. Fidesz continues to dominate the polls after winning both the 2014 and 2018 election. His popularity does not face any challengers despite numerous illiberal and anti-opposition policies have been introduced by the Orbán governments.

THE CZECH REPUBLIC

The case of the Czech Republic is different from all of the above-discussed cases. While the country remained seemingly stable throughout the early and late 2000s, there were already some examples of increased nationalist and populist rhetoric over those years.

Some people have identified the main problem as being connected to the persona of President Vaclav Klaus, due to his strong Eurosceptic and later more openly pro-Russian statements – illustrated, for example, by his reluctance to sign the Lisbon Treaty, which gained significant attention all over Europe. Klaus has been critical of the EU membership from the moment that the Czech Republic joined in 2004. His early criticism had been more constitutionalist and focused on the loss of sovereignty. Later, since his standoff against the final signing of the Lisbon treaty, he has moved as a more anti-Western populist, critical of the migration

¹⁸ Walker, S. (2018) "Dark Day for Freedom": Soros-Affiliated University Quits Hungary", [in]: *The Guardian*, December 3. Available [online]: <https://www.theguardian.com/world/2018/dec/03/dark-day-freedom-george-soros-affiliated-central-european-university-quits-hungary>

crisis and becoming more defensive of the Russian regime under Vladimir Putin¹⁹.

However, some other important developments started as early as 2005. On the one hand, several popular and very charismatic leaders emerged within the Czech Social Democratic Party (ČSSD), including David Rath who became the Czech Health Minister, and subsequently, a regional governor of Central Bohemia Region. His rise to fame and prominence coincided with the increased nationalist rhetoric by a left-wing politician arguing against immigrants from African countries "on the somewhat populist (not to say racist) grounds that non-European migrants will bring crime, disease and social disorder"²⁰.

On the other hand, the second very closely related issue within Czech politics – just as in the case of Slovakia and Hungary – has been the salience of the social tensions with the Roma minority. While this topic grew in terms of the social importance in the late 2000s, Czech political parties rallying against this particular group were kept outside of parliament²¹. In this particular decade, only the gradual growth of minor political formations within Czech political discourse was observed. It was perhaps best illustrated by the increased activity of the Workers Party as the main representative of the extreme right in the country since 2007.

¹⁹ Odkladal, M. (2015) "Václav Klaus: Západ donutil Putina obsadit Krym, Evropa je vinná za migrační krizi", [in]: *Aktuality.sk*, November 30. Available [online]: <https://www.aktuality.sk/clanok/309131/rozhovor-s-vaclavom-klausom-zapad-donutil-putina-anektovat-krym-evropa-nesie-vinu-za-migracnu-krizu/> [in Slovak]

²⁰ "Czech Republic: Green Card law opens left-right split on immigration", [in]: *Dr Sean's Diary*, September 1. Available [online]: <http://drseansdiary.blogspot.com/2008/09/czech-republic-green-card-law-opens-split.html>

²¹ Mudde, C. (2005) "Racist Extremism in Central Europe", [in]: *East European Politics and Societies*, Vol. 19(2), pp. 161-184.

”

THE POLITICAL
LANDSCAPE
IN THE CZECH
REPUBLIC HAS BEEN
RESHAPED
BY THE EMERGENCE
OF A PLETHORA
OF NEW PARTIES
ON ALL SIDES
OF THE POLITICAL
SPECTRUM

The development of support for the anti-system elements have accelerated greatly within the last five to eight years due to a number of political crises surrounding the traditional parties (eg. the Civic Democratic Party or the Social Democrats) in terms of corruption, as well as the lack of charismatic persons to drive the popular support back to these traditional parties. The result could not have surprised anyone. The political landscape in the Czech Republic has been reshaped by the emergence of a plethora of new parties on all sides of the political spectrum.

There has been a diversification of the parties on the liberal side, mainly in the form of the Pirate party, which has become the key representative of progressive liberalism. The party has brought new topics and a new type of discourse into Czech politics, which

needs to be taken positively as it spreads the issues covered into new aspects of liberal policies.

However, the good trend has been more than just overshadowed by the negative political developments, mainly through the growth of two new parties, ANO 2011 and the Freedom and Direct Democracy (SPD) party. The former, ANO 2011, has been dominated by a billionaire businessperson from Slovakia, Andrej Babiš. He has created a catchall populist party claiming to want to clean up Czech politics, even though his businesses have been associated with the allegedly corrupt business practices and possible misuse of the European funds.

Entering into politics has radicalized Mr. Babiš in terms of his rhetoric, which started resembling the leaders of Poland and Hungary. His participation in the government under the leadership of the Social Democrats between 2013 and 2017 has made Babiš immensely popular, but only thanks to his ruthlessness and populism. This led to the fact that after the 2017 election, there was a general reluctance to enter the government with the then winner, Mr. Babiš himself. Eventually, he was forced to form a coalition with the Social Democrats. However, since they have only had a minority in the government, they rely chiefly on the support of the Communist Party.

The Communist Party of the Bohemia and Moravia has been the only unreformed communist party in the Eastern bloc countries that have continued in the public sphere, and their defense of the life under the previous regime has translated into the nostalgia among the older part of the population and eventually into the electoral successes in the late 1990s and the 2000s, when the party attracted between 11% and 18%. This has been linked with strong party membership, which stood at 100,000 until 2003 and

”

ENTERING INTO
POLITICS HAS
RADICALIZED
MR. BABIŠ IN TERMS
OF HIS RHETORIC,
WHICH STARTED
RESEMBLING
THE LEADERS
OF POLAND
AND HUNGARY

which has not dropped below 50,000 until 2013. Since then, the support and membership declined rapidly to 34,000, below 7% in 2019 EP election. Their electoral support has waned to the ANO party and their traditional base of voters that remember Communism is fading away, thus they are likely to continue this decline and fade away from the Czech politics.

Lastly, with the success of the Freedom and Direct Democracy party in the parliamentary 2017 election, there has been a breakthrough of an anti-immigrant, anti-Islamic, anti-European element into the Czech parliament. The party was founded by half-Japanese, half-Czech entrepreneur Tomio Okamura after the split from his previous political project – Dawn of Direct Democracy.

Mr. Okamura has managed to popularize the anti-immigrant, anti-Islamic sentiments within the Czech electorate and capitalized on this strategy. Currently, the party is ostracized in the Czech parliament and no other political grouping is willing to cooperate with them. However, it now has a platform on which it can increase its appeal among the Czech voters, which have previously not responded to this form of populism.

Freedom and Direct Democracy continues to do well in the election polls, gaining up to 10% of voter support. This shows that

”
WITH
THE EXCEPTION
OF SLOVAKIA, THERE
HAS NOT BEEN
ANY SIGNIFICANT
RETURN
TO AUTHORITARIAN
TENDENCIES
AND ALL CEE
COUNTRIES
LATER MADE
QUICK PROGRESS
TO JOIN BOTH NATO
AND THE EUROPEAN
UNION

together with the continued 25-30% gains of the ANO, 35-40% of the Czech electorate is susceptible to the populism of the nationalist and extremist kind. Such an unfortunate development has brought the Czech Republic into the fold of the other V4 countries.

CONCLUSIONS

In summation, the post-Socialist developments within Central and Eastern Europe have demonstrated some very promising signs in the early parts of the development, namely the 1990s. With the exception of Slovakia, there has not been any significant return to authoritarian tendencies and all CEE countries later made quick progress to join both NATO and the European Union.

The main economic and geopolitical goals of the transformation have been achieved sixteen years after the fall of the Eastern Bloc. Generally speaking, positive changes may have been observed in terms of the democratic transformation, a decrease of the nationalist and social tensions, and the emergence of respect for individual liberties, the rule of law, and the principles championed by the European Union. However, in hindsight, this entire success may have been just a result of implementing the carrot and stick approach in the EU accession process.

Once this success was achieved, the EU lost all of its bargaining power vis-à-vis the politicians from Central and Eastern Europe. In the immediate aftermath of such a situation, the politicians in all four countries (Poland, Slovakia, Hungary, and the Czech Republic) have started using strategies to increase their general appeal among the population. This has been done through the stirring up of Eurosceptic rhetoric and the abandonment of certain standards of the rule of law, on which the EU was insisting in the accession process.

”

IT IS UP TO LIBERAL
THINK TANKS
TO TRY TO INSTITUTE
CHANGES
IN THE POPULAR
DEMAND

Given that this period has been associated with the impacts of the economic recession from the 2007 financial crisis, the politicians of the V4 region could see EU sentiments weakening in Central and Eastern Europe, and that their populism may be seen as politically more justified among the population. In the years following the crisis, there has been a general return to the era of responsibility following the worst moments of the crisis in Greece, Portugal, and Ireland. These experiences have pushed the population to vote for more moderate parties – mainly in Poland, Slovakia, and the Czech Republic.

However, once the unpopular part of the *tough job*, namely transformation, was complete, the aforementioned countries slid back into a second wave of populism which has lasted up until now. This recent period has been characterized by more direct opposition to the EU which has manifested as protests against deeper integration and certain social measures, including the migrant quotas.

Unlike in the previous case of the governments immediately after 2004, the support for the populist governments and nationalist sentiments persists, even following them getting into power. It is up to liberal think

tanks to try to institute changes in the popular demand and help move the discussion back onto a moderate course.



*

MARTIN
REGULI

Senior Analyst at the F. A. Hayek Foundation, a leading free-market think tank, focusing primarily on the areas of economics, social policy and foreign affairs at the level of the Slovak Republic and the European Union. He is active in the consultations about education policy, as well as the digitalization progress in the V4 region

30 Years Later: Will Soviet Legacy Still Shape Ukraine's Future?



*
IRYNA
FEDETS

After thirty years since the fall of Communism in Europe, Ukraine remains a country with unfinished institutional reforms and significant barriers for business and trade. The country gained independence when the Soviet Union dissolved two years later – in 1991. Since then, the reluctance of the pyeapolitical elite to embrace market economy rules led to an incomplete transformation exacerbated by cemented oligarchic influence and rampant corruption.

Entrepreneurship was forbidden in Ukraine when the country was a part of the Soviet Union. Only in the late 1980s, the perestroika resulted in legalization of some forms of private businesses – such as individual entrepreneurship and cooperatives. Before that, small manufactures and short-age goods traders operated illegally on the black market. Such businesses often relied on “protection” by racket gangs.

The Ukrainian economy was heavily industrialized and connected to Russia through centralized planning. In 1991, industry contributed almost 55% of Ukrainian GDP – much more than the current 23%, according to the 2018 data¹. The social context – virtually absent civil society and the lack of experience of private ownership and entrepreneurship – contributed to insufficient public pressure for market economy and the rule of law².

The economy of Ukraine took the biggest hit during the country's first post-

¹ World Bank (2019) *Industry (Including Construction), Value Added (% of GDP), Ukraine*. Available [online]: <https://data.worldbank.org/indicator/NV.IND.TOTL.ZS?locations=UA>

² Kupfer, M. (2018) “Why Poland and Ukraine Took Different Post-Communist Paths”, [in]: *Kyiv Post*. Available [online]: <https://www.kyivpost.com/world-in-ukraine-poland/why-poland-and-ukraine-took-different-post-communist-paths.html>

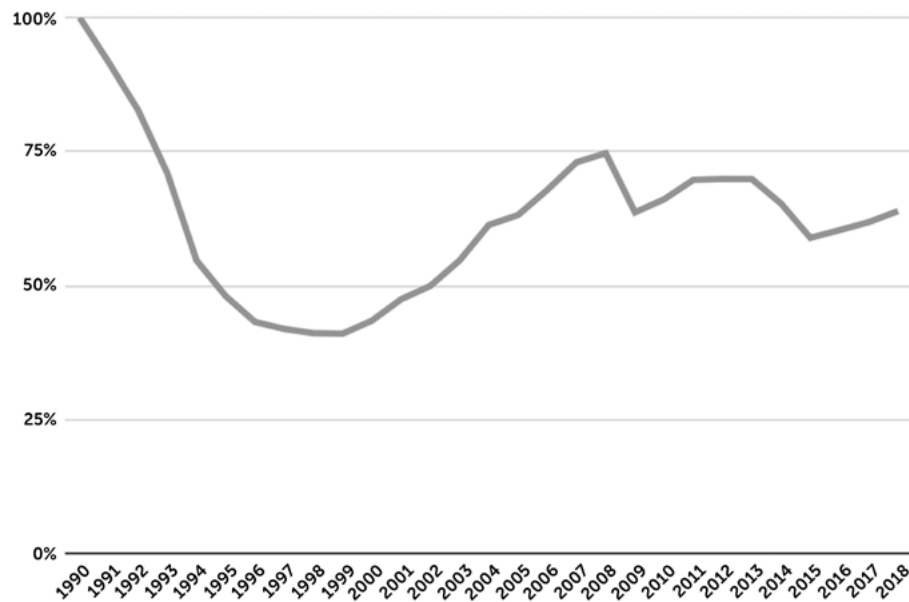
”
RECOVERING FROM
AN ECONOMIC
DOWNTURN
AND WITH
OCCUPATION
AND A WAR
ON ITS TERRITORY,
UKRAINE IS ONE
OF THE POOREST
COUNTRIES
IN THE REGION

independence decade. In 1999, Ukraine's GDP reached its lowest point contracting down to 41% of its 1990 volume. The upward trend in the 2000s brought the GDP to its currently highest level over the last two decades of almost 75% of the 1990 benchmark. But the 2009 recession brought it down again. The most recent downturn happened after 2014, when the Russian occupation and the war in the eastern Ukraine started. The country's GDP plunged down to 59% of its 1990 volume and has grown only to 64% by 2018 [See: Figure 1]³.

Now, slowly recovering from an economic downturn and with occupation and a war on its territory, Ukraine is one of the poorest

³ World Bank (2019) *GDP (constant 2010 US\$), Ukraine*. Available [online]: <https://data.worldbank.org/indicator/NY.GDP.MKTP.KD?locations=UA>

Figure 1: GDP in Ukraine in constant 2010 US dollars [percentage to 1990]



Source: World Bank

countries in the region. The World Bank estimates that with the current growth rate, it will take Ukraine more than fifty years to reach the income levels of today's Poland⁴. The country's growth could be accelerated if it overcame the bureaucracy and corruption that restrict doing business and affect competitiveness. To achieve this, Ukraine needs to conduct institutional reforms that counter vested interests, while Ukrainian society should demand tangible transformations from political leadership.

POPULIST POLICIES

Unlike in the neighboring EU countries, economic reforms and liberalization did not take off in Ukraine right after regaining independence.. The reasons

for such a situation may be found in political infighting (the then president, Leonid Kuchma, and the parliament opposed each other) as well as in the lack of public consensus about the necessity of the transition to the market economy. The decision makers were unwilling to undertake unpopular reforms that would bring systemic changes to the economy and would go against deep-rooted social expectations about state control over land and enterprises⁵. In addition, the growing influence of financial industrial groups that would later transform into state capture by oligarchs was shaping the distorted economic system with special conditions for businesses with political ties⁶.

⁵ Ishaq, M. (1996) *The Ukrainian Economy and the Process of Reform: An Overview*. Available [online]: <http://www2.hw.ac.uk/sml/downloads/cert/wpa/1996/dp9616.pdf>

⁶ Balabushko, O., Betliy, O., Movchan, V., Piontkivsky, R., and M. Ryzhenkov (2018) *Crony Capitalism in Ukraine*.

”

PUBLIC POLICY IN UKRAINE DID LITTLE TO ENCOURAGE SMALL AND MEDIUM ENTERPRISE GROWTH

The government subsidized certain sectors at taxpayers' expense – including under-priced energy. These were mainly traditional industries that relied on cheap raw materials and, due to global conjuncture, did not require diversification and modernization. With favorable conditions for these products on foreign markets and the fact that the enterprises in these sectors were owned by financial groups with political influence, public policy in Ukraine did little to encourage small and medium enterprise growth.

The populist policies went hand in hand with restrictions and discretion towards businesses. Complicated and limiting regulations did not allow businesses to grow, operate freely, and enter foreign markets, while unequal treatment of businesses of different sectors or ownership cultivated corruption and gave rise to an oligarchic economy.

Relationship between Political Connectedness and Firms' Performance. Available [online]: <http://documents.worldbank.org/curated/en/494271528822739302/pdf/WPS8471.pdf>

PRICE REGULATIONS

Ukrainian government reacted to high inflation in the 1990s by “manually” regulating prices and salaries, instead of ensuring the central bank's independence and sound monetary policy⁷. Prices for certain commodities – coal, oil, electric energy and heating, transport services, and others – were capped, followed by price limits on some types of bread, fruit, and vegetables, as well as gas and running water.

Forced to pay much more for gas and coal than households, businesses financed the subsidized domestic prices. In mid-1990s, the Ukrainian government eliminated markup restrictions on a wide range of products. Yet, gas prices for households remained heavily subsidized, which created opportunities for arbitrage – a corruption scheme where regional gas distribution companies resell the low-priced gas that was allocated for households to industrial consumers for higher prices⁸. In addition, Ukraine's reliance on relatively cheaper Russian gas gave Russia political leverage over Ukraine, and did not encourage enterprises and households to increase their energy efficiency.

Ukraine substantially increased gas prices for private consumers only in 2018 in order to meet the conditions of the International Monetary Fund (IMF) under the new Stand-By Agreement⁹. However, unlike liberalized prices for industrial consumers, the

⁷ Vox Ukraine (2016) *Bad Decisions: How to Build the Poorest Country in Europe*. Available [online]: https://voxukraine.org/longreads/poor-country/index_en.html

⁸ Saha, S. and I. Zaslavskiy (2019) “Cleaning Up Ukraine's Energy Sector”, [in]: *The American Interest*. Available [online]: <https://www.the-american-interest.com/2019/01/31/cleaning-up-ukraines-energy-sector/>

⁹ Zinets, N. and M. Williams, (2018) “Ukraine Secures New \$3.9 Billion IMF Deal after Gas Price Hike”, [in]: *Reuters*. Available [online]: <https://www.reuters.com/article/us-ukraine-imf-gas/ukraine-secures-new-3-9-billion-imf-deal-after-gas-price-hike-idUSKCN1MT2J6>

⁴ World Bank (2019) *Ukraine. Special Focus Note. Tapping Ukraine's Growth Potential*, May 23. Available [online]: <http://pubdocs.worldbank.org/en/927141558601581077/Ukraine-Special-Focus-Note-Spring-2019-en.pdf>

household gas prices still have not reached import parity and are regulated by the public service obligations adopted by Ukrainian government that set a price cap for the household price. Should the market gas prices rise above the maximum price for households in Ukraine, this again will give room for illicit trading.

In addition, the government of Ukraine had regulated prices for food products since 1996. A maximum trade margin was set for a range of products, such as flour, bread, sugar, beef, milk, cheese, and sour cream, among others. The government also required businesses to declare changes in their wholesale prices for specific sorts of milk, butter, meat, and other products, and determined upper profit margins for production of flour, “socially important” types of bread¹⁰ and baby food.

This policy restricted businesses and distorted market competition. Ukraine’s Ministry of Economic Development and Trade found that the prices for state-regulated food products had grown by 20% faster from 2003 to 2013 than other, unregulated, products¹¹. This state regulation of food prices was temporarily discontinued in 2016 and completely abandoned only in 2017¹².

¹⁰ Several sorts of bread designated by the government. For details see: *Resolution of the Cabinet of Ministers of Ukraine #1548 of December 25, 1996 On Establishing the Powers of Executive Bodies and of City Councils’ Executive Bodies to Regulate Prices (Tariffs)*. Available [online]: <https://zakon.rada.gov.ua/laws/show/1548-96-%D0%BF/ed20170617> (the version of June 17, 2017 before the cancellation of price controls) [in Ukrainian]

¹¹ Ministry of Economic Development and Trade of Ukraine (2016) *Debureaucratization of Regulation of Food Prices (Amendments to CMU Resolution #1548)*. Available [online]: https://issuu.com/mineconomdev/docs/1548_update [in Ukrainian]

¹² The Cabinet of Ministers of Ukraine (2017) *The Government Abolished State Regulation of Prices For Food and Services in The Markets*. Available [online]: <https://www.kmu.gov.ua/ua/news/250054696> [in Ukrainian]

”

TODAY, THE LARGE SOE SECTOR REMAINS AN AREA OF UNFINISHED REFORM AND A SOURCE OF RENT-SEEKING AND STATE CAPTURE IN UKRAINE.

PRIVATIZATION PROBLEMS

Another instance of restricted access to capital and limitation of property rights was privatization through assets certificates setting privileges for specific social groups: managers and employees of the enterprises. They had a primary right to buy out shares¹³. Meanwhile, owners of the privatization certificates could not sell them for cash. Therefore, potential investors were not permitted to buy certificates from citizens on the secondary market¹⁴. As a result, the control over previously state-owned enterprises (SOEs) was mostly transferred to their managers.

Today, the large SOE sector remains an area of unfinished reform and a source of

¹³ CASE Ukraine (2007) *Conditions for Finishing Privatization in Ukraine*. Available [online]: http://c-e-d.info/img/pdf/111_Russian_Full_With_Cover.pdf [in Ukrainian]

¹⁴ Vox Ukraine (2016) *Bad Decisions: How to Build the Poorest Country in Europe*. Available [online]: https://voxukraine.org/longreads/poor-country/index_en.html



rent-seeking and state capture in Ukraine. The National Anti-Corruption Bureau of Ukraine (NABU) reports that corruption schemes their detectives investigate at SOEs are mostly implemented by purchasing goods or services at inflated prices, and by selling their products at a reduced price.

Ukraine has made steps towards the privatization of its remaining 3,000+ SOEs in 2018 by adopting the law to classify them into large and small ones, and to set clear privatization procedures¹⁵. However, the actual revenues from privatization have fallen far short from the projected ones. By mid-2019, the state budget received only 1.6% of the proceeds planned for the entirety 2019; in 2018, the proceeds were only 2% of the expected revenues¹⁶.

A key obstacle to SOE privatization is the insufficient demand. Additionally, as the government admits, the lack of an organizational capacity of the public administration to prepare the units for sale is another considerable problem (the preparation requires financial expertise and human resources that are not available)¹⁷.

Moreover, due to recent developments, the efforts to combat corruption at SOEs are likely to meet a legal impasse. Specifically, in 2019, the Constitutional Court of

Ukraine deprived NABU of the authority to invalidate illegal agreements by SOEs in court¹⁸.

(UN)FREE ECONOMIC ZONES

By the mid-2000s, several free economic zones were set and operated in Ukraine. They proved to be inefficient, nontransparent, and distorted economic opportunities in favor of selected businesses. Declared as instruments for attracting investment and boosting economic growth, the zones brought in about eight times less capital than intended and created about three times fewer jobs than planned.

Most of the invested funds came from domestic companies¹⁹. In addition to low efficiency, special economic zones were venues for tax evasion and duty free imports. And, as investment projects were subject to approval by public officials, such zones created opportunities for corruption²⁰.

LAND OWNERSHIP: STILL RESTRICTED

Still today, Ukraine prohibits sale of agricultural land, which hinders the country's citizens to use their land as property. It also prevents private individuals and businesses from receiving adequate payment for selling or renting out land plots and to use land as collateral for loans. The moratorium has been in effect since 2001, when it was adopted by the Ukrainian parliament as a temporary step to prevent land sales

until the necessary legislative framework for the land market was ready²¹.

According to World Bank estimations²², the Ukrainian economy loses USD 15 bn of annual output due to reduced agricultural productivity caused by the prohibition of land sale. Lifting the moratorium would increase Ukraine's annual GDP by about 1.5 percentage points, according to the World Bank data, and would dramatically increase public revenue both from the sale of the state-owned land as well as from land leases.

Currently, the land market legislation has not been adopted and the ban is still in place, which results in unofficial sales deals and low land prices²³.

BUSINESS CLIMATE AND DEREGULATION

Entrepreneurship had been heavily regulated in Ukraine over the post-Soviet period.

In 2013, due to administrative and trade barriers, paired with high amounts of time and money needed to comply with regulatory requirements, Ukraine was placed in the 137th position in the World Bank's *Doing Business Report* (DBR)²⁴.

In 2019, the country moved up to the 71st rank thanks to simplifying key administrative procedures. The government allowed online business registration, improved the regulation of limited and additional liability companies, giving them more rights to run their own business, canceled several permits related to construction, and made steps towards deregulation in a number of specific sectors (such as oil and gas, transport, and telecommunications)²⁵.

Moreover, Ukraine simplified the registration of medicines, which reduced the time they enter the Ukrainian market from ninety days to just seventeen²⁶. In addition to registering businesses, it is possible to pay taxes and obtain different certificates online – for example, those that provide information on taxpayer status and land ownership. Overall, the number of government services available online exceeds sixty²⁷.

However, some barriers of doing business remain unresolved. In regards to the electricity grid, Ukraine ranks 135th in the 2019 DBR. When it comes to resolving insolvency, it holds the 145th position. These procedures remain costly and time-consuming for businesses²⁸. The reform of labor regulations is overdue in Ukraine as

¹⁵ Bedratenko, O. (2018) "Ukraine Is Serious about Privatization This Time", [in]: *Atlantic Council*. Available [online]: <https://www.atlanticcouncil.org/blogs/ukrainealert/ukraine-is-serious-about-privatization-this-time>

¹⁶ Ministry of Finance of Ukraine (2019) *Budget in The First Half of 2019: Challenges and Liquidity Management*. Press release. Available [online]: https://www.minfin.gov.ua/news/view/biudzheta-v-pershii-polovyni-roku-vykyky-i-upravlinnia-likvidnistiu?category=novini-ta-media&fbclid=IwAR0I3b_LUHhEtW-2oyHOwNyBoa3u-ciLPsOBvG9CtttuY320niqOh43x1Jx8 [in Ukrainian]

¹⁷ Ekonomichna Pravda (2019) *Nobody Wants to Take Most of the Big Privatization Objects – Ministry of Economic Development and Trade*. Available [online]: <https://www.epravda.com.ua/news/2019/01/27/644698/> [in Ukrainian]

¹⁸ National Anti-Corruption Bureau of Ukraine (2019) *Constitutional Court of Ukraine Eliminated an Effective Tool for Liquidation of Corruption Schemes at State Enterprises*. Press release. Available [online]: <https://nabu.gov.ua/en/novyny/constitutional-court-ukraine-eliminated-effective-tool-liquidation-corruption-schemes-state>

¹⁹ Vox Ukraine (2016) *Bad Decisions: How to Build the Poorest Country in Europe*. Available [online]: https://voxukraine.org/longreads/poor-country/index_en.html

²⁰ The World Bank (2005) *The Debate on Elimination of Free Enterprise Zones in Ukraine*. Available [online]: <http://siteresources.worldbank.org/INTUKRAINE/147271-1089983407712/20757196/FreezonesEng.pdf>

²¹ Yaroshchuk, O. (2016) "15 Years of the Moratorium – Will the Land Market Reform Finally Be Completed?", [in]: *AgroPolit.com*. Available [online]: <https://agropolit.com/spetsproekty/167-15-rokiv-moratoriyu-chi-zak-inchitsya-nareshiti-zemelna-reforma> [in Ukrainian]

²² Kahkonen, S. (2017) "Ukraine Can Boost Annual Output by US\$15 Billion with Land Reform", [in]: *The World Bank. Opinion*. Available [online]: <https://www.worldbank.org/en/news/opinion/2017/10/02/ukraine-can-boost-annual-output-us15-billion-with-land-reform>

²³ CASE Ukraine (2016) "25 Years of Schemes and Losses. What Land Sales Moratorium Did to Us", [in]: *Ekonomichna Pravda*. Available [online]: <https://www.epravda.com.ua/publications/2016/07/13/598945/> [in Ukrainian]

²⁴ The World Bank (2013) *Doing Business 2013. Smarter Regulations for Small and Medium-Size Enterprises*. Available [online]: <https://www.doingbusiness.org/en/reports/global-reports/doing-business-2013>

²⁵ NGO "Internews-Ukraine" (2017) *The Reforms Guide. Deregulation and Entrepreneurship Development*. Available [online]: <http://reformsguide.org.ua/analytics/deregulation-and-entrepreneurship-development/>

²⁶ Ministry of Health of Ukraine (2017) *Medicines Registration Procedure Simplified: Effective Drugs Will Arrive to Ukraine over 17 Days*. Press release. Available [online]: <http://moz.gov.ua/article/news/efektivni-preparati-z%60javljatimsja-v-ukraini-za-17-dniv> [in Ukrainian]

²⁷ Nekrasov, V. (2019) "11 Most Popular Electronic Government Services for Business", [in]: *Ekonomichna Pravda*. Available [online]: <https://www.epravda.com.ua/publications/2019/06/26/649088/> [in Ukrainian]

²⁸ The World Bank (2019) *Doing Business 2019. Ukraine Economy Profile*. Available [online]: <https://www.doing-business.org/content/dam/doingBusiness/country/ukraine/UKR.pdf>

”

ENTREPRENEURSHIP HAD BEEN HEAVILY REGULATED IN UKRAINE OVER THE POST-SOVIET PERIOD

outdated and inflexible legislation prevents businesses from using market instruments like equity-based compensation plans for employee motivation and limits the grounds for employee dismissal²⁹.

The government also severely increased fines for labor law violations. In 2019, a fine for hiring an employee without a job contract may reach more than UAH 125,000 (about USD 5,000), while a fine for not allowing a government official to inspect a business for violations of the labor law may be as high as UAH 417,000 (about USD 17,000)³⁰. Noteworthy is the fact that the size of these fines directly depends on minimum wages – i.e. by increasing the size of the minimum wage, the government not only affects the decisions of businesses regarding employment and employee

²⁹ American Chamber of Commerce Ukraine (2019) *Ukraine Country Profile 2019*. Available [online]: http://chamber.ua/Content/Documents/1247607269Country_Profile_2019_EN.pdf

³⁰ State Service of Ukraine for Labor: Ivano-Frankivsk Division (2019) *Clarification on the Amount of Penalties for Violations of Labor and Employment Laws in 2019*. Available [online]: <http://dspif.gov.ua/news/3163-rozysnennya-schodo-rozmr-u-shtrafv-za-porushennya-zakonodavstva-pro-pracyu-ta-zaynyatst-naselen-nya-u-2019-roc.html> [in Ukrainian]

compensation, but increases the burden – some fines they have to pay.

STATE INSPECTIONS REVISITED

Sporadic and unwarranted inspections of businesses by government control agencies had been a major business impediment. In particular, small and medium enterprises (SMEs) spent a significant amount of time being inspected by state officials. As the control bodies have the discretion to decide which businesses to inspect and what violations to look for, the inspections were susceptible to corruption.

The Business Ombudsman Council is the consulting and advisory body in Ukraine that investigates complaints from businesses regarding violations of their rights by government institutions and agencies. One of the Council's 2018 reports lists key issues related to state supervision that negatively affected business climate³¹. These issues included: undefined scope of supervisory functions of control bodies, which results in duplication of these powers and dual burden on business, as well as these bodies' focus on identifying and imposing sanctions, rather than preventing offences.

In 2014, the new Parliament of Ukraine reacted to this problem by enacting a moratorium on business inspections that was aimed at decreasing administrative costs for businesses and corruption. However, since 2015, more and more government agencies were exempted from the moratorium and only businesses earning up to UAH 20 m per year (about USD 0.8 m) were relieved from inspections.

³¹ Business Ombudsman Council (2018) *Systemic Report "Control Over Controllers: Status of Control Bodies Reform Implementation"*. Available [online]: https://boi.org.ua/media/uploads/system_jan2018/4_2017-sytem_en.pdf

Over the years, legislation was changed to introduce a risk-based approach to inspections. The powers of control authorities were delineated more clearly, their responsibility was increased, and the risk criteria for businesses and institutions were outlined. The annual plans of inspections by a number of state supervision bodies are available online³² so that businesses are informed about the time and purpose of planned inspections.

TAXES REMAIN A PROBLEM

A significant part of Ukraine's businesses operated in a shadow economy in the 1990s. This is why the tax burden, including contributions to the underfunded Pension Fund of Ukraine, was being distributed among legal tax-paying businesses and their employees.

To combat the shadow economy and increase the narrow tax base, Ukraine introduced the simplified tax system in 1999 with lower tax rates and less administration. Businesses using the simplified system pay only one tax – instead of several other taxes, such as corporate income tax, personal income tax, and value-added tax³³. However, similarly to other businesses, those that use the simplified tax system still pay the payroll tax. The simplified tax system was adopted by hundreds of thousands of the country's SMEs, most of them being individual entrepreneurs.

In recent years, reforms were implemented to reduce tax rates and streamline tax administration. Since 2016, the payroll tax

³² Better Regulation Delivery Office (2019) *The Plan of Complex Measures of State Supervision (Control) for 2019*. Available [online]: <https://inspections.gov.ua/projects-plans/approve-complex> [in Ukrainian]

³³ USAID Leadership in Economic Development Program (2105) *Simplified Taxation System in Ukraine: Assessment in the Context of Current Reality*. Available [online]: http://www.ier.com.ua/files/publications/Books/SSO_IER.pdf [in Ukrainian]

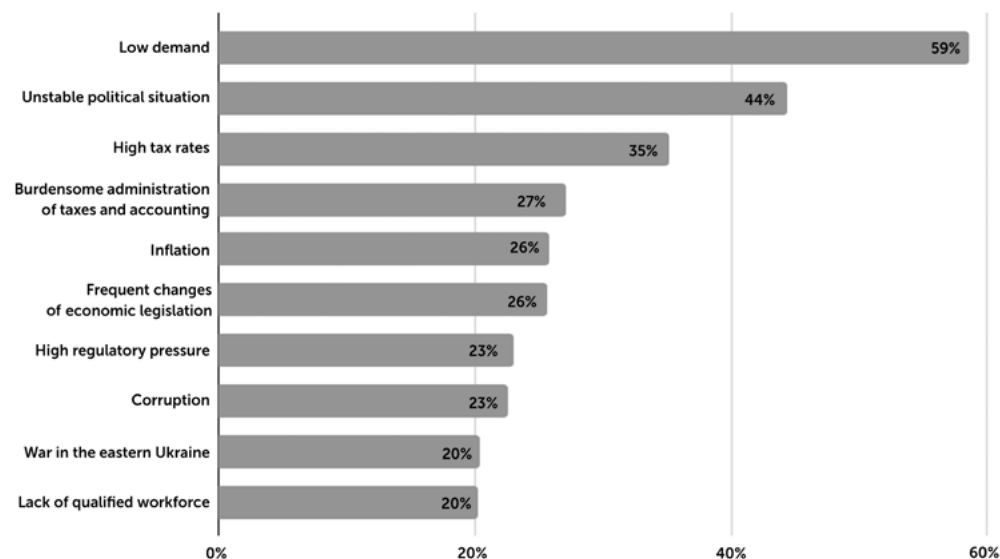
”

WHAT WE NEED IS PRO-COMPETITIVE LEGISLATION THAT WOULD ALLOW MARKET FORCES TO OPERATE AND CHALLENGERS TO CONTEST THE INCUMBENTS, AND NOT SPECIFIC REGULATIONS THAT MAKE IT UNPROFITABLE TO EXPAND THE SCALE OF OPERATIONS

rate was decreased almost twofold – from 40% to 22% of the gross earnings, and a flat income tax at 18% was introduced. On the other hand, some taxes and duties were added (real estate tax) or increased (excise duties)³⁴. In addition, Ukraine introduced a 1.5% military tax in 2014 intended to

³⁴ NGO "Internews-Ukraine" (2017) *The Reforms Guide. Tax Reform*. Available [online]: <http://reformsguide.org.ua/analytics/tax-reform-2/>

Figure 2: Top ten impediments for SMEs in Ukraine



Source: 2016 Annual Business Climate Assessment Survey by the IER as a part of the USAID Leadership for Economic Development (LEV) Program

support the Ukrainian armed forces in the fight against Russian aggression.

In 2017, the previous manual VAT refund mechanism that was prone to delays, corruption, and kickbacks was substituted by an electronic VAT return registry that enabled automatic and transparent VAT refunds. A personal “electronic cabinet” hosted at Ukraine’s tax authority website allows taxpayers to submit tax reports and to communicate with tax inspectors online³⁵. Alas, several problems related to both tax rates and their administration still remain. The total tax and contributions’ rate for Ukraine, as estimated by PwC, is

41.7% in 2019³⁶. 35% of small and medium businesses surveyed by Kyiv-based Institute for Economic Research and Policy Consulting (IER) in 2016 said high taxes were an inhibiting-growth factor, the third most important barrier after low demand and unstable political situation in Ukraine [See: Figure 2]³⁷.

As the ratio of the entrepreneurs and employees contributing to the Pension Fund of Ukraine (a solidarity-based system) to the number of retired people remains

³⁶ PwC (2019) *Paying Taxes 2019*. Available [online]: https://www.pwc.com/gx/en/services/tax/publications/paying-taxes-2019/overall-ranking-and-data-tables.html?WT.mc_id=CT13-PL1300-DM2-TR2-LS1-ND30-TTA4-CN_payingtaxes-2019-ranking-data-table-button

³⁷ Institute for Economic Research and Policy Consulting (2017) *Annual Business Climate Assessment 2016: National and Regional Dimensions*. Available [online]: http://www.ier.com.ua/ua/sme_development/ABCA?pid=5789 [in Ukrainian]

³⁵ Shevchenko, P. (2019) “Taxpayer’s Electronic Cabinet – How to Use It. Step-by-Step Instruction”, [in]: *Novoye Vremya*. Available [online]: <https://biz.nv.ua/ukr/markets/elektronniy-kabinet-platnika-podatkov-2019-povna-instrukciya-fop-yesv-50031566.html> [in Ukrainian]

deficient for covering the retirement payments, it puts a significant burden on taxpayers. Therefore, tax rates are unlikely to be reduced soon. In 2017, the Ukrainian government obliged all registered individual entrepreneurs to pay payroll tax even if they do not work and have zero income. This means that even those who temporarily do not receive any income should pay the tax. Clearly, this policy discourages potential or budding entrepreneurs from official registration. The administration of taxes continues to create difficulties for Ukrainian businesses. 27% of SMEs surveyed by the IER in 2016 said growth was inhibited by the complicated administration of taxes – the fourth worst factor affecting business growth, according to this survey. As stated in the World Bank’s 2019 *Doing Business* report, it takes 328 hours per year to comply with tax regulations³⁸. Ukraine’s general taxation system involves many more procedures and payments than the simplified one, which may be a factor preventing a part of small and medium businesses from growing, as in this case they would have to leave the less burdensome simplified system.

CURING THE PUBLIC PROCUREMENT

Reducing corruption and increasing transparency in the public procurement sector saved Ukraine billions of dollars and provided competitive access for businesses to participate in bids for public tenders. Unlike the former system, where tender criteria were frequently set so that they would fit the designated companies and thus allowed handpicking winners, the online platform, called ProZorro and introduced in 2015, digitized the process of procurement. Holding an electronic auction

through the ProZorro system became obligatory for all government entities.

Comparison of pre- and post-ProZorro procurements shows evidence that the new system resulted in a greater number of bids, higher savings of public funds, and greater participation of businesses in provision of contracted goods and services: now, there are more unique winners per tender³⁹. The total amount of public funds saved due to transparent tenders on this platform has been estimated at UAH 55 bn (more than USD 2 m) in 2018⁴⁰.

It is still possible to conduct non-transparent procurement using the online system – for example, by creating false competition, entering a tender with fictitious companies, splitting a larger procurement into smaller parts to avoid compliance with the ProZorro procedures, and, again, discriminating and selectively picking tender winners – even with the new digital system in place. These practices are investigated as violations by government audit authorities, which may lead to the cancellation of tenders⁴¹.

RULES OF TRADE

In the early 1990s, the government introduced export restrictions – a practice that led to a special class of the enterprises that could sell abroad and, as a result, obtain higher profits than their counterparts that

³⁹ Kovalchuk, A., Kenny, C., and M. Snyder (2019) *Examining the Impact of E-Procurement in Ukraine*. Available [online]: <https://www.cgdev.org/publication/examining-impact-e-procurement-ukraine>

⁴⁰ Interfax Ukraine (2018) *ProZorro Saves over UAH 55 bln of Budget Funds in Two Years of Operation*. Available [online]: <https://en.interfax.com.ua/news/economy/ic/522386.html>

⁴¹ Polishchuk, O. (2018) “ProZorro: Seven Ways to Circumvent It – and Seven Methods to Fight the Circumventions”, [in]: *Ukrinform*. Available [online]: <https://www.ukrinform.ua/rubric-economy/2543102-prozorro-sim-shem-obhodu-sim-metodiv-borotbi-z-tim.html> [in Ukrainian]

³⁸ The World Bank (2019) *Paying Taxes. Doing Business 2019*. Available [online]: <https://www.doingbusiness.org/en/data/exploretopics/paying-taxes>

could sell only domestically for a much lower price. The export of the goods of whole sectors – such as iron ore, coal, petroleum gas, and crops – was under restriction unless licensed by the government⁴².

This is an example of market distortion where a smaller share of businesses enjoys unjustified privileges. The exports were liberalized in the mid-1990s. Exporting of some types of goods and services still requires a license in Ukraine, but these are mostly health and security related ones, such as medicines, alcoholic beverages, firearms, hazardous chemicals, as well as transportation and tour operators' services⁴³.

Under the Deep and Comprehensive Free Trade Agreement (DCFTA), which is a part of the EU-Ukraine Association Agreement signed in 2014, Ukraine committed to gradually decreasing tariffs for European goods and services and aligning its regulations and standards in food and consumer safety, customs and trade facilitation, intellectual property rights, and others

with the EU ones⁴⁴. The "single window" mechanism introduced at the customs

allowed importers and exporters to exchange invoices, certificates, and other documents with government agencies in an electronic form, which reduces the time

⁴² Vox Ukraine (2016) *Bad Decisions: How to Build the Poorest Country in Europe*. Available [online]: https://vox-ukraine.org/longreads/poor-country/index_en.html

⁴³ The Verkhovna Rada of Ukraine (2019) *The Law of Ukraine "On Licensing of Types of Economic Activity" adopted by the Verkhovna Rada of Ukraine in 2015*. The latest edition of July 2019. Available [online]: <https://zakon.rada.gov.ua/laws/show/222-19> [in Ukrainian]

⁴⁴ European Commission (2019) *Countries and Regions. Ukraine*. Available [online]: <http://ec.europa.eu/trade/policy/countries-and-regions/countries/ukraine/>

“SMUGGLING, NONTRANSPARENT GOODS VALUATION, AND ADDITIONAL REQUIREMENTS IMPOSED ON BUSINESSES CONTINUE TO INHIBIT CROSS-BORDER TRADE FOR UKRAINIAN BUSINESSES

required for customs clearance. The export of services was simplified. Now, cross-border contracts can be signed in electronic form, while invoices may be used as contracts and primary accounting documents.

At the same time, smuggling, nontransparent goods valuation, and additional requirements imposed on businesses continue to inhibit cross-border trade for Ukrainian businesses. An investigation by *Süddeutsche Zeitung* showed that Ukraine loses billions of US dollars annually due to large-scale smuggling schemes when the imported goods are intentionally misclassified as cheaper ones⁴⁵.

⁴⁵ Hassel, F. (2018) "Korruption ruiniert die Ukraine", [in]: *Süddeutsche Zeitung*. Available [online]: <https://www.sueddeutsche.de/politik/exklusiv-korruption-ruiniert-die-ukraine-1.4081856> [in German]

On the other hand, legally trading businesses often face the problem of overestimation of customs value of imported goods. The 2018 Business Ombudsman Council's special report states that a vast majority of criticism about customs authorities concerns inefficient and non-transparent determination of customs value. As a result, businesses have to pay higher import duties⁴⁶. In addition, customs authorities have been reported to demand additional documents from businesses, including those that are not foreseen by legislation, which adds an administrative burden for entrepreneurs and creates delays in customs clearance.

JUSTICE VS. CORRUPTION

A weak and dependent justice system and widespread corruption and rights abuse in the judiciary and law enforcement prevents Ukraine from establishing the rule of law that would ensure a fair and transparent environment necessary for its citizens, entrepreneurs, and foreign investors.

It seems quite ironic that being a country with an active military conflict going on, Ukraine scored best on the "order and security" indicator of the World Justice Project's 2019 *Rule of Law Index* while receiving much lower scores on other factors contributing to its 77th place overall in the ranking of 126 countries – such as civil and criminal justice, constraints on government powers, and absence of corruption⁴⁷.

Justice system reform included steps on introducing more transparency into selection of judges, launching a new Supreme

⁴⁶ Business Ombudsman Council (2018) *Systemic Report "Main Problems Faced by Business in Customs Sphere"*. Available [online]: https://boi.org.ua/media/uploads/systemic_report_ii_2018/ii_2018_sytem_en.pdf

⁴⁷ World Justice Project (2019) *WJP 2019 Rule of Law Index – Ukraine*. Available [online]: <http://data.worldjusticeproject.org/#groups/UKR>

Court, and reorganization of the first instance courts⁴⁸. However, in spite of the objections of the Public Integrity Council, comprised of civil society activists, the selection process allowed judges who have made unlawful decisions or whose property declarations list unjustified assets to keep their offices⁴⁹. The unreformed judiciary is a systemic problem in Ukraine, as questionable court decisions can undermine even successful policy steps.

Corruption in the justice system and civil service is one of the reasons why property rights are not sufficiently protected in Ukraine⁵⁰. There is an app on the market in Ukraine that notifies you if your property is being raided⁵¹. Raids are carried out by forging documents to change the information in property registers, and then seizing a farm or a factory⁵². The General Prosecutor's Office reports that approximately 400 hostile takeovers take place every year⁵³. Their number had been growing up until 2018 when new legislation was adopted, requiring notarizations

⁴⁸ VoxUkraine Editorial Board (2017) "Three Years of Reforms. Has Ukraine Reformed Enough for Surviving.", [in]: *Vox Ukraine*. Available [online]: <https://voxukraine.org/longreads/three-years-of-reforms/index-en.html>

⁴⁹ Shtohrin, I. (2019) "44 Judges of the Supreme Court are Dishonest – Public Integrity Council", [in]: *RadioFreeEurope/RadioLiberty*. Available [online]: <https://www.radiosvoboda.org/a/29926985.html> [in Ukrainian]

⁵⁰ Kuklin, D. (2017) "Why Ukrainian Agribusiness Cannot Prevent Property Raiding for Now", [in]: *Euromaidan Press*. Available [online]: <http://euromaidanpress.com/2017/11/20/why-ukrainian-agribusiness-cannot-prevent-property-attacks-of-raiders/>

⁵¹ Liga:Zakon (2019) *SMS Beacon*. Available [online]: <https://smsmayak.ligazakon.net/> [in Ukrainian]

⁵² Melkozerova, V. (2017) "Activists, Entrepreneurs and Lawmakers Unite to Protect Farm Businesses from Raiders", [in]: *Kyiv Post*. Available [online]: <https://www.kyivpost.com/business/activists-entrepreneurs-lawmakers-unite-protect-farm-businesses-raiders.html>

⁵³ Opendatabot (2019) *About Four Hundred Hostile Takeovers Take Place in Ukraine Every Year*. Available [online]: <https://opendatabot.ua/blog/336-raiders-2019> [in Ukrainian]

“IT SEEMS QUITE IRONIC THAT BEING A COUNTRY WITH AN ACTIVE MILITARY CONFLICT GOING ON, UKRAINE SCORED BEST ON THE “ORDER AND SECURITY” INDICATOR OF THE WORLD JUSTICE PROJECT’S 2019 RULE OF LAW INDEX

of any changes made to public registers of property rights and increases criminal and administrative responsibility for takeovers⁵⁴. Most recent legislative initiatives aim to digitize the registers in order to better detect risky property transactions⁵⁵.

⁵⁴ DLF Attorneys at Law (2016) *Law on Anti-Raiding Adopted*. Available [online]: <https://dlf.ua/en/law-on-anti-raiding-adopted/>

⁵⁵ President of Ukraine Volodymyr Zelensky (2019) *President of Ukraine signed a decree aimed at countering raiding*. Press release. Available [online]: <https://www.president.gov.ua/en/news/glava-derzhavi-pidpisav-ukaz-spryamovanyj-na-protidiyu-rejde-56585>

Another threat for doing business regarding justice and the rule of law comes from law enforcement bodies. Ukrainian businesses report being unlawfully searched and their assets seized by the police, tax police, and Ukraine’s Security Service. Business Ombudsman Council lists numerous cases of law enforcement agencies inflicting pressure on businesses by launching groundless criminal proceedings and seizing property and documentation or, vice versa, refusing to open criminal proceedings following applications from businesses⁵⁶.

Legislation adopted in 2017 and 2018 that allowed searches only with the presence of lawyers, required the law enforcers carrying out searches to video record their actions, and prohibits seizing documents and hardware from businesses was intended to protect businesses from unjustified and illegal searches by law enforcement agencies. But law enforcement agencies still create significant problems and delays in business operations by carrying out searches and opening criminal proceedings⁵⁷.

In the years following the Euromaidan protests, which called for eliminating corruption, and with demands to reform prosecution of corruption by the civil society and international lenders such as the IMF, Ukraine created a set of specialized anti-corruption bodies from the ground up. These include the already mentioned NABU – investing high-profile corruption cases, the Specialized Anti-Corruption Prosecutor’s Office (SAPO) tasked with

⁵⁶ Business Ombudsman Council (2016) *Systemic Report “Abuse of Powers by the Law Enforcement Authorities on Their Relations with Business”*. Available [online]: https://boi.org.ua/media/uploads/sysrep_criminal_eng_final.pdf

⁵⁷ Skryl, O. (2018) “Why Searches of Businesses Continue in Spite of Legislative Changes”, [in]: *Delo.ua*. Available [online]: <https://delo.ua/economyandpoliticsinukraine/chomu-popri-zakonodavchi-zmini-obshuki-biznesu-prodovzhujutsja-341938/> [in Ukrainian]

prosecuting corruption, and the National Agency for the Prevention of Corruption (NAPC), which should verify whether the assets listed in public electronic declarations by civil servants correspond to their incomes.

The newly established infrastructure of corruption prosecution bodies is completed by the High Anti-Corruption Court, which is set to start considering corruption cases in 2019. The existing agencies, however, have already been accused of breaking professional ethics and interfering in cases (SAPO), as well as of selectivity and political dependence (NAPC⁵⁸).

PUBLIC OPINION: PATERNALISTIC EXPECTATIONS DECREASING

When asked to choose between two alternative views on the role of the government – the first one being that the government should bear full responsibility for providing each person with everything they need, and the second one being that it should provide equal “rules of the game”, while the people themselves should be responsible for using these chances – most Ukrainians choose the latter. A recent survey⁵⁹ shows that the majority of Ukrainians (61%) would choose fair rules and personal responsibility over completely relying on the government. Only a year ago, in 2018, this share was smaller: 45%.

However, when answering more specific questions regarding their attitude about

⁵⁸ Romanenko, M. (2017) “Scandal Casts Light on Corruption in Ukrainian Corruption Prevention Agency”, [in]: *Hromadske International*. Available [online]: <https://en.hromadske.ua/posts/when-ukrainian-anti-corruption-agencies-fight-each-other-not-corruption>

⁵⁹ Democratic Initiatives Foundation (2019) *Reforms in Ukraine: Public Opinion*. Press release on the survey conducted by the Democratic Initiatives Foundation together with the sociological service of Razumkov Center from 13 to 20 June 2019. Available [online]: <https://dif.org.ua/article/reformi-v-ukraini-gromadska-dumka-naseleennya-pyaty> [in Ukrainian]

the influence of the state on entrepreneurship and personal life, most Ukrainians tend to select answers that put them into the “authoritarian left” corner of the “Political Compass”. The Political Compass⁶⁰ is a typology of political opinions, which is plotted on 2 dimensions: economic and social. It allows classifying those who take the online test into four groups: “authoritarian right”, “democratic right”, “democratic left”, and “authoritarian left”.

A survey of 1,200 respondents was adapted from the Political Compass and carried out in Ukraine in 2019. Participants of the survey were asked to agree or disagree with such statements as “The government should take care of the welfare of every citizen” or “Ukraine needs a strong leader with unlimited powers”. The answers of 73% of those surveyed classify them as having leftist and authoritarian views, while 17% were grouped into the “democratic left”⁶¹. Only 2% of the respondents fit into the “democratic right” category, while the answers of 1% of the respondents put them in the “authoritarian right” field.

This indicates that while Ukrainians may be becoming more freedom-minded regarding the role of the government in personal matters, they are likely to support specific policies that allow for more regulation by the state and give the government (rather than the citizens) the power to influence their welfare.

⁶⁰ The Political Compass (2019) Available [online]: <https://www.politicalcompass.org/>

⁶¹ Brik, T. and O. Krymenyuk (2019) “From Right to Left: What Ukrainians Think about the State Control over the Economy and Personal Freedoms?”, [in]: *Vox Ukraine*. Available [online]: <https://voxukraine.org/uk/sprava-nalivo-shho-dumayut-bilshist-ukrayintsiv-pro-derzhavnij-kontrol-ekonomiki-ta-osobistih-svobod/> [in Ukrainian]

“ CORRUPTION IN THE JUSTICE SYSTEM AND CIVIL SERVICE IS ONE OF THE REASONS WHY PROPERTY RIGHTS ARE NOT SUFFICIENTLY PROTECTED IN UKRAINE

Evidence from another survey that was already cited above illustrates this point well. A 2019 sociological survey conducted by Ukrainian polling agencies⁶² shows that compared with the most popular anti-corruption, healthcare, and pension reforms that are expected from the government by more than half of the respondents, tax reform is not as popular – with only 13% in support. Additionally, a mere 10% of Ukrainians said they wanted deregulation and promoting entrepreneurship to be among top government priorities, and only 7% supported land market reform as a priority policy step. This demonstrates that there is little demand for pro-market reforms among the Ukrainian public.

⁶² Democratic Initiatives Foundation (2019) *Reforms in Ukraine: Public Opinion*. Press release on the survey conducted by the Democratic Initiatives Foundation together with the sociological service of Razumkov Center from 13 to 20 June 2019. Available [online]: <https://dif.org.ua/article/reformi-v-ukraini-gromadska-dumka-naselennya-pyaty> [in Ukrainian]

CONFLICTING ATTITUDES ABOUT CORRUPTION AND MARKET DISTORTIONS

Public opinion polls repeatedly show that fighting corruption is the most demanded policy step in Ukraine. In a recent sociological survey, 63% of the respondents said that the anti-corruption reform should be a priority for the government⁶³. In previous surveys over the last four years, this share always exceeded 50%. This suggests that Ukrainians are aware of the negative impact of corruption on institutions and the situation in the country, and have clear expectations about overcoming this problem from the government.

Surveys of entrepreneurs clearly indicate that they consider corruption one of the most important problems. In the 2018 Foreign Investor Survey by a Ukrainian think tank and a business association, foreign investors doing business in Ukraine placed widespread corruption on the top of the list of obstacles to investment⁶⁴.

Nevertheless, both individual Ukrainians and local businesses demonstrate quite a substantial degree of tolerance towards corruption. According to a 2018 survey⁶⁵ conducted, almost 15% of the respondents across the country reported having offered to pay a bribe by their own initiative, while 17% said they used personal connections to solve problems. A 2017 survey by consulting company EY⁶⁶ showed that 37% of

⁶³ Ibid.

⁶⁴ European Business Association, Dragon Capital, Center for Economic Strategy (2018) *Third Annual Foreign Investor Survey*. Available [online]: https://ces.org.ua/wp-content/uploads/2018/09/2018_investorsurveyresults_presentation.pdf

⁶⁵ Ukrinform (2018) *Ukrainians Said Where They Encounter Corruption Most*. Available [online]: <https://www.ukrinform.ua/rubric-society/2545529-ukrainci-skazali-de-najbilse-stikautsa-z-korupcieu.html> [in Ukrainian]

⁶⁶ EY (2017) *According to EY Research, Executives Are*

“ UKRAINIAN BUSINESSES REPORT BEING UNLAWFULLY SEARCHED AND THEIR ASSETS SEIZED BY THE POLICE, TAX POLICE, AND UKRAINE'S SECURITY SERVICE

business managers in Ukraine are ready to offer a “cash reward” in exchange for closing or prolonging a contract. Meanwhile, in a 2018 survey of Ukrainian exporters and importers conducted by the IER, 39% of the respondents believed it was necessary to maintain personal relationships with officials of at least one government body in order to do business successfully⁶⁷.

REFORMS ON POLITICAL AGENDA

The newly elected President of Ukraine, Volodymyr Zelensky, and his Servant of the People political party, which entered the

Unable to Effectively Shape the Principles Of Business Ethics. Available [online]: <https://www.ey.com/ua/uk/newsroom/news-releases/news-ey-senior-managers-failing-to-set-right-tone-on-business-ethics-finds-ey-fraud-survey> [in Ukrainian]

⁶⁷ Institute for Economic Research and Policy Consulting (2019) *Trade Facilitation in Ukraine: Business Assessment and Expectations. Executive Summary*. Available [online]: <http://www.ier.com.ua/en/publications/reports?pid=6168>

parliament with the majority of votes, both ran on the platform of deregulation and fight against corruption.

Mr. Zelensky's political program lists the promise of ensuring freedom of competition and simple and clear taxation. He made a commitment to work on reducing the shadow sector of the Ukrainian economy and to introduce a transparent land market. In terms of the fight against corruption, the president's platform includes such policy steps as more severe punishment for corruption, protection and rewards for whistleblowers, stopping harassment of businesses by law enforcement agencies, and support for newly formed anti-corruption bodies (such as the High Anti-Corruption Court)⁶⁸.

However, some areas are rather vague in Volodymyr Zelensky's platform. The section on justice includes promises to reduce political dependency of the judicial branch of the government and restoring trust and respect for the courts without listing more specific steps. There are also fairly populist promises in his platform, such as delegating legislative decisions to referendums and distributing the income from the country's natural resources among all citizens. Under the Constitution, the president's authority lies mostly in the areas of foreign affairs and national security, so he needs to cooperate with the parliamentary coalition in order to implement economic and judicial reforms. The program of the Servant of the People party that secured the majority of votes in the July 2019 parliamentary elections echoes the one of Mr. Zelensky. It contains commitments to reduce the size of the government and to further decrease payroll tax, digitize tax reporting and cus-

⁶⁸ Presidential Candidate of Ukraine Volodymyr Zelensky (2019) *Election Program*. Available [online]: <https://program.ze2019.com/> [in Ukrainian]

toms clearance, ensure independence of anti-corruption bodies, and take away the powers of law enforcement and security agencies that allow them to obstruct businesses⁶⁹.

With the presidential and legislative powers controlled by Mr. Zelensky and his party, they have a chance to improve conditions for business in Ukraine and remove corruption and distortions that affect competition. If they do implement necessary changes, they will benefit from quite a high acceptance of unpopular reforms by Ukraine's citizens. In 2019, Ukrainian public opinion shows an unprecedented willingness to deal with temporary difficulties in order to improve the situation in the country overall. 59% of the respondents surveyed by Ukrainian polling agencies throughout the country said they were ready to have their standard of living lowered for some time if this meant that the government could carry out necessary reforms⁷⁰.

This is the highest percentage over the last five years – the previous record share of Ukrainians ready to sacrifice personal welfare for reforms (44%) was registered in 2014, right after the Euromaidan revolution, followed by presidential and parliamentary elections. The high level of willingness to face difficulties for the sake of reforms lends a lot of trust to the newly elected president and parliament of Ukraine and gives them leeway to take unpopular steps that would lead to the liberalization of the

⁶⁹ Servant of the People (2019) *Election Program*. Available [online]: <https://sluga-narodu.com/program> [in Ukrainian]

⁷⁰ Democratic Initiatives Foundation (2019) *Reforms in Ukraine: Public Opinion*. Press release on the survey conducted by the Democratic Initiatives Foundation together with the sociological service of Razumkov Center from 13 to 20 June 2019. Available [online]: <https://dif.org.ua/article/reformi-v-ukraini-gromadska-dumka-naselennya-pyaty> [in Ukrainian]

” UKRAINE CREATED A SET OF SPECIALIZED ANTI-CORRUPTION BODIES FROM THE GROUND UP

country's economy, stopping corruption, and establishing a fair justice system.

OCCUPIED CRIMEA AND EASTERN UKRAINE: BASIC FREEDOMS TAKEN AWAY

In the occupied parts of Ukraine (the Autonomous Republic of Crimea occupied by Russia and the eastern parts of Donetsk and Luhansk oblasts controlled by combined Russian-separatist forces), personal and economic freedoms have been strictly restricted and local residents live in the environment of security threats and the absence of the rule of law. Under Russian control, the situation in these parts of Ukraine is similar to the repressions under the Soviet Union, exacerbated by torture and killings of activists and shelling of civilian homes and infrastructure.

Combined Russian-separatist forces seized the companies under Ukrainian jurisdiction operating in the occupied territories. At the beginning of the occupation, half of all companies were closed, destroyed or seized by Russia-backed separatists, according to estimations⁷¹. Private

⁷¹ Bird, M., Vdovii, L., and Y. Tkachenko, (2015) "The Great Looting of Donbass", [in]: *EUobserver*. Available [online]: <https://euobserver.com/investigations/131428>

businesses are being forced to register under the authority of the Russia-led separatists and to pay taxes to their budgets. After Ukraine prohibited trade across the conflict line, the Russia-led separatists took over even more companies that were still operating on the uncontrolled territory, including coal mines, factories, energy companies, as well as transport and telecommunication companies⁷².

The war waged by combined Russian-separatist forces cut away the occupied territories in the eastern Ukraine from transport and power infrastructure, while local businesses lost suppliers and buyers from the rest of Ukraine and are compelled to trade with the only available market – Russia.

All Ukrainian and international banks have closed their branches on the occupied territories, while Russia-led separatists created their own bank, which is the only option in these areas. Russia has consolidated its occupation in the eastern parts of Ukraine by financing pensions and public sector salaries⁷³, introducing the Russian currency, and issuing Russian passports for Ukrainian citizens that live on the occupied territories. Active conflict is continuing in this area, so many homes, business properties, schools, hotels, and other buildings have been hit by shelling or destroyed completely – such as the Donetsk airport, which was destroyed by combined Russian-separatist forces back in 2015.

⁷² Zoria, Y. (2017) "What Assets Did Russia's Puppet Republics Seize from Ukraine? Full List", [in]: *Euromaidan Press*. Available [online]: <http://euromaidanpress.com/2017/03/04/stolen-ukrainian-assets-in-donbas/>

⁷³ Zverev, A. (2016) "Moscow Is Bankrolling Ukraine Rebels: Ex-Separatist Official", [in]: *Reuters*. Available [online]: <https://www.reuters.com/article/us-ukraine-crisis-separatists/moscow-is-bankrolling-ukraine-rebels-ex-separatist-official-idUSKCN1251UQ>

” UNDER RUSSIAN CONTROL, THE SITUATION IN THESE PARTS OF UKRAINE IS SIMILAR TO THE REPRESSIONS UNDER THE SOVIET UNION, EXACERBATED BY TORTURE AND KILLINGS OF ACTIVISTS AND SHELLING OF CIVILIAN HOMES AND INFRASTRUCTURE

In occupied Crimea, which Russia recognizes as its territory, the businesses are forced to register under the Russian law, while public officials are required to take Russian citizenship in order to keep their jobs. Minus the war, the situation with civil and political liberties in Crimea is comparable to the one in the occupied eastern territories of Ukraine. As reported by the United Nations (UN), the Russian authorities in Crimea commit numerous human rights

“FREE SPEECH AND MEDIA ARE SEVERELY LIMITED IN CRIMEA, WHILE SOME RELIGIOUS ORGANIZATIONS FACE PRESSURE FROM OCCUPATION AUTHORITIES.

violations – including arbitrary arrests and torture⁷⁴. The 2019 Freedom House report on Crimea states that corruption is widespread in the territory of the occupied peninsula, and some representatives of the Russian-backed leadership are, allegedly, tied to organized crime⁷⁵. Free speech and media are severely limited in Crimea, while some religious organizations face pressure from occupation authorities.

The war and Russian occupation of Crimea and the eastern regions of Ukraine damaged the economy of the rest of the coun-

try by confiscating assets of banks and businesses and disrupted trade and business links. This forced hundreds of thousands of Ukrainians to move out of the affected territories due to their pro-Ukrainian political positions, civic activism, or religious beliefs.

CONCLUSIONS

In conclusion, lack of necessary pro-market reforms on the one hand, and reinforcing politically influenced distortions to competitive environment on the other, have prevented Ukraine from developing institutions needed for reaching economic freedom and the rule of law in the decades following the collapse of the Soviet Union. The recent years after the Euromaidan revolution brought much needed changes in the areas of deregulation, privatization, public procurement, and customs clearance. Government regulation on food prices was finally canceled. More and more government services for businesses are available online.

At the same time, certain regulations (such as labor law) remain restrictive for

“UKRAINIANS WOULD NOT MIND FACING TEMPORARY DIFFICULTIES FOR THE SAKE OF EFFICIENT REFORMS

entrepreneurs, gas prices for businesses and households still have not reached complete import parity, and efforts to combat corruption and reform the judiciary proved to be rather nominal and did not bring the expected results. Many state-owned enterprises need to be privatized to increase their efficiency and prevent rent-seeking, whereas selling agricultural land is still prohibited.

Some policy steps brought about contradictory results. Businesses have better access to information about government inspections, but are also forced to pay higher sums if fined by these inspections. Payroll tax has been cut, but private entrepreneurs were required to pay it even if they earn no income.

The new president, Volodymyr Zelensky, and his party, which make up the parliamentary majority, were elected in Ukraine on the platform of creating favorable conditions for businesses and fighting corruption. The window of opportunity in terms of public opinion seems to be open for them at the moment: a record high percentage of Ukrainians say they would not mind facing temporary difficulties for the sake of efficient reforms.

Meanwhile, prosecution of dissidents and restrictions for private property on the territories of Ukraine that are occupied by Russia not only take their residents back to the repressive conditions under the Soviet Union, but also add a constant threat for life and physical well being because of the ongoing war and unlawful arrests combined with torture. Entrepreneurship is constrained and private property is being seized and destroyed. Russia cuts business and trade connections in Crimea and the occupied eastern regions of Ukraine from the rest of the country, and integrates these parts of Ukraine into its own economy.

Considering the checkered transformation progress so far, it is unlikely that Ukraine will reach a significant breakthrough if it keeps current administrative barriers in place and does not make more active efforts to fight corruption. Without serious steps towards economic freedom, transparency, and competitiveness, Ukraine's economy will continue to serve vested interests, while private business will be alienated by bureaucracy, corruption, and obstruction by government authorities and the law enforcement system. What the country needs to do first and foremost is to ensure the rule of law, create fair conditions for businesses, and eliminate market distortions, as well as to simplify doing business and international trade. This will make Ukraine an attractive place to invest and to do business in, subsequently boosting economic growth.



*

IRYNA
FEDETS

Research and advocacy professional with expertise in business climate, economic freedom, democracy and trade. She has provided policy recommendations for Ukrainian government based on her analysis of multiple nationwide surveys in Ukraine where she studied opinion of the country's entrepreneurs and business managers on administrative barriers, corruption, and expectations about reforms

⁷⁴ Office of the United Nations High Commissioner for Human Rights (2018) Report on the Situation of Human Rights in the Temporarily Occupied Autonomous Republic of Crimea and the City of Sevastopol, Ukraine, 13 September 2017 to 30 June 2018. Available [online]: https://www.ohchr.org/Documents/Countries/UA/CrimeaThematicReport10Sept2018_EN.pdf

⁷⁵ Freedom House (2019) *Freedom in the World 2019. Crimea*. Available [online]: <https://freedomhouse.org/report/freedom-world/2019/crimea>

Orbanization of the Magyar State: Hungary in the Past 30 Years?



*
MÁTÉ
HAJBA

I remember Budapest from the early 1990s. The otherwise beautiful city was clad in gray filth. Dirty concrete and unimaginative buildings cast their shadows over boxy smog-spitting cars. This is how I remember it from my early childhood, when my family visited the Hungarian capital from our home in another town. Yet, a lot has changed since. I moved to Budapest twelve years ago, and modern glass buildings have sprung up in front of my very eyes, directing sunlight onto the city streets. Not without reason is it a popular tourist destination. Ruin bars, *en vogue* coffee shops, rooftop restaurants, luxury fashion designers, opulent hotels, and booming businesses attract visitors – rich and poor, from far and near, for work or leisure. The ostentatious vibe of the city is now worthy of its beauties; it masks, however, the underlying grayness still lurking within. Scratching the fashionable surface as this article intends to do, the rotting failures of the past thirty years become apparent.

The gung-ho attitude at the early 1990's in Hungary has gradually turned into resignation and fatigue over time as a result of the inertia entrenched by the political elites, as well as society's lack of willingness to take action. Communism instilled the by-stander effect by developing a dependency upon the state. The stultifying policies of the past three decades have further exacerbated the social ennui, granting the governing parties much leeway to legislate without considerable civic oversight.

It would, certainly, be an unjust oversimplification to dismiss the efforts of the democratic transition in the country as a complete and abject failure. The period of the past thirty years is much more nuanced. In order to understand it, let us take a tour through time and space, to examine the key aspects of this part of the Hungarian history

”
THE STULTIFYING
POLICIES
OF THE PAST
THREE DECADES
HAVE FURTHER
EXACERBATED
THE SOCIAL
ENNUI, GRANTING
THE GOVERNING
PARTIES
MUCH LEEWAY
TO LEGISLATE
WITHOUT
CONSIDERABLE
CIVIC OVERSIGHT

– including foreign policy, democratic institutions, education, business, economy, freedom of the press, religion, and tolerance.

To delve below the fashionable surface and understand the *real* Hungary, let us take a short tour of the capital, Budapest.

ALL ABOARD!

We begin our journey at Heroes Square, a popular haunt of tourists, framed by stately museum buildings. There, on June 16, 1989, dwarfed by the towering central column and the vastly outstretched crowd,

“SIMPLY PUT, VIKTOR ORBÁN, A DEFINING FIGURE OF THE PAST THIRTY YEARS, IS A POPULIST

stood a young man. Eloquently, he spoke up against the communist regime, and called on the Soviet troops then stationed in Hungary to go back home. At the time, such an open opposition broke to surface the animosity of the public towards the communist governments, a strongly nurtured sentiment which Hungarians were forced to harbor within themselves secretly, lest the state apparatus took its vengeance.

On that summer day, the seal was broken. The man, standing there with youthful energy, represented the beginning of something new. He was a beacon of hope. His dream of democratizing Hungary, when he was speaking from among the statues of historic Hungarian leaders, was realized soon thereafter. Surprisingly, the name of the man was Viktor Orbán – an infamous politician now serving his 4th term as the prime minister of Hungary. A leader in his own right who for the past years has been building a new regime, which – armed with the technological advances of the past thirty years and the tricks known from the handbooks of darker times – is aspiring to entrench his power in the country for the foreseeable future.

The media is awash with articles on how Mr. Orbán departed from his democratic

ways to lead his country towards an illiberal authoritarian regime. The truth is, he could not have done it had the Hungarian society not been receptive of the nostalgic ways of more state control, and of a tough leader at the helm.

Simply put, Viktor Orbán, a defining figure of the past thirty years, is a populist. His swaying political directions change with the zeitgeist, reflect the general mood of the population, occasionally nudging it a bit to bring to surface issues that would have otherwise laid dormant.

As we start walking away from Heroes Square down the quaint Andrassy Avenue, let me set the scene again. The date is 1991, the Hungarian zeal for democracy, for a Western system, is at its zenith. It is one year after the first free plural elections, and the country is a budding democracy. People are over-saturated with a dream of prospects and prosperity.

This is the time when Pew Research Center decided to assign numbers to emotions, and conducted a poll in the region. 74% of Hungarians approved the change to democracy¹. Twenty years later, the financial crisis disrupts the world, and now only 56% of the Hungarian population is of the same opinion. Even more prominent is the drop in the support of capitalism: In 1991, Hungary was the country with the 3rd highest approval for free markets (neck and neck with the Czech Republic at 80%), by 2009, Hungary saw the largest drop in the statistics in the region, with only 46% of the population approving of capitalism.

¹ Pew Research Center (2009) *End of Communism Cheered but Now with More Reservations*. Available [online]: <https://www.pewresearch.org/global/2009/11/02/end-of-communism-cheered-but-now-with-more-reservations/>

We pass the menacing building of the House of Terror, a museum established by Viktor Orbán's first government in 2002, in a building that used to house first the Nazi Arrow Cross Party during the Second World War (WW2), then the Hungarian communist secret police (ÁVH). It is with a heavy heart that I am obliged to tell you here that, despite all the people who lost their lives or were tortured in this building during the communist rule, the aforementioned Pew research reveals that in 2009, a year before Orbán's second government, 72% of Hungarians reported that they thought people are worse off than under communism – as opposed to the meager 8% who thought the opposite. This amount of support of the previous regime was by far the largest in the region.

FOREIGN POLICY

With a couple of turns we arrive at Szabadság Tér, or – as nobody calls it – the Liberty Square, should it warrant a translation. As there are many things to point out here, let us not hesitate, but turn our attention to an obelisk-like construction, sporting a golden star at its peak.

Do not let its glistening golden varnish deceive your eyes, it is, in fact, a glorified red star of the Soviet Union. This monument was erected to commemorate the fallen troops of the Soviet army, who died “liberating” – as the official propaganda put it during communism – Budapest from the Nazis. However, just as the House of Terror changed hands while its function of terrorizing the society did not, Hungary fell from the clutches of one horrible regime into another's. For a long time, the citizens of Hungary could not appreciate the lack of Nazi occupiers, as they were too busy suffering under the communists.

And so, although young Mr. Orbán's wishes to see the Soviet troops marching back home came true soon after he openly

expressed them, the monument remained, and the relationship with Moscow has been rekindled, by the now much older and world-weary Orbán.

In 1999, Hungary joined NATO, and in 2004, it became a member state of the European Union (EU). It seemed that the country's place among the Western states solidified. Historically, Hungary has been made to sit on the fence whether to belong to the east or west – though the country usually yearned to belong to Europe. The battered relationship with Russia predates WW2. It is still a point of interest how each government conducts business with the United States, other European states, and Russia.

The socialist governments between 2002–2010 that bifurcated Viktor Orbán's rule

“HISTORICALLY, HUNGARY HAS BEEN MADE TO SIT ON THE FENCE WHETHER TO BELONG TO THE EAST OR WEST – THOUGH THE COUNTRY USUALLY YEARNED TO BELONG TO EUROPE

were attacked – often by Orbán himself personally – for rebuilding a dangerously close relationship with the eastern power, when Hungary's place is clearly among the countries with Trans-Atlantic persuasions.

Yet, with Mr. Orbán re-seizing power, he introduced a new policy, called “Eastern Opening”, aiming to strengthen ties with former Soviet states and other Asian countries. Since 2015, he has been meeting with Vladimir Putin at least once a year, even when other European leaders shunned the Russian strongman for his conduct in Ukraine.

Mr. Putin's methods seem to be much favored in Hungary. The Hungarian prime minister's strategy also involves attacking NGOs by using the same excuses as the Russians do (branding them foreign agents), taking over the media, shutting down universities, intimidating the opposition – all these steps – which will be explained further through our tour – have been copied from Vladimir Putin's playbook by the Hungarian government. The government, which is run by a man who used to demand freedom and democracy, independence of the eastern power, and closer ties – culturally and diplomatically – with Europe and the United States.

Despite Hungary joining both NATO and the EU, the relationship with the West is not at all smooth. Mr. Orbán's government scattered large billboards² (funded from taxpayer's money) throughout Hungary warning citizens that EU politicians want to settle migrants into the country, which I shall call an over-exaggeration only because claiming it

was *fake news* has been rendered *cliché* by President Donald Trump.

Speaking of the US leader, he recently hosted PM Orbán, breaking with a longstanding diplomatic custom in Washington not to meet with the current Hungarian head of the government on a high level.

Noteworthy, during President's Barack Obama's administration, certain Hungarian officials were banned from traveling to the United States on account of corruption charges³. The late Senator John McCain went as far as calling Viktor Orbán a “neo-fascist dictator”⁴.

Although with the long-coveted Orbán-Trump meeting relations seemed to normalize, the United States should have strong concern over Hungary's conduct with Russia. Recently, the International Investment Bank moved its headquarters to Budapest. Interestingly, the bank is suspected to be a Russian spy hub⁵, and so Hungary seems to have opened the door to its entry into the EU.

Furthermore, foreign policy trends in Hungary reflect the attitudes of the society, as they mutually reinforce each other. In 1992, in a Társi Zrt. questionnaire asking people of their feelings towards certain countries (with 0 being the worst and 100 the best), Hungarians rated their sympathy towards

”

ALTHOUGH
WITH THE LONG-
COVETED ORBÁN-
TRUMP MEETING
RELATIONS SEEMED
TO NORMALIZE,
THE UNITED STATES
SHOULD HAVE
STRONG CONCERN
OVER HUNGARY'S
CONDUCT
WITH RUSSIA

the United States at 73, while Russia at 36. In 2018, people give the rates of 54, and 48 respectively, showing a downward trend for America and a warming towards Russia⁶. Meanwhile, 57% of Hungarians view the EU favorably, while 39% unfavorably, compared to the 63%–37% median among surveyed member states in a Pew Research Center poll⁷.

Hungary has clearly gone a long way since

breaking from under the influence of the Soviet Union and communism. By joining NATO and the EU, the country has set foot among the nations of the West, but Hungary came with a lot of baggage, and a lot of it is Russia-related.

The monument for the Soviet troops in Szabadság Tér serves as a good memento that Hungary was unable to break with its past completely, and by being accepted to the West, it serves as a Trojan horse for Russians, whose aim is to undermine Western values and spread discord. With Viktor Orbán spearheading Putin's strategy, the Hungarian politician plays a dangerous game, balancing between east and west. Despite a statue of Ronald Reagan standing resolutely at the square, eyeing the communist remnant with an austere stare, his figure is overshadowed by a gilded red star on top of the obelisk. As long as that Soviet monument stands, Hungary will continue to copy Soviet, and Russian tactics. As long as Hungary does not side clearly with the Trans-Atlantic alliance in condemning Putin and supporting Ukraine, the transformation of Hungary from a Warsaw Pact country to a fast ally of the West will be incomplete.

BUSINESS AND ECONOMY

We continue our tour through Szabadság Tér, away from the Soviets and Reagan, to the opposite side of the square. There, close to each other are the buildings of the Central Bank and the stock exchange. It is thus fitting to stop here and talk briefly about business and economy in Hungary.

Hungary has managed to escape communism relatively well compared to other countries. Economic liberalization efforts started in the 1980s, when foreign direct investments were allowed. Gradually, joint-venture western companies started to arrive in the country, and by the 1990s Hungary had become attractive for car manufacturers

² Reuters (2019) *Hungary Publishes More Anti-Eu Ads Despite Pledging Halt*. Available [online]: <https://www.reuters.com/article/us-hungary-eu/hungary-publishes-more-anti-eu-ads-despite-pledging-halt-idUSKBN1QU1FL>

³ Székely, T. (2014) “US Embassy: Six Hungarians Got Banned”. [in:] *Hungary Today*. Available [online]: <https://hungarytoday.hu/41003-2-us-embassy-six-hungarians-got-banned-27275/>

⁴ *Budapest Business Journal* (2014) “U.S. Senator Continues to Blast Orbán”. Available [online]: https://bbj.hu/politics/us-senator-continues-to-blast-orban_89164

⁵ American Enterprise Institute (2019) *It Is Time for America's Eastern European Allies to Withdraw from Putin's Fake Multilateral Bank*. Available [online]: <http://www.aei.org/publication/it-is-time-for-americas-eastern-european-allies-to-withdraw-from-putins-fake-multilateral-bank/>

⁶ Társi Zrt. (2019) *Social Report*. Available [online]: <https://www.tarki.hu/eng/tarsadalmi-riport>

⁷ Pew Research Center (2019) *Europeans Credit EU With Promoting Peace and Prosperity, but Say Brussels Is Out of Touch With Its Citizens*. Available [online]: <https://www.pewresearch.org/global/2019/03/19/europeans-credit-eu-with-promoting-peace-and-prosperity-but-say-brussels-is-out-of-touch-with-its-citizens/>

”

HUNGARY WAS
UNABLE TO BREAK
WITH ITS PAST
COMPLETELY,
AND BY BEING
ACCEPTED
TO THE WEST,
IT SERVES
AS A TROJAN HORSE
FOR RUSSIANS,
WHOSE AIM
IS TO UNDERMINE
WESTERN VALUES
AND SPREAD
DISCORD

and industry, which to this day is an important part of the economy.

Undoubtedly, with the spread of private property and businesses Hungary transformed from a centrally planned economy to a more or less Western-style country. This, however, does not mean that Hungary would be completely self-reliant, or that the business environment would be perfect.

Despite the economic growth, the country still faces some serious issues. To begin

with, Hungary relies heavily on EU funds. Meanwhile, Hungarians rely heavily on the state. Moreover, in 2016, Hungary held the 59th place in the *Economic Freedom Index*⁸. In 1990, the country started the process of transition in the 78th place, and managed to reach the 32nd position in 2001. When the transformation started, the index put it in the 3rd quartile (from 4 categories of “least free”, “3rd quartile”, “2nd quartile”, and “most free”). Since then, Hungary has performed stably in the 2nd quartile – except for the year 2011, when it was briefly promoted into the “most-free” bracket.

In 2019, the *Doing Business Index*⁹ ranked Hungary at 53rd, below the regional average. Despite low corporate and income taxes, Hungary has the highest rate of VAT in the EU – set at 27%¹⁰.

Although Hungary has liberalized the economy, corruption – an organic part of a socialist-planned economy – has not vanished. According to the *Corruption Perception Index*¹¹, in 2018 Hungary was in

⁸ Fraser Institute (2019) *Economic Freedom*. Available [online]: <https://www.fraserinstitute.org/economic-freedom/map?geozone=world&page=map&year=2016&countries=HUN>

⁹ The World Bank (2019) *Doing Business*. Available [online]: <https://www.doingbusiness.org/en/data/explore-economies/hungary>

¹⁰ The Hungarian tax system is based on the opinion that low income tax is incentivizing people to save up, while a low VAT would not have the same effect. Furthermore, this latter tax is the most equitable form of taxation, and is an important factor in revenues. The government plans further tax cuts, and decentralization. For further information see: Keszthelyi, C. (2019) “Hungary’s Tax System Stable but Administration-Heavy”, [in:] *Budapest Business Journal*. Available [online]: https://bbj.hu/special-report/hungarys-tax-system-stable-but-administration-heavy_161404; and: Daily News (2019) “Hungarian Audit Office sees room for gradual personal income tax rate cut” Daily News Hungary. Available [online]: <https://dailynewshungary.com/hungarian-audit-office-sees-room-for-gradual-personal-income-tax-rate-cut/>

¹¹ Transparency International (2019) *Corruption Perception Index 2018*. Available [online]: <https://www.transparency.org/cpi2018>

64th place – one place better than a year before. However, the index also revealed that in the EU, only Greece and Bulgaria were more corrupt. In 2017, Hans Eichel, the co-founder and former chairman of G20, together with Pascal Lamy, a former European Commissioner, wrote an open letter¹² to Jean-Claude Juncker, president of the European Commission, asking him to temporarily suspend all EU funding to Hungary due to corruption and the fact that the Hungarian government is using the money to fund political campaigns, enrich its own business circles, and furthering the erosion of the rule of law. Due to Hungary’s over-reliance on EU funds, such a cut would have been a giant blow to the economy. As the letter mentions: “More than 95% of public investment projects in Hungary receive EU co-financing”¹³.

The government’s meddling in private businesses through proxies is especially apparent in the media sector, and with that, the tour continues.

FREEDOM OF THE PRESS

As we leave Szabadság Tér behind, let us take a fleeting glimpse at a large building located in the square. It used to be the headquarters of MTV, a Hungarian public TV station. In 2006, a large crowd gathered in front of the building, infuriated by a leaked tape of then Prime Minister Ferenc Gyurcsány from the socialist party admitting to thieving, lying, and cheating to win the parliamentary election. The mob eventually took over the headquarters. The event was detrimental to the future of Hungary.

¹² Eichel, H. and Lamy, P. (2017) “Open Letter to Jean-Claude Juncker”. [in:] *Hungarian Spectrum*. Available [online]: <http://hungarianspectrum.org/2017/11/28/open-letter-to-jean-claude-juncker/>

¹³ Ibid.

Both the leaked speech and the atrocities during the protests were hot topics for a long time; the socialist government became unpopular leading to Viktor Orbán’s, and his party, Fidesz’s victory in 2010, and two consecutive Fidesz governments – in 2014 and 2018.

A strong democratic country is marked by the strength of its civic institutions, such as NGOs, and the independent media. News outlets can hold governments and politicians accountable, and make and break people. Independent media break people unfit to govern (as Ferenc Gyurcsány was), while helping aspiring politicians. Clearly, the media have a lot of power. The power Viktor Orbán could ill afford to tolerate.

In its first term after 2010, the Fidesz government had a lot of media outlets on its side. The stellar unpopularity of the socialist party in power between 2002 and 2010 whipped up a majority support for the new cabinet. It also helped that Mr. Orbán’s close friend, Lajos Simicska, happened to own a media empire. There were concerns over media freedom as the government set up a Media Authority, with the power to enforce media laws that regulated content. The independence of the authorities started being questioned.

It was not, however, until 2014 that red flags over media freedom were widely raised. It was then that the government introduced a progressive tax on advertising revenues of media ventures. The law was constructed in such a way as to target specific, independent media.

The taxes also hit Lajos Simicska’s business interests, which the businessman interpreted as backstabbing from the prime minister, and amid a scandal, the former broke away from his long-time friend. This forced Viktor Orbán to set up a new media empire, for

”

IN ITS FIRST TERM AFTER 2010, THE FIDESZ GOVERNMENT HAD A LOT OF MEDIA OUTLETS ON ITS SIDE

which he used his newly set-up oligarch, Lőrinc Mészáros, who if his spectacular “success” winning public procurement bids continues and he amasses wealth in a constant rate, will become the richest person on earth by 2024¹⁴.

The largest blow to freedom of press was the shutting down of *Népszabadság*, the largest national daily newspaper back in 2016. The media venture was bought by an Austrian businessman, Heinrich Pecina, who allegedly agreed with Mr. Orbán to later resell it to Mészáros. Since then, Mr. Pecina has received a suspended prison sentence for embezzlement on a separate case¹⁵. The official reason given for suspending the operations of *Népszabadság* was its inability to produce profits. Eventually, Heinrich Pecina did, indeed, sell the media venture to Mészáros.

¹⁴ Portfolio.hu (2018) *PM Ally Mészáros Already 2nd Richest Person in Hungary*. Available [online]: <http://www.portfolio.hu/en/users/reg.php?redir=/en/economy/pm-ally-meszaros-already-2nd-richest-person-in-hungary.36196.html>

¹⁵ Portfolio.hu (2017) *Heinrich Pecina Gets Suspended Prison Sentence*. Available [online]: <http://www.portfolio.hu/en/economy/heinrich-pecina-gets-suspended-prison-sentence.33977.html>

Since then, several other news outlets have shut down as the pro-government, oligarch-owned media had the upper hand on the market. The Fidesz government took a leaf out of Putin's book and has been controlling news outlets through advertising revenues. One such newspaper is the left-wing *Népszava*, which *de-jure* operates independently and is tolerated by the ruling party, though it will not attack the government through impactful investigative articles.

The frightful outreach of the pro-government media in Hungary was outlined in 2017 in an article of the investigative *atlatszo.hu* portal¹⁶. The results showed that 65% of the daily print national newspapers bought by readers were pro-government, including all regional newspapers. 90.5% of the weekly news magazines in circulation were also pro-government, as well as 37% of the average online readership. Within radio stations this ratio was 62%, and 55% for the audience of evening TV news programmes. Moreover, 59% of the total reach of news media has been achieved by pro-government outlets.

The situation has only gotten worse since. Freedom House puts Hungary into the “partly free” category in media freedom¹⁷. The organization also published a detailed analysis¹⁸ citing that by 2019 in the country “nearly 80 percent of the media are owned by government allies.”

¹⁶ Bátorfy, A. (2017) “This Is How Government-Friendly News Outlets Dominate the Hungarian Media” [in:] *Atlatszo.hu*. Available [online]: <https://english.atlatszo.hu/2017/11/22/this-is-how-government-friendly-news-outlets-dominate-the-hungarian-media/>

¹⁷ Freedom House (2017) *Freedom of the Press 2017*. Available [online]: <https://freedomhouse.org/report/freedom-press/2017/hungary>

¹⁸ Freedom House (2019) *Freedom and the Media: A Downward Spiral*. Available [online]: <https://freedomhouse.org/report/freedom-media/freedom-media-2019>

”

THE PRO-GOVERNMENT MEDIA ARE SATURATED WITH FAKE NEWS, BLATANT PROPAGANDA, CONSPIRACY THEORIES, AND SMEAR CAMPAIGNS VERGING ON THE QUALITY OF THE MOST LUDICROUS COMMUNIST FABRICATIONS OF LORE

We now arrive at Kossuth Square, where the stately building of the ornate Parliament casts its reflections over the lazily streaming Danube River. The square usually plays host to protests that do not achieve anything, while the building hosts the high-achieving super-majority of Fidesz, with which the legislative body does whatever is necessary to sustain that advantage.

The government's takeover of the media, as dire as it may seem, is only half of the problem. It is terrifying enough that a party with the power of changing laws has control over the media, but seeing how Fidesz uses it as a mouthpiece, it is definitely one of the strongest arguments against the success of the transformation.

The pro-government media are saturated with fake news, blatant propaganda, conspiracy theories, and smear campaigns verging on the quality of the most ludicrous communist fabrications of lore¹⁹. Facebook blacklisted all news outlets in the region, as it was unable to filter out the propaganda fake news pieces²⁰. Regardless of the effectiveness or morality of this measure, it is rather telling that such drastic policies had to be brought.

RELIGION AND TOLERANCE

Fake news propaganda long precedes the Soviet Union. Russia has used it to whip up anti-Semitism in Europe – for example, in the form of the Protocols of the Elders of Zion. Vladimir Putin used similar methods in spreading discord in Europe by supporting far-right groups²¹.

As we walk down the bank of the Danube in our tour of Budapest, away from the parliament on our way up to the castle, the embankment is speckled with metal statues of shoes. Here we should stop with bowed

¹⁹ Medium.com (2018) *The Craziest Lies of Hungarian State-Controlled Media*. Available [online]: <https://medium.com/@smalltownhigh/the-craziest-lies-of-hungarian-state-controlled-media-112b5695ff49>

²⁰ Graham-Harrison, E., Walker, S. (2019) “Hungary: the crucible for faulty efforts by Facebook to banish fake news”. [in:] *The Guardian*. Available [online]: <https://www.theguardian.com/world/2019/may/18/hungary-crucible-facebook-attempt-banish-fake-news>

²¹ Political Capital (2015) *The Kremlin Connection of the European Far-Right*. Available [online]: https://www.politicalcapital.hu/hireink.php?article_read=1&article_id=68

heads, looking over the shoes down to the waves of the river that swallowed those Jewish victims during the WW2, who were mercilessly shot down into the river, and whose memories the empty shoes preserve.

Despite the said memento of such horrors, just years ago, neo-Nazi groups held marches in Budapest and the countryside wearing uniforms. These paramilitary groups were connected to Jobbik, a then far-right party, which has moved closer to the political center since putting an end to the open displays of racism. By today, Hungary has apparently gone a long way. According to the Action and Protection Foundation, anti-Semitic incidents have declined in Hungary, contrary to European trends²².

Though the number of incidents has indeed dropped, racism is still present in Hungarian society, often exacerbated by the xenophobic anti-immigrant fake news campaigns of the government. The Special Eurobarometer 437 poll²³ conducted in 2015 reveals that 20% of Hungarians would feel uncomfortable if one of their colleagues happened to be Roma, whereas 34% would feel uncomfortable if their child's partner was from the same minority group. Regarding Jews, Hungarians answered the same questions with the result of 9% and 16% of respondents feeling uncomfortable with the ethnic group respectively. Muslims and Roma are the ethnic groups the citizens of Hungary clearly feel most uncomfortable with. A poll conducted by CNN in 2018 reveals²⁴ that

²² Action and Protection Foundation (2019) *Opposite Trends in Hungary and Europe: Drop in Number of Anti-Semitic Hate Incidents in Hungary in 2018*. Available [online]: <https://tev.hu/en/opposite-trends-in-hungary-and-europe-drop-in-number-of-anti-semitic-hate-incidents-in-hungary-in-2018/>

²³ EU Open Data Portal (2015) *Special Eurobarometer 437: Discrimination in the EU in 2015*. Available [online]: http://data.europa.eu/euodp/en/data/dataset/S2077_83_4_437_ENG

²⁴ CNN (2018) *CNN Poll: Anti-Semitism in Europe*.

”

ANTI-SEMITIC INCIDENTS HAVE DECLINED IN HUNGARY, CONTRARY TO EUROPEAN TRENDS

20% of Hungarians openly admit to being anti-Semitic.

Racism manifests itself in less specific ways, however. This is substantiated by a 2016 Pew Research Center²⁵ study researching more general attitudes towards minorities. It found that Hungarians have a worse outlook on minorities than the EU average. Muslims are the most negatively perceived group, with 72% of Hungarians having unfavorable view on them – as opposed to the 43% EU average. Additionally, 64% dislike Roma and 32% Jews – compared to the 48% and 16% in the EU, respectively.

The Hungarian government, despite a lot of criticism of its xenophobic campaigns, and its attacks on George Soros, a Jewish Hungarian-American billionaire, is not rac-

Available [online]: <https://edition.cnn.com/interact/2018/11/europe/antisemitism-poll-2018-intl/>

²⁵ Pew Research Center (2016) *Hungarians Share Europe's Embrace Of Democratic Principles But Are Less Tolerant of Refugees, Minorities*. Available [online]: <https://www.pewresearch.org/fact-tank/2016/09/30/hungarians-share-europes-embrace-of-democratic-principles-but-are-less-tolerant-of-refugees-minorities/>

ist or anti-Semitic. It is populist. Mistrust of minorities does, however, lead to fear and hate, exploited and aggregated by the government's propaganda. During communist times, these sentiments were taboo. Ever since, these issues have not been addressed, which makes it impossible to reconcile them. And so, unaddressed, they were used by the current government.

Without openly admitting the problem of racism, which is by far not unique to Hungary, the country can neither become more tolerant, nor truly westernize. In spite of what the government claims, being more tolerant does not mean abandoning one's culture, or even tolerating those that want to destroy Western values. The Hungarian government poses an even more imminent danger than nonexistent immigrants in Hungary. Any degree of intolerance – be it from groups or countries outside of Europe, or within – should not be tolerated.

DEMOCRATIC INSTITUTIONS

We finish our tour by crossing the Danube on the famous Chain Bridge, and hiking up to the castle. This is a rather presumptuous place the Office of the Prime Minister moved to in 2019. Given how successfully Mr. Orbán consolidated his authority, it is rather fitting that he should look down upon the city laying below his feet from a castle

Hungary's transformation somewhat resembles that of Russia. Old ways were given new guises; certain measures were modernized and adjusted to the digital age. Viktor Orbán began entrenching his power by getting rid of the old constitution and drafting a new one. Then, whenever his needs desired, his party, Fidesz, using the super-majority in parliament, amended it.

One such amendment, for instance, curtailed the powers of the Constitutional Court after it ruled certain provisions of previous

amendments as unconstitutional. The new amendment not only passed those provisions, but also took away the ability of the Constitutional Court to rule over them. The EU and the United States both expressed their concerns over it²⁶.

Election laws are rewritten every time they do not benefit Fidesz, with the obvious result of securing a super-majority all over again, despite fewer people casting their ballots for the party²⁷.

The Prosecutor General of Hungary often refuses to investigate corruption cases making it obvious his office is by no means independent of Viktor Orbán's state apparatus²⁸. This gives corruption free reign, and oligarchs can win public procurement bids under suspicious circumstances.

NGOs are often attacked by the government's propaganda machine. In 2017, a law was passed forcing them to register as a foreign-funded organization if a certain amount of their funds came from abroad. This blow on civic society strongly resembles that of the Putin's technique and – if this was not enough – the Hungarian government justified the much criticized measures by alluding to the FARA laws in the United States, which require the registration of foreign lobbyists. This is the same justification Russia had used, despite no similarity

²⁶ BBC (2013) Q&A: *Hungary's Controversial Constitutional Changes*. Available [online]: <https://www.bbc.com/news/world-europe-21748878>

²⁷ *The Budapest Beacon* (2018) "Electoral Rules Rig Results of Hungarian Elections, Warns Princeton's Kim Lane Scheppelle". Available [online]: <https://budapestbeacon.com/electoral-rules-rig-results-of-hungarian-elections-warns-princetons-kim-lane-scheppelle/>

²⁸ *The Budapest Beacon* (2016) "Hungarian Prosecutors Unlawfully Refusing to Investigate Embezzlement of Central Bank Funds". Available [online]: <https://budapestbeacon.com/hungarian-prosecutors-unlawfully-refusing-to-investigate-embezzlement-of-central-bank-funds/>

“ THE PROSECUTOR GENERAL OF HUNGARY OFTEN REFUSES TO INVESTIGATE CORRUPTION CASES MAKING IT OBVIOUS HIS OFFICE IS BY NO MEANS INDEPENDENT OF VIKTOR ORBÁN'S STATE APPARATUS

whatsoever with the American law in either case²⁹.

Academia fared no better than NGOs. Similar to Russia, Hungary attacks US institutions of higher education. Central European University (CEU), one of the best universities in the region, was singled out by the government on the grounds that the private university was founded by George Soros, whom the government designated as public enemy number one. The institution had to leave Hungary³⁰.

²⁹ Rohac, D. (2017) "Opinion: Crackdown on Hungary's NGOs: Mirage or Reality?" [in:] *The Budapest Beacon*. Available [online]: <https://budapestbeacon.com/op-ed-crackdown-hungarys-ngos-mirage-reality/>

³⁰ *Budapest Business Journal* (2019) "Hungary Will Not Soften Laws to Allow Ceu to Stay". Available [online]:

One of the points the government used in its communication strategy against CEU was its Gender Studies course. Since then, Gender Studies cannot be taught in the country³¹. The Academy of Sciences was also recently forced under government control³². Later, in order to complete the monopolization of education, alternative schools have been essentially phased out³³, forcing children to learn under the centralized and dysfunctional state education system. As a result, future generations can be conditioned not to dissent and not to think critically lest they pose a danger to the regime.

These measures are just some of the actions PM Orbán took to consolidate his power for the foreseeable future. He could not have done it alone, though. Civic oversight and democratic institutions were not strong to begin with, so their erosion was much easier. The process was rendered even easier with the aid of a generous portion of the population that supports Viktor Orbán in his mission to build an illiberal state³⁴ modelled after Russia or China.

https://bbj.hu/news/hungary-will-not-soften-laws-to-allow-ceu-to-stay_164270

³¹ Day, M. (2018) "Viktor Orban Moves to Ban Gender Studies Courses at University in 'Dangerous Precedent' for Hungary" [in:] *The Telegraph*. Available [online]: <https://www.telegraph.co.uk/news/2018/08/13/viktor-orban-moves-ban-gender-studies-courses-university-dangerous/>

³² Vass, Á. (2019) "Government to Impose Total Control Over the Science Academy". [in:] *Hungary Today*. Available [online]: <https://hungarytoday.hu/government-to-impose-total-control-over-the-science-academy/>

³³ *Hungarian Spectrum* (2019) "Closing the Door on an Alternative Education", Available [online]: <https://hungarianspectrum.org/2019/07/01/closing-the-door-on-an-alternative-education/>

³⁴ *The Budapest Beacon* (2014) "Full Text of Viktor Orbán's Speech at Băile Tușnad (Tusnádfürdő) of 26 July 2014". Available [online]: <https://budapestbeacon.com/full-text-of-viktor-orbans-speech-at-baile-tusnad-tusnadfurdo-of-26-july-2014/>

Confidence in the political situation in Hungary increased between 2011-2016³⁵, despite worrisome trends to the state of democracy. Freedom House demoted Hungary³⁶ from "free" to "partly free" – the only EU state in the category, whereas the Bertelsmann Foundation's 2018 *Sustainable Governance Indicators* report claims Hungary can no longer be considered a consolidated democracy³⁷. Nevertheless, it is not true that Hungarians do not support democracy – a 2017 Pew Research Center poll³⁸ revealed that 78% of Hungarians deem democracy to be good. It is, therefore, not a question of whether Hungary is a democracy or not, but rather whether it is an *illiberal* democracy or a *liberal* one. Unfortunately, the former seems truer more and more, evidencing that the transformation is incomplete. All the transformation achieved is served merely as a means of sugarcoating the surface, but ignoring – and thus not completely stopping – the rotting inside.

CONCLUSIONS

Hungary had two kinds of leaders: those who pretended that the country had become a democracy and westernized overnight – at the same time failing to address underlying fears and tensions within society that needed to be bottled up during communism on the off chance that people will pretend as well that these issues do not exist.

³⁵ Tárki Zrt. (2019) *Social Report*. Available [online]: <https://www.tarki.hu/eng/tarsadalmi-riport>

³⁶ Freedom House (2019) *Freedom on the World 2019*. Available [online]: <https://freedomhouse.org/report/freedom-world/2019/hungary>

³⁷ Bertelsmann Stiftung (2019) *First Signs of Waning Support for Viktor Orbán*. Available [online]: <https://www.bertelsmann-stiftung.de/en/our-projects/sustainable-governance-indicators-sgi/project-news/first-signs-of-waning-support-for-viktor-orban/>

³⁸ Pew Research Center (2017) *Globally, Broad Support for Representative and Direct Democracy*. Available [online]: <https://www.pewresearch.org/global/2017/10/16/globally-broad-support-for-representative-and-direct-democracy/>

Then there is Viktor Orbán, who shrewdly but successfully exploited public attitudes without moralizing over them.

It is definitely talent that propelled the man from the Hero's Square as a young orator up across the city all the way to the castle. His actions defined the thirty years of Hungarian development after the fall of communism. However, strange as they might seem for a mature Western democracy, these actions do not constitute the core issue Hungary is now facing, but is merely a symptom.

In a firmly democratic country, where civic institutions stand strong and watch over the authorities, where media hold people accountable, where checks and balances ensure the rule of law, and where people are tolerant and supportive of these democratic institutions, Mr. Orbán could not have, and would not have been able to do what he is now doing in Hungary.

“ THE LAST THREE DECADES OF TRANSFORMATION HAVE HAD THEIR UPS AND DOWNS, BUT HAVE REMAINED GENERALLY INCOMPLETE

The last three decades of transformation have had their ups and downs, but have remained generally incomplete. And so, in this sense, the transformation projects have been a failure. However, as it is an ongoing process, no matter how Sisyphean it might seem, some accomplishments have occurred.

Looking down at the city from the castle, the glistening buildings varnished over the underlying issues would fool anyone taking a superficial glance. The stones are scrubbed of their communist grime, tons of new investment flows into the country. Hungary is now part of NATO and the EU; it is free to enterprise among relatively favorable corporate tax conditions. On paper, there is nothing stopping free media ventures to start operating. Contrary to European trends, anti-Semitic atrocities are showing a downward trend. Finally, despite all the hardship, theoretically, opposition parties might be able to win elections.

Below the surface, however, opposition parties are hindered through legislation, the state capture of the media through proxies created a quasi-monopoly, making it much more difficult for independent media ventures to strive in the Hungarian media scene. Opposition parties are further hindered by their own ineptness to realize society does not work in the idealized way opposition politicians believe. Racist sentiments are very much ubiquitous still, though they no longer manifest in atrocities as often as they used to. True, many of the citizens are nostalgic of the communist era – but this is not really surprising, as these were the times when they were young and possibly happier overall.

Ironically, Fidesz, a formerly vehemently anti-communist party, realized that this is exactly the case, while the Socialist Party, which is the direct descendant of the com-

munist ruling party, and its offshoots failed to do so. The opposition is unlikely to win elections in the future as they find the current situation suitable. They get their money from the state and wages from the Parliament, and they do not have to make difficult decisions to lead the country. It therefore seems that there is no one figure in Hungary that could take the ultimate leadership role to succeed Viktor Orbán.

The strongman of Hungary is a populist, there is no doubt about it. In such a capacity he will react to the *vox populi*. True, he can nudge people to stir up to the surface certain attitudes that were best left unmentioned before, but now became perfectly okay. Xenophobia, support of state capture, a demand for a strong leader, opposition to western trends – these sentiments have always been present in Hungarian society, not even dormant, but waiting for a release.

The unfortunate brilliance of the leadership in Hungary is recognizing and exploiting these attitudes, while applying a modern shiny varnish to it. As long as the nostalgia for an authoritarian regime lingers, there will be politicians who will use it. Until there are substantial changes in society, transformations will remain regretfully unfinished.



MÁTÉ
HAJBA

Director of Free Market Foundation in Hungary



Media Unfreedom, Hungarian Style: From “APO” to “KESMA”



*
JÁNOS
KÁRPÁTI

The democratic transition in Central and Eastern Europe (CEE) at the very end of the 1980s and the beginning of the 1990s resulted in essential social changes. Although analysts may come to different conclusions as regards their nature, they do share a few common points. One of them is that after the fall of Communism, certainty has disappeared from the everyday life of ordinary people.

In the Hungarian “Goulash Communism” period of the 1970s and 1980s, you did not have the freedom of choice, but certainly you could feel secure in a limited environment. Now, freedom has arrived, possibilities have opened up, and you bear much more personal responsibility for your own fate – and you will not necessarily belong to the winners. However, if losers do not see real prospects to have a better future, they may tend to look back into the past. Why does it happen in one country, while another country manages to avoid it? Hundreds of factors should be considered to find the answer, but now the fact is that a considerable part – though it can be disputed if it is the majority – of the Hungarian population is looking back into the past.

Looking back into the past – what does it mean, more precisely? After the third consecutive election victory of Fidesz in 2018, resulting in a two-thirds majority in parliament, the hopes of an upcoming change has faded in the minds of those opposing this power. Many people have given up and they say there is no point in trying to influence politics any more. They retire to cultivate their own gardens, and this is exactly what Hungarian Communism – the Kadar era – was basically about: “do not bother about politics, enjoy what you can achieve in your private life”.

”

AFTER THE FALL
OF COMMUNISM,
CERTAINTY HAS
DISAPPEARED
FROM
THE EVERYDAY
LIFE OF ORDINARY
PEOPLE

This is fertile ground for, among other things, creating a media environment where governmental propaganda is predominant. Opposition media outlets still exist (which differentiates the current system from the communist one), but they play a marginal role and their future is permanently uncertain. Let us take a look at how this old-new media landscape was being created in Hungary in the last thirty years.

THE SINGLE-PARTY MODEL

Before 1989, in the single-party system, the Hungarian Socialist Workers Party was more powerful than state institutions. Political decisions were made in the Party, and state institutions were only executive offices. This was true for the media as well. The Information Office of the Council of Ministers was a big, visible authority but the real power was in the hands of the Department of Agitation and Propaganda within the Party. This department was referred to as APO – a play on the word ‘apó’ (which is nearly identical to the abbreviation itself), which means ‘dad’ in Hungarian. The message was: Dad will take care of you, tell you what to read,

”

HUNGARY WAS UNIQUE IN THE COMMUNIST BLOC NOT TO HAVE ANY CENSORSHIP OFFICE

watch, or listen to, so do not be bothered to think for yourself.

There existed no private television or radio channels at that time. The four daily newspapers with nationwide circulation were profiled and organized according to the needs of the ruling elite. The “leading” daily was *Nepszabadsag*, the central mouthpiece of the Party. *Magyar Hirlap* was the official newspaper of the government (not to be confused with the *Official Journal*, publishing new laws and various legal documents). Apart from these, there was *Nepszava* – published by the National Council of Trade Unions; and *Magyar Nemzet* – published by the Patriotic People’s Front, which was an umbrella organization of different organizations loyal to the communist system (churches, peace movements, etc.).

The news editors-in-chief of the state-run television, the state-run radio, and the aforementioned dailies, plus the editor-in-chief of the Hungarian News Agency MTI, regularly met every Monday morning in the office of the head of the APO, the “agitprop boss”, who briefed them about the current requirements concerning the coverage of various topics. Hungary was unique in the commu-

nist bloc not to have any censorship office. Instead, the editors-in-chief were well aware of the set expectations.

Equally familiar with the imposed limitations, as regards the published content, were the editors-in-chief of the leading dailies in each of the nineteen counties of the country. Each county had a “local” version of the Party’s centrally run newspaper. The main source of information for a relatively high proportion of the population living outside Budapest was – instead of the nationwide press – the “county version” of *Nepszabadsag*. Thanks to the organizing skills of APO, key messages of nationwide importance were published in all of these county papers at the same time, even in identical layout.

TWO DECADES OF FREEDOM AFTER THE TRANSITION

Following the democratic transition, the media landscape in Hungary changed dramatically. Private investments created new outlets in the print media, with private television and radio channels also being created. Nevertheless, the 1990s witnessed several waves of the so-called *media war* in the country. This war basically fought for the control over the public media – first of all, over Hungarian Television, but also over Hungarian Radio and the national news agency MTI.

In the second half of the 1980s, public broadcasting institutions were strongly determined by, originally leftist, but increasingly reform-minded journalists open to the world trends, with growing liberal attitudes. The staff was confronted with the results of the first free elections in 1990, helping a coalition of conservative, nationalist parties to power. The new government (composed of the Hungarian Democratic Forum, the Christian Democratic People’s Party, and the Smallholders Party) declared war upon this “liberal media branch” and several high qual-

”

FOLLOWING THE DEMOCRATIC TRANSITION, THE MEDIA LANDSCAPE IN HUNGARY CHANGED DRAMATICALLY

ity journalists were dismissed, with liberal and leftist voices being silenced in the public media. For the clarity of these changes, let us call the leftist, liberal journalists “Group A”, and conservative, nationalist journalists “Group B”. In this case, Group A was dismissed by Group B.

The 1994 elections brought sweeping success to the leftist opposition, which consisted of the Socialist Party (the successor of the Hungarian Socialist Workers Party from the previous system) and of a liberal party. These two formed a coalition. The political changes were also reflected in personal changes in the public media. Group B was dismissed largely by Group A.

Then, in 1998, Fidesz was the winner of the elections. Group A was dismissed by a refreshed version of Group B.

In the year 2002, the socialists and the liberals came back to power. The new version of Group B was dismissed by a younger generation of Group A.

This was the end of the period when every four years a changing of the guards, so to speak, took place in Hungary. In 2006, Fidesz could not return to power but the subsequent years were characterized by growing antagonisms, aggressive street demonstrations, and the fast decline of leftist power. For the first time in Hungarian history, the 2010 elections resulted in a two-thirds parliamentary majority for the Fidesz party.

In the media environment, it was the end of a period lasting for two decades when dominant voices in the public media were regularly disappearing and reappearing, depending on election results. Nonetheless, the Hungarian private media sector was flourishing and the existence of diversity in information sources was undisputed, irrespective of the color (or rather “political affiliation or party-composition”) of the government.

NEW MEDIA LAW

Prime Minister Viktor Orbán, having gained a constitutional majority in 2010, right after the election victory, started to consolidate his power by weakening checks and balances – not only with regard to the constitutional regulation of the relationship between power branches, but also with a reformed media regulation. The new Media Act (Act 185 of 2010 on Media Services and Mass Media), having entered into force on January 1, 2011, was, in fact, the first important building block of a new system, which was later baptized by Orbán as “illiberal democracy”.

Laszlo Majtenyi, a professor of constitutional law and a former Hungarian ombudsman, had several objections to this law, including, among others:

- the undemocratic nature of the architecture of supervision as enacted;

- the Media Act's transgression of generally accepted liberal and democratic principles by extending the government's powers of oversight to the printed press and the new media, including online news publication in its entirety and a significant portion of blogs;
- the unprecedented scope of powers conferred, the nebulous definition of the legal grounds for imposing sanctions, and the threat of arbitrary application¹.

Regarding the first objection, Mr. Majtenyi pointed out that the President of the National Media and Infocommunications Authority – with vastly augmented powers of supervision over the converged technological aspects of the media and content regulation – is since then to be appointed for a term of nine years (more than two parliamentary cycles) at the discretion of the prime minister, and may be appointed to the office more than once.

The director general of the Broadcast Support and Property Management Fund (MTVA), which has discretionary rights over the assets of public media and the allocation of various support funds, is appointed and recalled by the president. As Laszlo Majtenyi envisioned, the Media Act marked the end of the economic independence of certain public program providers, including Hungarian Radio, MTV (Hungarian Television), and Danube Television, whose entire assets were transferred to the Fund overseen by the president.

Thousands of journalists and programmers were reassigned to the same umbrella

¹ <http://ekint.org/en/media-and-press-freedom/2011-01-11/a-criticism-of-the-hungarian-act-on-media-services-and-mass-media-effective-january-1st-2011>

”

THE MEDIA ACT
MARKED THE END
OF THE ECONOMIC
INDEPENDENCE
OF CERTAIN
PUBLIC PROGRAM
PROVIDERS,
INCLUDING
HUNGARIAN RADIO,
MTV (HUNGARIAN
TELEVISION),
AND DANUBE
TELEVISION

organization. Public service media no longer create their own programs, but commission them from the Fund. News reporting is centralized. On the pretext of frugality, events deemed newsworthy are featured in programs created by the same single crew and then distributed among all the public channels.

The President of the Authority also presides over the Media Council, the body that passes the most important material decisions. Taking advantage of its two-thirds majority in parliament and the abolition of the former parity-based mechanism, the ruling Fidesz party has made sure that no one other than their own candidates are delegated to the Media Council.

Even though the ruling party and the opposition may delegate the equal number of candidates to the Board of Trustees of the Public Service Media Foundation (three each), the predominance of the ruling party is once again assured, since the Media Council is entitled to nominate the chairman and an additional member.

Without a proper tender procedure and by the unanimous vote of delegates exclusively from the ranks of the ruler party, it was this body that elected the general directors of public broadcasters, who must therefore be regarded as political appointees.

Both in its scope and the philosophy of its conception, the new media regulations transgress the boundaries of European constitutional democracy. The European legislative tradition is to respect the difference between the legal restrictions imposed on respective types of media. The deepest intervention has been deemed acceptable in the regulation of the electronic media (radio and television), initially because of the nature

”

THE RULING FIDESZ
PARTY HAS MADE
SURE THAT NO ONE
OTHER THAN THEIR
OWN CANDIDATES
ARE DELEGATED
TO THE MEDIA
COUNCIL

of frequency as a limited resource, and later citing the unmatched power of these media to shape public opinion. Since the press won the fight for the abolition of censorship in the 19th century, legal action has served as the only basic means to guard against rights violations committed in the print media. These days, the Internet is certainly the freest medium of all.

The Hungarian media law seeks to regulate communications in diverse media – online, print, and electronic – based on the same standardized criteria. Indeed, there has been no official explanation whatsoever for empowering the new Authority to monitor and severely sanction the printed press. It is equally difficult to grasp why the Authority should have the right to monitor and sanction news portals and blogs, provided that they also post-edit commercial advertising.

The new scheme of bidding for frequency allocations lacks transparency and does not rule out the possibility of arbitrary decisions. If the Media Council is dissatisfied with the bids – for instance, due to “considerations of media policy,” – it may choose not to announce a winner at all, or wait until it happens to receive a bid that is to its liking. It has the authority to scrutinize all radio, television, and other audio-visual content, and put it to the test of what the law calls “balanced nature.”

Moreover, the new professional “self-regulatory” bodies remain at the mercy of the new Authority in terms of discretionary powers, operation, and information.

Finally the grounds for imposing fines, which are so severe as to be fit to ruin a media enterprise, are vague and described in general legal terms, such as offense to any public interest, any majority or minority, constitutional law and order, and human dignity. On the suspicion that an individual right

has been violated, the Council may bring a process even if the subjects themselves have not objected to or even been aware of the alleged violation. Media enterprises found to be in repeated grave infringement of the new rules may be simply struck from the register by the Council, in a blatant infringement of the freedom of the press. All the while, the Media Act neglects to define what such a "grave infringement" consists of, other than the default on broadcasting fees.

CONCENTRATED OWNERSHIP AND "LEADERSHIP"

The media law created by Fidesz reshaped the whole media playing field in Hungary, but beyond the legal environment, media ownership relations have also changed dramatically during the Fidesz government.

There has been a permanently ongoing verbal war between the government and the pro-government media on the one hand, and the media critical towards the government on the other, concerning the question of predominance. The pro-government narrative is that the opposition, leftist media is still predominant, while those critical of the government claim the opposite. In order to determine the truth, it would be highly misleading to only compare the number of media outlets. It is necessary to look deeper into the real scope of the different kinds of media outlets.

First of all, public broadcasting is under the total control of the government. In recent years, new, thematic channels have been launched by the public television. A well-orchestrated propaganda scheme is applied on all channels, e.g. even the television coverage of high-profile sports events is regularly intermitted by short news which – in accordance with governmental policy – usually consist of dramatic stories about the dangers of migration.

At the top of this media "management" is Antal Rogan, the propaganda minister in the prime minister's office, and a close ally of Viktor Orbán. He is the "agitprop boss" of the new times.

The audience of public broadcasting is not too high, but in this respect there is a big difference between Budapest (of 2 million inhabitants) and the rest of the country (8 million). The popularity of public broadcasting is usually stronger in smaller settlements – in certain geographic areas it is not even about dominance, but rather exclusiveness. People in many households do not watch practically anything else other than public television programs.

Noteworthy, outside Budapest, a certain proportion of the residents regularly read only the "local" (hence government-controlled) newspaper². This category was mentioned in the overview of the communist media environment. Business circles close to Fidesz bought these leading papers in each and every county. The big new owner became Lorinc Meszaros, another good friend of Viktor Orbán. Originally, he was a plumber in the village where the prime minister was born. Now, he is one of the richest people in Hungary, the owner of a whole empire of companies. The county newspapers – being practically in one hand – are prepared day by day with a centralized working method: There is some local content, of course, but

² There are no exact figures indicating the media consumption habits of the population. The number of sold dailies is generally very low everywhere in the country, and as such it covers only a limited percentage of the residents. But while in Budapest residents read different dailies with national circulation and the most popular daily is *Népszava*, critical towards the government, everywhere else in the country the pro-government local daily sells better than the dailies with national circulation. Moreover, in small towns and villages, where human relations are more personal, the importance of local "opinion leaders" is outstanding and the majority of these key figures of the local society read the local pro-government daily on a daily basis.



THE MEDIA LAW CREATED BY FIDESZ RESHAPED THE WHOLE MEDIA PLAYING FIELD IN HUNGARY

the national and international content is identical and produced in Budapest.

Business circles in the "moonbow" of Fidesz have acquired most of the private radio and television stations in the country. However, there are two big, nationwide private television channels with outstanding an audience: Bertelsmann-owned RTL Klub and TV2. So far so good – only the latter one is considered to belong to the Fidesz media empire at the present time.

As for printed political dailies with national circulation, after the unexpected and scandalous closing of liberal-leftist *Nepszabadsag* in October 2016, there still exists *Nepszava*, critical towards the government. The two other outlets are the pro-government *Magyar Nemzet* and *Magyar Hirlap*. But these newspapers altogether reach much less people than several tabloids, which are nearly exclusively in the pro-government hands.

When Fidesz tries to prove the predominance of the opposition media, it may find some arguments looking at the number of titles in online media. Alas, the truth is that even in this relatively independent area, the money of pro-government businesspersons

is more and more obviously influencing media content.

All in all, it is fair to state that a considerable part of the Hungarian public consumes nearly exclusively pro-governmental propaganda instead of independent news. Having said that, prevailing trends concerning the circulation of the printed media segment show that real predominance of pro-government propaganda is slowly but steadily diminishing, at least in the non-tabloid segment. The figures of circulation are visibly going down. Consequently, revenues resulting purely from selling the newspapers are more and more dramatically lagging behind the costs. In order to keep up the balance, papers need higher income from advertising.

In the Hungarian "illiberal" system, the government has an unusually large influence upon the advertising market, since everybody in business circles knows very well that being on good terms with the government has a real market value, especially if you would like to be the winner of public procurement tenders. Moreover, the biggest advertiser is the public sector itself, and public money spent on advertising goes mainly to government-friendly media. Lately, *Nepszava*, too, has had somewhat more revenues from state or government advertising.

In the first quarter of 2019, the figures of circulation of nearly all dailies were lower than one year earlier. The only exception was *Nepszava*, the sole nationwide daily, critical towards the government. Its circulation was 21,000 – somewhat higher than in the previous year, and nearly double that of the 2016 data. This phenomenon shows that many former readers of *Nepszabadsag*, which closed in 2016, have become readers of *Nepszava*.

“ REAL PREDOMINANCE OF PRO- GOVERNMENT PROPAGANDA IS SLOWLY BUT STEADILY DIMINISHING, AT LEAST IN THE NON- TABLOID SEGMENT

In fact, one cannot compare this figure to the two nationwide pro-government dailies – *Magyar Nemzet* and *Magyar Hírlap*, since there exist no new audited circulation data from these two papers. The latest figures regarding *Magyar Hírlap* is available for 2014: the circulation in that year was 8,000, compared to 15,000 in the year 2010. Meanwhile, the circulation of *Magyar Nemzet* was 50,000 in 2010 and 13,000 in April 2018. Then it was closed and later reopened³.

³ The closure and reopening of *Magyar Nemzet* was the consequence of the change of the ownership. The longtime owner of the paper had been Lajos Simicska, a close friend of Viktor Orbán and the key figure behind the financial empire supporting Fidesz, built up mainly after 2002. After the 2014 elections, the personal relationship between Mr. Orbán and Mr. Simicska deteriorated dramatically. The reasons are not totally clear. The media controlled by Mr. Simicska – not only *Magyar Nemzet* but also HírTV, a television news channel – became strongly critical of the government. After Viktor Orbán's repeated election victory in 2018, Mr. Simicska closed *Magyar Nemzet*, sold practically all of his assets, and retired. The new owner of the *Magyar Nemzet*

Nevertheless, circulation of the leading pro-government daily newspapers in the counties is clearly decreasing: the data from the first quarter of 2019 were lower by approximately 10–11% when compared to one year earlier.

On the market of the tabloid dailies, there is also a clearly visible decreasing tendency – still, on a much higher *niveau* than in the “more serious” segment. *Blikk* went down from 200,000 (2010) to 80,000 (2018) and *Bors* from 80–90,000 (2010) to 50,000 (2018)⁴.

THE BIRTH OF KESMA

The building of the whole media architecture was finalized on December 5, 2018; a few days after nearly five hundred private Hungarian news outlets were simultaneously donated by their owners to a central holding company run by the people close to Prime Minister Viktor Orbán.

In coordinated announcements, media owners declared the transfer of news websites, newspapers, television channels, and radio stations to the Central European Press and Media Foundation (abbreviated in Hungarian as KESMA), a group founded a few months earlier. The chairman of the foundation is a former lawmaker from Mr. Orbán's party. Its two other board members are the prime minister's personal lawyer and the head of a research group that strongly supports Viktor Orbán. Most of the owners, pro-government business moguls, said they would receive no compensation for the properties. As a kind of enthronement of this settlement, the prime minister signed

brand reopened the paper, with a clear pro-government affiliation.

⁴ See: https://hvg.hu/kkv/20190509_Menekulnek_az_olvasok_a_NERkozelive_valt_megyei_lapoktol; and https://hvg.hu/gazdasag/20190208_Hiaba_jonnek_al_lami_hirdeteseik_egyre_tobb_olvaso_partol_el_a_kormany_kedvenc_ujsgajaitol

a decree stating this move to be of “national strategic importance”, thus ensuring that no concern can be raised on the basis of competition law.

Freedom House determined that the deal had placed most leading private Hungarian outlets under the control of a single, state-friendly entity, in a move that is unprecedented within the European Union. *The New York Times* quoted Zselyke Csaky, the research director for Europe and Eurasia at Freedom House, saying it was a change mainly about symbolism. The Hungarian media is now “beginning to resemble state media under Communism because of the level of control and consolidation”⁵, she added. As regards the possible reasons behind this move, Dániel Szalay, a journalist covering media matters for various Hungarian publications, was quoted by the International Press Institute, stating the decentralized media model that they tried in the past few years “was leaking too much money”.

“Some of the people running pro-government media companies put their own personal interests above the central political will, and sometimes even publicly quarreled with one other. Despite winning the elections in April, Orbán was disappointed with them”⁶.

Mr. Szalay's assessment of the deal was that after eight years of legal maneuvering and many small steps toward building a centralized propaganda machine, Hungary's government has put all its cards on the table and created a media behemoth of an unheard of size. And, to pave the way, the government has exempted its creation from almost all legal scrutiny and competition rules. The

⁵ <https://www.nytimes.com/2018/11/29/world/europe/hungary-orban-media.html>

⁶ <https://ipi.media/one-hungarian-media-monster-to-rule-them-all/>

“ EVERYBODY IN BUSINESS CIRCLES KNOWS VERY WELL THAT BEING ON GOOD TERMS WITH THE GOVERNMENT HAS A REAL MARKET VALUE

swiftness and cynicism of the operation took most people by surprise. In just a few days in late November and early December 2018, the entire Hungarian media landscape was turned on its head.

CONCLUSIONS

While authoritarian regimes are characterized by, among other things, by strict control over the media, in democracies the independence of media is basically guaranteed. In democracies, too, there exists a certain kind of political control over the public media, in the sense that it is the task of a multi-party mechanism to ensure the factual, impartial, and balanced reporting in public media. Governing political forces are always in a more or less privileged position to influence media, compared to opposition, but in a well-established democracy it cannot hurt the integrity and stable financing of public media.

”

IN JUST A FEW DAYS
IN LATE NOVEMBER
AND EARLY
DECEMBER 2018,
THE ENTIRE
HUNGARIAN MEDIA
LANDSCAPE WAS
TURNED ON ITS
HEAD

During recent years, however, Viktor Orbán's government, having built an "illiberal" and increasingly authoritarian system, started with the fundamental changes in the field of the media only a few months after Fidesz's first big election victory. The adoption of the new Media Law presented the framework for the total governmental control over public broadcasting. It was followed by extending "government-friendly" ownership in the private media sector during the subsequent years. The whole process was finalized at the end of 2018 when hundreds of private media outlets were massed into one single foundation, which serves as the working framework of coordinating governmental propaganda activities outside the public sphere.

The fall of Communism resulted, among others, in the birth of a colorful private media world, which makes it more difficult to exert political control over the media than in the previous system. Times have also brought about fundamental changes in in-

formation technology. Flourishing online media – and, lately, social media – make it even more difficult to exert political control over the media landscape. Total control was always impossible. In Communism, a kind of "last-resort" manifestation of this phenomenon was listening to Radio Free Europe.

Currently, also in Hungary, there are many more "last resorts" available, as the Internet gives endless possibilities to enjoy free media. But it is a question of penetration as well: many people still watch public television, listen to public radio, or read "the" local newspaper – and these sources in Hungary are exclusively governmental propaganda units. APO may have disappeared, but the APO of our times, KESMA, seems to be equally efficient in brainwashing average citizens.



*

JÁNOS
KÁRPÁTI

Journalist at the foreign policy desk of Hungarian independent daily Nepszava and contributor to programs in KLUBRADIO, an independent talk radio station in Budapest. Former correspondent of Hungarian News Agency MTI in Prague, Washington D.C., and Brussels



“Good Old Times”: Fake News Machine in the Czech Republic



*
ROMAN
MÁCA

With the dissolution of the Eastern Bloc in 1989, transformation has started. The countries such as Poland, Czechoslovakia, Hungary, Romania, and Bulgaria changed their political vector from the East to the West. Political and economic changes were done fast – to a greater or less successful degree.

The system was changed, but the people remained. The same inhabitants with their views on life and work, with their values, hopes, and worries. The new arrangement also brought new responsibilities. Not everyone from the countries going through the process of transformation was ready to take responsibility of their supposedly brighter future. The disappointment came, followed by such statements as: “Before 1989, I had a flat from the state, I had a guaranteed job, my life was easier.”

Selective memory and simply remembering the years of your youth followed by disappointment and challenges of a new and globalized world raised a level of nostalgia for the so-called “good old times”. This nostalgia can be understood in the current Russia as a successor of the Soviet Union, but is rather difficult to grasp in Central and Eastern European countries – the former vassals of the USSR.

This kind of nostalgia can be also seen in the Czech Republic, which translates well into a case study of relevant subjects, narratives, and mechanisms used for efforts for a revision of the political direction after 1989.

INTERNET NOVICES AND EXPANSION OF PRO-KREMLIN NEWS WEBSITES

Some fifteen years ago, when the reorientation to the West was somewhat complete, we stepped into the Fourth Industrial Revolution, the era of Internet, and mass

”
NOT EVERYONE
FROM
THE COUNTRIES
GOING THROUGH
THE PROCESS
OF
TRANSFORMATION
WAS READY
TO TAKE
RESPONSIBILITY
OF THEIR
SUPPOSEDLY
BRIGHTER FUTURE

digitization. Earlier, the world online was accessible mostly for academics and professionals. The price for the connection was also high, and the speed very limited. Nowadays, the Internet is the cheapest way for entertainment, information, and orientation. For a few Euros a month, one can find everything they need at the very moment in time. Needless to say, the Internet’s role as a primary source of news is becoming increasingly significant every year.

Interestingly, having gained popularity among elderly people, the Internet and social network users have been getting older too. The number of Czech Internet users in the category 65+ jumped from 6% in 2008 to 38% in 2018. The number of users of social

networks in the category 65+ became four times higher between 2013 and 2018¹.

The year 2014 may be considered a milestone for the Czech media space, when dozens of so-called “pro-Russian news websites” spread in the Czech Republic². Their agenda has also become replicated and amplified by various politicians (far-right, or far-left), often admiring a mindset of the Russian leaders.

The elderly, as Internet novices, during the last several years entered a world full of hoaxes, disinformation, conspiracy theories, and hate speech. Such problematic content is commonly produced and spread by domestic and foreign subjects to promote political goals – or, simply, to generate clicks and thus earn money. The older users thus entered the world of manipulation that play on their emotions, especially fear and hate. They gained access to a kind of artificially created and manipulated *virtual reality*, where millions of “terrorists” are said to be on the way to their small villages or where NATO wants to provoke a nuclear war with Russia.

As is visible in the Czech TV polls³, mostly older people are one of the groups with a lower level of media literacy. They are often lonely, socially excluded, weak, vulnerable, and the Internet gives them a chance to escape their everyday reality. Many of them also became very active in creating and sharing hoaxes and fake news. They

¹ Czech Statistical Office (2019) *Jednotlivci*. Available [online]: <https://www.czso.cz/documents/10180/90577061/06100419c.pdf/3f2e4e4e-cbdb-4e6c-8904-c21160ddaea8?version=1.2> [in Czech]

² <https://www.bbc.com/news/world-europe-32070184>

³ Czech TV (2018) *Mediálně negramotná v Česku je čtvrtina lidí, před svobodou upřednostňují bezpečí*. Available [online]: <https://ct24.ceskatelevize.cz/domaci/2664323-mediálně-negramotných-v-cesku-je-čtvrtina-lidi-před-svobodou-upřednostňují-bezpečí> [in Czech]

”

THE YEAR 2014 MAY BE CONSIDERED A MILESTONE FOR THE CZECH MEDIA SPACE, WHEN DOZENS OF SO-CALLED “PRO-RUSSIAN NEWS WEBSITES” SPREAD IN THE CZECH REPUBLIC

often have ample free time, and as a result of their engagement, they are more likely to consider themselves useful, popular, and admired⁴.

These Internet novices, who come mostly from vulnerable groups, have entered a world that is very different from the *real* one. They feel scared and angry, calling for strong leaders and demanding easy solutions. They remember the “good old times” behind the iron curtain, with lower responsibilities, an apparent feeling of safety, and better living standards.

⁴ iRozhlas.cz (2019) *Dokázal, že Rusko na nás útočí dezinformacemi. „Klíčovou roli hraje Zeman a Facebook,” říká analytik*. Available [online]: https://www.irozhlas.cz/zpravy-domov/frantisek-vrabel-dezinformace-fake-news-rusko-facebook_1903130001_ogo [in Czech]

Such narratives have thus been exploited to promote the idea of returning to the past, connected to the authoritarian regime submissive to the Kremlin. Unsurprisingly, this phenomenon has been clearly visible in on-line resources (alternative media, blogs, and social networks), which are often anonymous, but present themselves as news.

CZECHS, KREMLIN-AFFILIATED

“The European Union is worse than the USSR, the EU wants to destroy us and replace us with Islamists”⁵.

Such a slogan (or, rather, a proclamation) may be quite commonly encountered in the public debate online and in relevant so-called media outlets. During the last few years, the topic of the migration/refugee crisis has become number one. As a consequence, Czechs rejected the idea of quotas put forward by the European Union, which was aimed at remedying the challenges related to mass migration to Europe.

Migration policies and their reforms have no impact on disinformation resources and their readers living in an alternative reality. They are still repeating that the EU, by cultivating the “new world order”, wants to destroy national states and their population and replace them with one super state with populations from Africa and the Middle East – including Muslims, who will kill or Islamize the local population. These types of conspiracy theories, along with others, have recently been running rampant in the Czech Republic.

Jaromir Balda, a 71-year-old man from the Central Bohemian region, faced similar fears. In June and July 2017, Mr. Balda pur-

posefully cut some trees, leaving them on the railway tracks, as a result of which passenger trains were almost derailed. If this was not shocking enough, next to the crime scene, he left leaflets claiming that this was a terrorist attack organized by Muslims.

During the investigation, the police found his computer full content relating to disinformation. Apparently, Mr. Balda was a big supporter of Tomio Okamura – a semi-Czech-Japanese leader of the right-wing populist and nationalist Freedom and Direct Democracy party and his party. As a consequence of his vicious actions, Mr. Balda was sentenced to four years in prison and he has to go through psychiatric treatment.

People of the likes of Jaromir Balda live chiefly in virtual reality, and as such, they are at times potentially dangerous. They navigate their lives in an information bubble created by fake news resources and radical or extremist political subjects. They are bombarded with visions of the approaching Apocalypse of sorts. According to such distorted messaging, only “patriotic” politicians (often collaborating or supported by Kremlin) together with Russia can save humanity. The European Union is thus described as pure evil, which is far worse than the USSR – a force that, in 1968, together with other Soviet vassal states, invaded Czechoslovakia. An event that led to more than twenty years of military occupation in the country.

1968 WAS A GOOD YEAR...WAIT, WHAT?

“Invasion of the Warsaw Pact to Czechoslovakia in August 1968 was ‘brotherly help’ which saved us against NATO invasion and provided peace and stability for more than 20 years”⁶.

⁵ <https://www.eportal.cz/Articles/8639-evropska-unie-je-horsi-nez-sovetsky-svaz-neverite-tady-to-mate-černé-na-bílem.aspx> [in Czech]

⁶ <https://acton.org/publications/transatlantic/2018/08/21/prague-spring-50-years-later>

From the Editors

RUSSIAN INFLUENCE IN CEE

The subject of relations between ex-communist countries and the influence the Russian Federation is attempting to exercise abroad, has been touched upon by several of our authors of this volume.

Those interested in monitoring these subjects may find it interesting to follow reputable international initiatives and reports that professionally trace the developments in this area:

- **Free Russia Foundation** is a non-profit, nonpartisan, U.S.-based NGO, with the mission to inform U.S. policy makers on events in Russia in real time and to support the formulation of an effective and sustainable Russia policy in the U.S. Its latest report is *Misrule of Law: How Kremlin Uses Western Institutions to Undermine the West*, available at: <https://www.4freerussia.org/misrule-of-law/>
- **The Center for European Policy Analysis (CEPA)** is a similar organization, which recruits leading experts on Central-East Europe, Russia, and its neighbors to review and analyze current economic and

security challenges, presumably instigated by the government in Moscow. The CEPA reports are available at: <https://www.cepa.org/reports>

- **FNF East and South Eastern Europe Bureau** give firsthand information and analysis of the current affairs in Russia, former USSR and the Western Balkans, which one can follow at: <https://eese.fnst.org/content/fnf-east-and-southeast-europe>.
- **Kremlin Watch** is "a strategic program of the European Values Think-Tank which aims to expose and confront instruments of Russian influence and disinformation operations focused against Western democracies". Its idea is to lead interested scholars, political activist, and policy makers into everything they need to know about Russia's interference. A relatively recent guide on *The Prague Manual: How to Tailor National Strategy Using Lessons Learned from Countering Kremlin's Hostile Subversive Operations in Central and Eastern Europe* is available at: <https://www.kremlinwatch.eu/userfiles/prague-manual.pdf>. All Kremlin Watch resources may be found at: <https://www.kremlinwatch.eu/our-reports/>

Recently, we could bear witness to various attempts for rehabilitation of the 1968 invasion of Czechoslovakia and the occupation that followed. The narratives recalling "brotherly help" and "saving from NATO invasion" are also regularly featured in Russian pro-Kremlin media. Their sole purpose is to advocate for Russian aggression against Ukraine.

While various apocalyptic scenarios are being introduced into the public debate (caused by migrants, Islamization, or by a provocation of war against Russia), the narrative about "peace and stability" under Soviet protection is supported by often quoted opinions that it was the Soviet intervention that saved the citizens from a Czechoslovak

”
SOMETIMES
IT LOOKS FUNNY
WHEN GROUPS
OF "ADULT MEN"
ARE PLAYING WAR
GAMES AGAINST
IMPERIALISTS
IN THE WOODS,
BUT THE GROUPS
WITH CLOSER TIES
TO THE RUSSIAN
REGIME
AND ITS PROXIES
ARE CONSIDERED
A THREAT BY CZECH
SECURITY SERVICES

"Maidan". The invasion is thus justified as an adequate reaction at the time.

"Those (Russians), who already saved us twice! Our country, our republic, our state, our sovereignty, our nations. I appreciate it and thank you. Russians are our best friends, brothers, allies", wrote Czech citizen Petr Michalu on his Facebook profile and added a photo featuring tanks in Prague with a description: "Thank you for the August 21st, 1968."

Petr Michalu is a former communist prison warden. He was sentenced for fraud and escaped to Spain. From Spain his path led to Russia, where he (unsuccessfully) applied for political asylum. He is a strong believer in Communism, the Soviet Union, and loves Vladimir Putin's Russia. After his arrival to Russia he became a star of the Russian media, and was described as "an independent journalist who was forced by the government to leave his own country and now he is looking for asylum in Russia"⁷.

Mr. Michalu is one of many strange personages who are presented as someone important by the Russians. Through Russian media, he speaks to the Russian audience as a Czech on how Czechs are grateful for the Russian 1968 intervention. He labels Czechs as "slaves" of the West, but he is regularly asking them for money to support his life in Russia.

CELEBRATION AND REAWAKENING OF MEMBERS OF SECURITY AND DEFENSE INSTITUTIONS

With the changing of climate in the society since 2014 (migration crisis, the war in Donbass) many members of the Czechoslovak People's Army, Border Guards, Secret Police, and other communist bodies were waking up. Their mindset was, however, still oriented towards the past. Such proclamations as: "We promised to be loyal to the Czechoslovak Socialist Republic to defend the country and its allies against imperialists", may thus have been observed.

During recent years, since and because of Russian aggression against Ukraine – including a massive disinformation campaign against Western countries, – these people have been forming paramilitary groups called

⁷ REN TV (2016)) Чешский блогер: США превратили Европу в американскую колонию. Available [online]: <http://ren.tv/novosti/2016-04-27/cheshskiy-blogger-ssha-prevratili-evropu-v-amerikanskuyu-koloniyu> [in Russian]

“DISINFORMATION OR MANIPULATIVE NARRATIVES ARE NOT ONLY CONNECTED WITH THE ISSUES OF POLITICS AND SECURITY, BUT ALSO WITH THE NOSTALGIA EXHIBITED BY THOSE WHO REMEMBER THE “SUCCESSSES” OF THE SOCIALIST ECONOMY

“self-defense” forces. Curiously enough, one of them was the “Czechoslovak Soldiers in Reserve against War Planned by the NATO Command”. Later, the group changed the name to “Czechoslovak Soldiers in Reserve for Peace”. The organization is chaired by a former lieutenant colonel of the Czechoslovak People’s Army, Ivan Kratochvíl. Mr. Kratochvíl is also often interviewed by Russian news outlet Sputnik, and he is travelling to Russia or to Russian-occupied territories (Crimea and Donbass).

Another paramilitary group is called the Na-

tional Militia, and is led by Nela Lisková, who is very popular in pro-Kremlin media too. Ms. Lisková also established a fake consulate of the so-called Donetsk Peoples Republic (DPR) and named herself as honorary consul of the DPR to the Czech Republic.

Sometimes it looks funny when groups of “adult men” are playing war games against imperialists in the woods, but the groups with closer ties to the Russian regime and its proxies are considered a threat by Czech security services. Their members are also travelling to Eastern Ukraine, where they join Russian-backed separatist forces.

“To the Czech Republic I will return only on Russian tank or as a partisan”⁸, said Alojz Polak formerly active as a Czechoslovak Soldier in Reserve”, who joined the “army” of so-called Donetsk Peoples Republic.

Mr. Polak also believes in various conspiracy theories - including chemtrails and the new world order. Before he left the country, he co-organized rallies supporting Czech President Miloš Zeman, and he claimed he is a voter of Tomio Okamura’s party.

Others who are trying to be perceived as “patriots defending the country” are the members of former communist border guards, forming the Club of Czech Borderlands. Together with their supporters they claim to defend the borders against outside enemies. Now, apparently, they are needed again to protect the borders against migrants and refugees. But, in fact, in the past, they “defended” the borders against their own citizens and citizens of Eastern Bloc countries who wanted to escape from

⁸ <https://www.securitymagazin.cz/defence/do-ceska-se-vratim-jedine-na-ruskem-tanku-nebo-jako-partyzan-rika-v-rozhovoru-pro-sm-zoldner-v-armade-do-neckce-narodni-republiky-aloisem-polak-1404057267.html> [in Czech]

communist regimes. As such, they were responsible for killing hundreds of people.

These border guards’ members are, nowadays, organizing various events, which could be difficult to imagine after the collapse of the Iron Curtain. They typically wear old uniforms or simply t-shirts with the likeness of Vladimir Putin and Russia.

The activities of the Club of Czech Borderlands are also monitored by Czech Intelligence, and by the Ministry of the Interior. However, Czech President Zeman sent to the club a thank you letter for their work and for the “historical truth” they help promote⁹.

CENSORSHIP WORSE THAN BEFORE 1989

The infamous individuals and groups mentioned above are also very active online, where they are trying to promote their agenda. As it was already emphasized, they are often of retirement age and have enough time to become engaged. They also adopt, create, and share fake news and hate speech. As their agenda and content is often also full of hate speech and threatening, social networks are deleting their profiles and pages. Unsurprisingly, they consider these acts as “censorship, which is worse than before 1989”¹⁰.

Nevertheless, before 1989, the Czechoslovak media space was fully controlled by the communist regime. Foreign radio and TV stations were technically interfered (transmitters on the border area) and the authors of articles, books, and other publications that were banned by communists, were prosecuted (including, for instance, Václav Havel).

⁹ <https://zpravy.aktualne.cz/domaci/jsou-v-hledacku-bis-varuje-pred-nimi-vnitro-zeman-ale-dekuje/r~440f6f044cea11e7886d002590604f2e/> [in Czech]

¹⁰ <http://www.bezpolitickekorektnosti.cz/?p=92735> [in Czech]

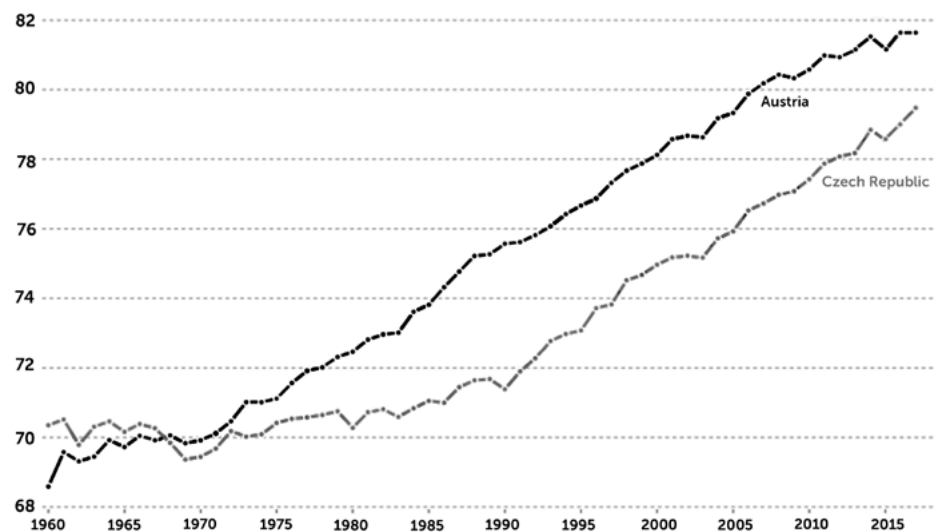
“THUS, THE ECONOMIC DIFFERENCE BETWEEN THE TWO COUNTRIES DECREASED AROUND THREE TIMES SINCE 1989 UNTIL TODAY

Currently, the word ‘censorship’ has already devaluated. In the heads of persuaded activists it means that if a private company erases a post that includes hate speech, then censorship is worse than before 1989. They are sending their content to mainstream media and if these media are not broadcasting it, activists exploring “the truth” on conspiracy websites think that this information is being censored. They see it as the current regime wanting to hide issues like chemtrails, HAARP, or prophecies about the “almighty” Vladimir Putin from the public.

WE WERE SELF-SUFFICIENT AND WE PRODUCED EVERYTHING

Disinformation or manipulative narratives are not only connected with the issues of politics and security, but also with the nostalgia exhibited by those who remember the “successes” of the socialist economy. The economic approach, let us state it clearly, ruined the earlier prospering country. By the end of the communist regime, the nominal

Figure 1: Life expectancy at birth in Austria and the Czech Republic [total; in years]



Source: World Bank (2019) Life expectancy at birth, total (years)/ Available [online]: <https://data.worldbank.org/indicator/SP.DYN.LE00.IN?locations=AT-CZ>

GDP per capita was about six times lower than that of Austria.

In 2018, according to the World Bank data, the difference between Austria and the Czech Republic has decreased to a ratio of 2.25:1¹¹. Thus, the economic difference (nominal GDP per capita) between the two countries decreased around three times since 1989 until today.

Due to better social and economic standards, life expectancy also increased faster after the stagnation before 1989 [See: Figure 1].

However, as it was said at the beginning, for many people a convergence with the Western economies either has not been fast enough, they still have a communist

mindset, or they simply refuse to take responsibility for their own future.

The new system brought new challenges, which most Czechs did not want to accept. As a result, some of them either failed to adapt, or became the victims of the situation – for instance, if a factory where they worked for their whole life closed due to transformation. Disillusion and disappointment resurfaced, stemming from the false memories of the past and the imagined stability of communist times – which were clearly a very effective illusion created by Soviet rule.

The frustration also helped (and still does) create an imaginary world where everything is “free of charge” and accessible, but the reality was completely different. Nowadays, we may quite often encounter “arguments” that in the “good old days” people used to be nicer and maintained closer relationships, as they spent a big part of their life standing in

queues – even though, oftentimes, they did not even know what they were waiting for. “I do not know, I will buy what they have”, was an answer of one lady when she was approached by a Czechoslovak TV reporter in the 1980s in one such queues. Sometimes, it seems that at the moment the topic of empty shelves has been forgotten and that people remembering “good old times” have created their own reality instead.

Another narrative used in public debate is that before 1989, Czechoslovakia was a self-sufficient, prosperous country that produced everything its citizens needed, which is clearly not true. Let us illustrate this imaginary self-sufficiency with two rather telling examples from the 1980s mentioned in Czechoslovak TV.

“– Why is there not enough ketchup in our market?

We produced enough of ketchup, but we have no tops for the bottles. Supplier promised to produce more tops next year”.

“– What can you offer to young tennis players?

– We can offer tennis rackets, but we have no balls”¹².

CONCLUSIONS

With the fall of Communism, Central and European countries regained democracy and many freedoms, which were banned before. The process of transformation and integration to the European Union and NATO was also followed by economic growth and improvement of living standards.

However, there are still people unsatisfied with the path of development of their

countries after the dissolution of the Eastern Bloc, and mostly have become a target of domestic and foreign authoritarian and extremist forces who employ fake news and manipulation. Even though these forces consider themselves *patriotic*, they are often affiliated with the Kremlin. What make these ties evident are the calls for a revision of pro-Western course and a shift backwards to “motherland Russia”.

As the saying goes: “Who sleeps during democracy, wakes up in a dictatorship”. It is precisely not falling asleep that still remains one the biggest tasks for sensitive democracies in Central and Eastern Europe.



*

ROMAN MÁČA

Project Manager at the Institute for Politics and Society, a political think tank based in the Czech Republic. He is responsible for realization of projects for the Institute for Politics and Society. At the same time he works as an analyst for security and media and ICT issues

¹¹ https://data.worldbank.org/indicator/ny.gdp.pcap.cd?most_recent_value_desc=true

¹² <https://www.youtube.com/watch?v=OyvJ3CaY3Yc>

The End of an Era: Rankings Will Tell You the Truth about Poland



*

MIŁOSZ
HODUN

This year it was Tuesday. A terrible heat wave had been affecting Warsaw for over a week. Temperatures were above 30 degrees and everybody was looking for some shade. Those who could, spent their afternoons in parks, and many people voluntarily stayed overtime in offices to enjoy the AC. At the same time, we started to gather on Constitution Square – a windless and shade-less spot downtown Warsaw. Just like last year, and the year before. We couldn't imagine not being there. It was the 4th of June.

PROBLEMATIC ANNIVERSARY

June 4th is the anniversary of the first Polish free elections in 1989. Or rather, partly free, to be precise – only 35% of the seats in the Sejm would be open to all comers. A newly created Senate was elected freely. It was turned into a ballot on communist rule. As a result, the democratic opposition won all of the available seats in the Sejm and 99 out of the 100 Senate seats.

For us, for my friends from Projekt: Polska, June 4th has always been a happy holiday. This is why for many years we have organized the Toast for Freedom, held on the Constitution Square in the capital of Poland, where the democrats had their headquarters before the 1989 elections. Every year, hundreds of people join us – average Varsovians, some of who still remember the struggle against the communist regime, together with those who later became ministers or presidents of Poland¹.

However, for the last four years, these meetings have been very different; less happy, more reflexive. During this time, Poland has been governed by a party that can be

”
SOME
COMMENTATORS
SAY THAT THE PiS'S
REGIME HAS ENDED
AN ERA OF POLISH
TRANSFORMATION

described as nationalistic, illiberal, anti-democratic, and anti-European – the Law and Justice (PiS) party.

Some commentators say that the PiS's regime has ended an era of Polish transformation. A conservative commentator Paweł Musiałek wrote that PiS's success is based on the negation of the “transformation thinking”². One of the reasons why PiS won the 2015 elections was its narrative about the transformation. It was so different than the consensus of all other political forces – from post-communists, to conservatives, to liberals – who did not contend the Polish success story that had started back in 1989³. PiS not only wanted to symbolically build a new Fourth Republic, once and for all cutting the connections of the interim period of Polish history from its communist roots, but also its entire platform was built on criticism of the transformation.

² <https://klubjagiellonski.pl/2019/05/28/koniec-polskiej-transformacji/> [in Polish]

³ There were some radical and/or anti-establishment parties that criticized Polish transformation, including Samoobrona (Self-Defence) or Razem, (Together) mostly for its economic consequences, but PiS was the first major party who questioned the transformation in general, making this approach the basis of its programme.

¹ <http://warszawa.wyborcza.pl/warszawa/7,54420,24864213,toast-za-wolnosc-z-bronislawem-komorowskim-tradycyjne-spotkanie.html> [in Polish]

”
PIS HAS PRESENTED
ITSELF AS A SAVIOR
THAT IS GOING
TO PROTECT
THE PEOPLE FROM
TRANSFORMATION.
JUST LIKE PUTIN
IN RUSSIA

Jarosław Kaczyński, the party leader, has talked a lot about conflict of interests between beneficiaries of the transformation and those who were not able to succeed. According to Kaczyński, this consensus about the transformation present in political discourse is a fight for the interests of those who could – sometimes fairly, but sometimes not – benefit from the transformation and want to keep their position, and those whose situation has been getting constantly worse. “Vast majority of Poles is paying for conserving the system”⁴, the PiS’s leader stressed. In Mr. Kaczyński’s opinion, this fight is about Poland’s development and whether will it be for everybody or only for select groups.

What Mr. Kaczyński serves his followers in generalized terms, providing historical underpinnings of the new regime, his militant acolytes translate into a more pragmatic

stance. Just like Prime Minister Mateusz Morawiecki who talked about cities that won and cities that lost, “there are cities that have been on the peripheries of transformation. There are cities that used to develop very well but in the transition their chances were stolen, they lost their social and economic meaning”⁵, – he claimed. And he emotionally described the losers’ situation as “apathy, passivity, and inactivity”. In this view, the new republic can be established only as an outcome of a conflict between these cities, and the underdeveloped cities must prevail. PiS has presented itself as a savior that is going to protect the people from transformation. Just like Putin in Russia.

The narrative about the Polish transformation has clearly changed with the Law and Justice government in power. Even the opinion leaders, who have their roots in the anti-communist opposition, have modified the way they talk about the phenomenon of Poland’s development since 1989, shifting towards a more biased and less “to be proud of” approach. Just like Krzysztof Mazur put it, “The transformation is like politics. It’s not black or white. It’s gray and prosaic”⁶.

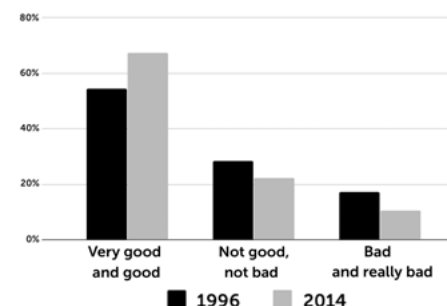
But is it really? Do we indeed face such a huge dilemma when we want to keep on calling Poland’s transformation a *success story*? How about moving away for a moment from political fights, from everyday conflict between parties and their spins, and look at the transition from a more objective angle? This is precisely why we should examine available data to see how the situation in Poland has changed in the last thirty year,

⁵ <https://www.portalsamorzadowy.pl/polityka-i-spoleczenstwo/mateusz-morawiecki-miasta-ktore-znalazly-sie-na-uboczu-transformacji-wymagaja-inwestycji.114814.html> [in Polish]

⁶ Krzysztof Mazur is a conservative commentator associated with *Klub Jagielloński*, a PiS-connected think tank. See: <https://krytykapolityczna.pl/kultura/historia/spiecie-okragly-stol-klub-jagielski/> [in Polish]

⁴ <https://wiadomosci.onet.pl/kraj/kaczynski-w-polsce-panuje-spor-o-zyski-z-transformacji-o-wartosci/5qwnk> [in Polish]

Figure 1: Self-estimation of health in Poland (1990: 9% versus 2017: 19%)



Source: PGSS, ESS

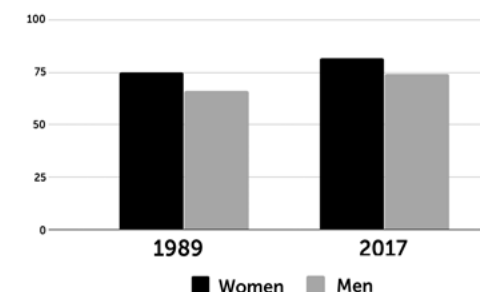
and only after that may we form a judgment whether it was a success or not.

STARTING POINT: SUCCESSFUL BEGINNINGS OF TRANSFORMATION IN POLAND

Let us forget economic data for a moment. If we wanted to identify the key economic measurements, we might mention that Polish GDP grew 826.96% between 1989 and 2018, translating into the highest growth in Europe. Additionally, Polish exports grew 4.4 times, family households’ income is now twice as big as it was thirty years ago, and so on, and so forth. Instead, however, let us focus on the socio-cultural factors that are of vital importance when discussing the Polish transformation.

When taking a look at the data related to self-estimation of health in Poland, average life expectancy, death rate, and number of people going on holidays [See: Figures 1-4], comparing the years directly after the transformation with the latest data, the presented evidence may be that Poland became a different country. In less than three decades Poles have relocated from a *communist state*, to the center of Europe. It is visible for Poles themselves and for independent observers.

Figure 2: Life expectancy in Poland (1989 versus 2017)



Source: GUS

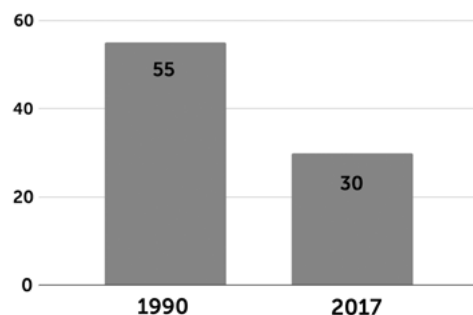
The later ones could draw positive conclusions looking only at the Human Development Report by the United Nations, which measures long-term progress in three basic dimensions of human development: a long and healthy life, access to knowledge and a decent standard of living⁷.

Poland’s HDI value for 2017 is 0.865— which put the country in the very high human development category – positioning it at 33 out of 189 countries and territories. Between 1990 and 2017, Poland’s HDI value increased from 0.712 to 0.865, thus amounting to a significant increase of 21.5%⁸.

⁷ A long and healthy life is measured by life expectancy. Knowledge level is measured by mean years of education among the adult population, which is the average number of years of education received in a life-time by people aged 25 years and older; and access to learning and knowledge by expected years of schooling for children of school-entry age, which is the total number of years of schooling a child of school-entry age can expect to receive if prevailing patterns of age-specific enrollment rates stay the same throughout the child’s life. Standard of living is measured by Gross National Income (GNI) per capita, expressed in constant 2011 international dollars converted using purchasing power parity (PPP) conversion rates.

⁸ Between 1990 and 2017, Poland’s life expectancy at birth increased by seven years, mean years of schooling increased by 2.6 years and expected years of schooling increased by 4.2 years. Poland’s GNI per capita increased by app. 163.2% between 1990 and 2017.

Figure 3: Deaths per 100,000 people caused by air pollution [1990: 55 versus 2017: 30]



Source: IHME

LET'S INDEX IT!

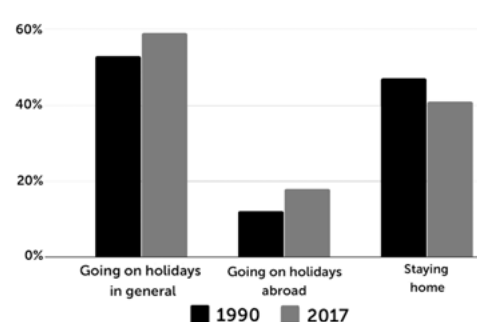
The modern world loves numbers and indexes! Rankings are great click baits and media outlets produce more of them every year, but some of the international rankings are definitely more than that. There are indexes that are outcomes of months-long studies and analysis that gather data that is difficult and costly to gather and are done by top researchers and experts. Such rankings are a great comparative tool that helps us to understand the world today and place our country in the network of global dependencies.

FREEDOM AND PEACE

Freedom seems to be the broadest category that could be measured (it's so abstract and capacious), and Freedom House⁹ has prepared a multi-faceted and extensive index successfully for many years. The survey was created in the 1970s, but data that can be used for a comparative picture may only be easily gathered from 1999 onward.

⁹ *Freedom in the World* is a yearly survey and a report launched in 1973 by a U.S.-based non-governmental organization, Freedom House, which measures the degree of civil liberties and political rights in every country. The Index produces annual scores representing the levels of political rights and civil liberties in each state and territory, on a scale from 1 (most free) to 7 (least free).

Figure 4: Percentage of Polish people going on holidays [1990 versus 2017]



Source: GUS

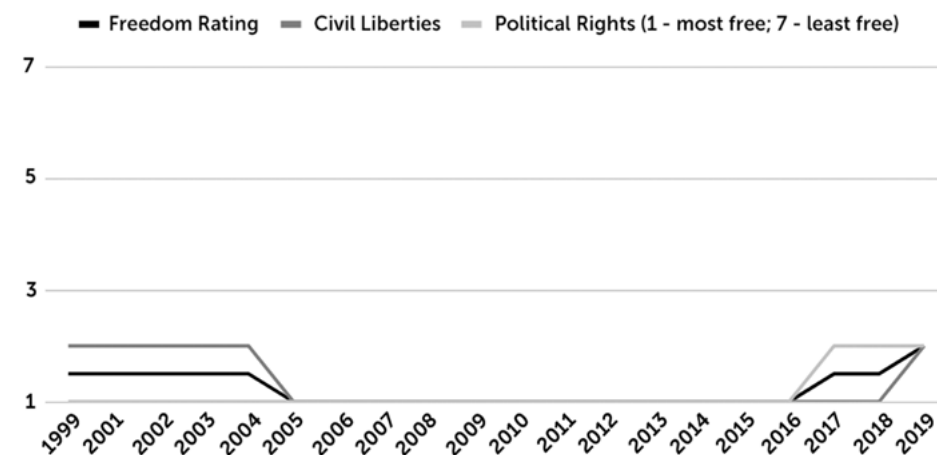
Depending on the ratings, nations are nowadays classified as "Free", "Partly Free", or "Not Free". There is no doubt that Poland entered the 1990s belonging to the last category, just like Russia or Belarus today. The heritage of the People's Republic of Poland was everything but liberties and rights. Thus seeing Poland's debut in the Freedom of the World index in 1999, scoring already in the highest class of free nations, proves how much had been done in the first decade after the peaceful revolution. Currently, Poland belongs to the same group as all EU member states (except Hungary), Canada, and Australia.

FREEDOM IN THE WORLD

After years of consequent improvement of Poland's position in the Freedom House's index, clearly visible between the years 2005 and 2016, Poland has started to lose its position [See: Figure 5]. In the 2018 edition, the overview of the situation in Poland was summarized as follows:

"Poland's democratic institutions took root at the start of its transition from communist rule in 1989. Rapid economic growth and other societal changes have benefited some segments of the population more than others, contributing to

Figure 5: Poland's score in three main categories of the *Freedom in the World Index* (1999-2019)



Source: *Freedom in the World* data (1999-2019)

*a deep divide between liberal, pro-European parties and those purporting to defend national interests and "traditional" Polish Catholic values. Since taking power in late 2015, the populist, socially conservative Law and Justice (PiS) party has enacted numerous measures that increase political influence over state institutions—notably the judiciary—and threaten Polish democracy*¹⁰.

In other words, under the PiS administration, Poland became less of a free country; deep political divisions may only get deeper, changing Poland into a semi-authoritarian state.

In recent years, the key category responsible for Poland's drop are civil liberties, especially the "Rule of Law" sub-category. The authors expressed their concerns about the independence of courts and adherence to the EU's values. In the 2019 edition, Poland was singled out as one of the countries in the

¹⁰ <https://freedomhouse.org/report/freedom-world/2018/poland>

spotlight in this regard – as the only European state, next to China, Armenia, or Iraq¹¹.

Similar findings come from the analysis of the Global Peace Index (GPI)¹², which measures the relative position of nations' peacefulness. Poland has debuted in the 33rd place in the first ranking and has always been among the very pacific states of the world. It was improving for seven years and reached its best position ever in 2015. With that, Poland joined the world's top 20 most peaceful countries, ahead of the Netherlands or Spain. Unfortunately, the country left

¹¹ Ibid.

¹² *Global Peace Index* is a report produced by the Institute for Economics and Peace (IEP) and developed in consultation with an international panel of peace experts. The Index was first launched in May 2007. In 2017, twenty three indicators were used to establish each country's peacefulness score. The indicators were originally selected with the assistance of an expert panel in 2007 and are reviewed by the expert panel on an annual basis. The scores for each indicator are normalized on a scale of 1–5, whereby qualitative indicators are banded into five groupings and quantitative ones are scored from 1–5, to the third decimal point. Iceland has been the winner since 2008.

the top 20 really quickly, and in 2017, it came back to its starting position (the lowest ever).

Looking at the full stats of the 2019 edition of the GPI index, it may be observed that Poland is doing poorly in the "Violent Demonstrations" and "Incarceration" categories. The current government's silent support towards the far-right groups and hooligans responsible for organizing hateful and sometimes violent marches, together with the latest reform of the penal code¹³ will likely further negatively impact Poland's position in the ranking next year.

DEMOCRACY

Democracy is another broad category that is not easy to measure, but which must be taken into account when evaluating the Polish transition. There are several valuable and recognized indexes that can be used in this regard. Once again, however, none of them provide records from the beginning of the 1990s, since they were all launched in the 21st century. Regardless, they still provide a useful tool to comment on the latest developments and trends, after having

analyzed the path the country had gone through since 1989.

The point of departure is not controversial at all. Poland entered the 1990s as a single-party authoritarian regime with democratic centralism as the state's official practice, grotesque elections, and only a *façade* of democratic institutions emulated from the West.

The Bertelsmann Foundation has been measuring the state of democracy in OECD

¹³ In May 2019, the Polish parliament (Sejm) approved a package of criminal justice reforms condemned as too tough by legal experts, who also accused PiS of rushing through important legislative changes in violation of democratic principles, in particular the introduction of life sentences without parole.

”

THE CHANGES
IN THE JUDICIARY
SYSTEM, MEDIA,
CIVIL SERVICE,
AND PARTY-
DEPENDENCY
OF STATE-OWNED
ENTERPRISES (SOES)
PUSHED POLAND
FURTHER AWAY
FROM THE MOST
EXEMPLARY
DEMOCRACIES

countries since 2009¹⁴. Poland's debut in it proved a success story of its transition. The

¹⁴ *The Sustainable Governance Indicators* (SGI), first published in spring 2009 and updated in 2011, analyze and compare the need for reform in OECD member countries, as well as each country's ability to respond to current social and political challenges. *Status Index* scores are composite measures, based on numerous quantitative and qualitative assessments. The "Democracy" category counts for half of the index score, while the four policy-specific categories collectively provide the remainder. The first dimension of the index maps the quality of democracy within a country and examines four criteria: "Electoral Process", "Access to Information", "Civil Rights", and "Rule of Law". The second dimension corresponds to the OECD states' competencies in policy fields that are highly relevant for future viability. The index examines fields such as "Economy and Employment", "Social Affairs", "Security", and "Resources", which include fifteen different policy areas. The SGI are updated every two or three years. See: <https://www.sgi-network.org/2018/>

”

IN POLAND,
FUNDAMENTAL
DEMOCRATIC
VALUES ARE NOT
SUFFICIENTLY
ANCHORED
IN THE POLITICAL
DNA OF A LARGE
PART OF THE SOCIETY

country was already a member of the European Union, respecting the Copenhagen criteria, and its democratic reforms became a benchmark exported with support of the then government to Ukraine, Georgia, other states of the Eastern Partnership, and elsewhere in the world¹⁵.

In the ranking, Poland has been climbing, being placed just after such leading states as Scandinavia, Switzerland, and Germany. But in 2018, Poland moved 29 steps down on the ladder, from number 8 to 37¹⁶. Currently, there are only four other countries behind Poland: Romania, Mexico, Hungary, and Turkey. This radical drop is explained chiefly by the fact that Poland moved from being a regional champion in 2015, dramatically towards authoritarian regime. The changes in the judiciary system, media, civil service,

¹⁵ It is visible with initiatives like Warsaw Dialogue for Democracy, Lech Walesa Solidarity Prize, and European Solidarity Center.

¹⁶ https://www.bertelsmann-stiftung.de/fileadmin/files/BSt/Publikationen/GrauePublikationen/SGI_2018_Englisch_komprimiert.pdf

and party-dependency of state-owned enterprises (SOEs) pushed Poland further away from the most exemplary democracies.

According to the Bertelsmann Foundation's data, one key variable that decides the democratic success of a country is its capability of reaching a consensus on the most important issues for the society. In Poland, we can now observe something diametrically different. It is an extreme polarization between PiS and all other parties¹⁷. The lack of agreement between two fighting political blocks stops virtually all relevant reforms and spins the spiral of populism. Polish government is deliberately stoking social tensions rather than seeking consensus in an effort to negotiate forward-thinking solutions.

QUALITY OF DEMOCRACY (SUSTAINABLE GOVERNANCE INDICATORS)

What is more, the support for nationalist populists from PiS who are responsible for the recent regress in Poland is still very high¹⁸. This phenomenon illustrates the fact that in Poland, fundamental democratic values are not sufficiently anchored in the

political DNA of a large part of the society. This, in turn, could explain why the process of a deeper societal transformation has not yet been completed.

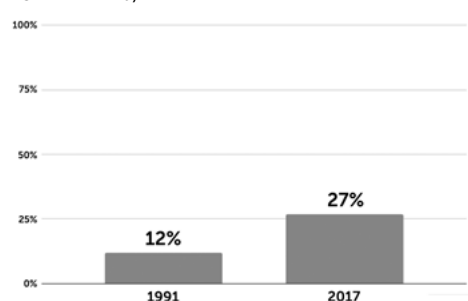
Similar conclusions may be drawn from the *Democracy Index*¹⁹, published by the

¹⁷ Law and Justice calls opposition parties "total opposition". Only the anti-establishment Kukiz'15 party, which often supports PiS is not labeled this way.

¹⁸ PiS won the 2019 EP elections with spectacular 45.38% of voter support.

¹⁹ *The Democracy Index* is compiled by the Economist Intelligence Unit (EIU), a UK-based company. Its intention is to measure the state of democracy in 167 countries. The index is based on sixty indicators grouped in five different categories, measuring pluralism, civil liberties, and political culture. In addition to a numeric score and a ranking, the index categorizes each country in

Figure 6: Women in Sejm (1991 – 12% versus 2017 – 27%)



Source: PKW

Economist Intelligence Unit (EIU). For the past twelve years – since the data has been available, – Poland has been in the group of “flawed democracies”²⁰. Its first score in 2006 was 7.3 points out of 10. In 2014, Poland reached its peak and started a fast ride down the index. In 2018, it scored only 6.67 points and became democracy number 54 in the world, sharing this position with Guyana, just below the Philippines, Malaysia, and Colombia. It is fourteen positions lower than it was in 2014.

One more interesting index provided by the Bertelsmann Foundation is the Transformation Index (BTI)²¹, which analyzes and evaluates the quality of democracy and political management in 129 developing and transition countries²². Two applied measurements relevant for this inquiry are the Status Index, which examines progress

one of four regime types: full democracies, flawed democracies, hybrid regimes, and authoritarian regimes. See: <https://www.eiu.com/topic/democracy-index>

²⁰ Ibid.

²¹ The Bertelsmann Stiftung's Transformation Index (BTI) analyzes and evaluates whether and how developing countries and countries in transition are steering social change toward democracy and a market economy. Country experts assess the extent to which a total of seventeen criteria have been met for each of the 129 countries. See: <https://www.bti-project.org/en/home/>

²² Ibid.

”

THE LARGER
THE SIZE
OF THE ENTERPRISE,
THE MORE TIME
MANAGERS SPEND
ON INTERACTING
WITH GOVERNMENT
OFFICIALS
ON THE INTER-
PRETATION
AND APPLICATION
OF LAWS

towards democracy and market liberalism of the analyzed countries, and the Governance

Index – which ranks the countries according to their leadership's political management²³.

For sixteen years, Poland has been among the world leaders in the BTI's main ranking, reaching its highest position in 2005, then maintaining its position since 2006 for a decade, with a visible fall in 2016. This fall is even more evident in correlation with the Governance Index, in which the country observed a step down between the years 2015 and 2018.

²³ <https://www.bti-project.org/en/data/rankings/governance-index/>

The BTI reports have praised the Polish transformation embodied in a series of political reforms after 1989, and in the country's ambition to join international organizations – aspirations which led to Poland's EU accession in 2004. “Poland experienced relatively calm years from the time of the 2005 elections. However, domestic politics have become more confrontational again,” the 2018 executive summary acknowledges²⁴. In the latest report, however, Poland is criticized for the judicial reforms, the recurrent assemblies law, and politicization of national media²⁵.

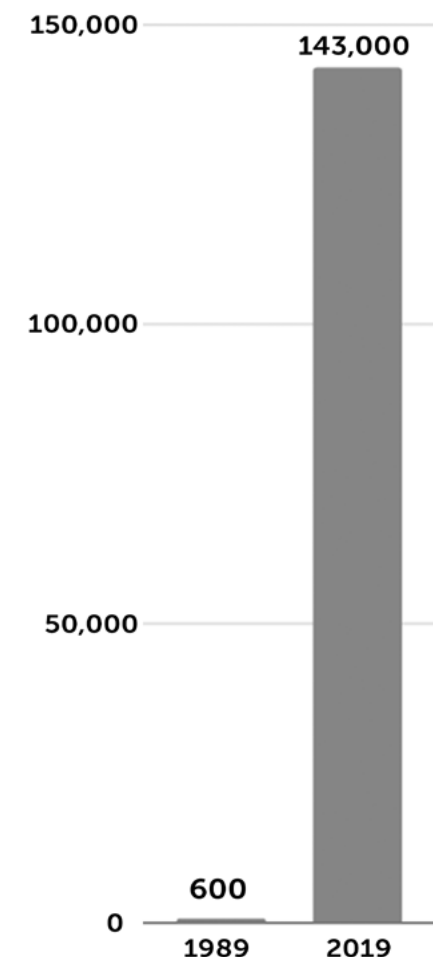
The conclusions, as regards Poland's judicial system, are also confirmed by the *World Justice Project Rule of Law Index*²⁶. The Index presents a portrait of the rule of law by providing scores and rankings based on eight factors: Constraints on Government Powers, Absence of Corruption, Open Government, Fundamental Rights, Order and Security, Regulatory Enforcement, Civil Justice, and Criminal Justice. Poland's most

²⁴ <https://www.bti-project.org/en/reports/country-reports/detail/itc/pol/ity/2018/itr/ecse/>

²⁵ Poland, which the BTI 2014 still certified as demonstrating “very good” governance, offers a particularly striking example of the polarization of political competition. This has been precipitated not only by protest parties, but also by established parties that have adopted populist mobilization strategies and modes of argumentation. For example, the conflict between the Polish government and the opposition escalated in December 2016, when the opposition stormed the speaker's podium in parliament after the parliamentary president ejected an opposition legislator from the hall for protesting the governing majority's exclusion of journalists from parliamentary sessions. Legislators from the ruling party then left the chamber and passed the state budget without participation from the opposition lawmakers, who protested by blockading parliament for several weeks. Ibid.

²⁶ The World Justice Project's (WJP) *Rule of Law Index* is the world's leading source for original data on the rule of law. The 2019 edition covers 126 countries and jurisdictions, relying on more than 120,000 household surveys and 3,800 expert surveys to measure how the rule of law is experienced in practical, everyday situations by the general public worldwide. See: <https://worldjusticeproject.org/>

Figure 7: Number of NGOs in Poland



Source: ngo.pl

recent results²⁷ indicate a decline in adherence to the rule of law. The largest decline in the factor of “Constraints on Government Powers” has also been noted. In the 2019 edition of the Index, Poland took the lead in the shameful report titled *A Sign of Authoritarianism*.

²⁷ The data from 2008-2011 is also available but at that time less than seventy countries were analyzed, compared to today's 126.

“SINCE THE BEGINNING OF THE TRANSITION IN POLAND, CORRUPTION WAS SEEN AS A PROBLEM FOR PEOPLE AND BUSINESSES

On a slightly more optimistic note, however, it is worth emphasizing that the NGO sector has changed radically in Poland in the last 30 years – for the better. Currently, all kinds of foundations, associations, and groups constitute one of the pillars of Polish democracy and civil activism, supporting the state and controlling officials. The active part these institutions have had in Polish society [See: Figure 7] translates directly into support for them, with over 50% of Poles trusting NGOs²⁸.

On the other hand, the democracy indexes could be supplemented by the Corruption Perception Index (CPI), which offers a reflection on the stage of the democracy (or its deficits), as perceived by citizens.

CPI has been published annually by Transparency International since 1995 and ranks countries “by their perceived levels of public sector corruption, as determined by expert

assessments and opinion surveys”²⁹. Currently, the Index evaluates 180 countries on a scale between 100 (which means very clean) to 0 (hence highly corrupt). At this moment, Poland holds the 36th position on the list.

It is difficult to compare Poland’s 2019 results with its first score in 1996, when it debuted on the 24th location. Back then the Index covered only about fifty states, compared to one hundred and eighty today. Modern Poland inherited systematic Soviet-style corruption. Since the beginning of the transition in Poland, corruption was seen as a problem for people and businesses operating in Poland, and in the 1990s not much was possible to do with the public administration without “a gift in an envelope”. Political corruption posed a challenge to fair business as politicians used their position to gain benefits. The practices of nepotism and cronyism were widespread. Much has been done to improve the situation. The Criminal Code in Poland now criminalizes bribery, extortion, cronyism, patronage, abuse of public functions, influence peddling, gifts, and money laundering. As a consequence, the Central Anti-Corruption Bureau was created to address these issues.

The pick in the Corruption Perception Index was most probably connected to a corruption scandal known as the *Rywin Gate*³⁰, which toppled in 2004 with the Democratic Left Alliance (SLD) government – the party has never rebuilt its position. At the same time, the scandal gave political fuel to PiS, which presented itself as a brand new, anti-corruption, and anti-establishment party. PiS presidential candidate for the 2005 election, Lech Kaczyński, and an eventual

²⁹ <https://www.transparency.org/cpi2018>

³⁰ <https://www.independent.co.uk/news/world/europe/producer-of-the-pianist-is-jailed-for-corruption-561390.html>

²⁸ <https://publicystyka.ngo.pl/30-lat-wolnosci-1989-2019-jak-zmienial-sie-sektor-pozarzadowy-infografika> [in Polish]

“THE SITUATION FOR LGBT+ PEOPLE IN POLAND HAS NEVER BEEN EASY

winner, called for a “moral revolution”³¹, claiming that the Third Polish Republic (the result of the 1989 transformation) should be completely replaced with a Fourth Polish Republic, a “strong and moral state”³². Having this in mind, it may be surprising that under the current PiS government, Poland is losing in the CPI index. This is mostly due to the cronyism of PiS protégées, who are given jobs in SOEs, regardless of their competences³³.

MINORITY RIGHTS

While the state of democracy is usually reflected in conditions of the protection of human rights, minority rights tend to be the litmus paper of human rights in general. Therefore, it would be helpful to look at the position of Poland in LGBT+ rights rankings.

The situation for LGBT+ people in Poland has never been easy. Similarly to the whole region of Eastern Europe, the fight for LGBT+ people’s rights did not start with the Stonewall movement in 1969, but only after 1989. Nevertheless, legally, not much has been done in the last thirty years.

Some progress could be observed in the areas of LGBT+ anti-discrimination in employment and housing. Nothing, however, has been achieved in terms of civil partnerships, hate speech crimes, or banning conversion therapies³⁴. The *Annual Review* by ILGA-Europe³⁵ examines the advances

³¹ https://www.old.pis.org.pl/download.php?g=mmedia&f=program_2005_skrot.pdf [in Polish]

³² Ibid.

³³ http://4liberty.eu/wp-content/uploads/2017/10/06-REPOLONIZATION-AND-STATE-PATRONAGE-CURRENT-CHALLENGES_ADAM-SZ%C5%81APKA.pdf

³⁴ The Nowoczesna party has prepared bills on these three issues but the Speaker of the Sejm is currently blocking any progress in the parliamentary procedure.

³⁵ Each May, ILGA-Europe releases its *Rainbow Europe* review, to mark the International Day Against Homophobia and Transphobia. It reviews the human rights

made at a national level country-by-country in twelve months. Noteworthy, Poland has always been in the bottom of the ranking.

The country started in 36th place in 2010, reached its best score in 2014, only to drop again to the 39th position (out of 49 in total) in 2018 and 2019³⁶. In the EU, only Latvia is performing worse. The most dramatic downside happened in 2016, when Poland dropped from 28% to 18%³⁷. This sudden decrease was due to the changes in the Gender Accordance Act and the fact that homophobic and transphobic statements were once again made by public figures. At the same time, judges working on court cases involving violent attacks continued to

situation and assesses what life is like for LGBTI people in every European country, covering discrimination, family recognition, hate speech/crimes, gender recognition, freedom of assembly, association and express, and asylum laws. See: <https://www.rainbow-europe.org/>

³⁶ https://www.ilga-europe.org/sites/default/files/Attachments/rainbowindex2019online_0_0.pdf

³⁷ The score is organized in a way that each country can get per cents in six categories: Equality and non-discrimination (totally responsible for up to 25% of the overall score), Family (20%), Hate crime and hate speech (20%), Legal gender recognition and bodily integrity (20%), Civil society space (8%), Asylum (7%). In 2018 edition Poland scored 18%, only 13% of the available points in the Equality category, null in Famil and Hate crime, 27% of Legal gender recognition and bodily integrity, 17% of Asylum points and full score in the Civil society.

ignore the bias motivation in their sentencing³⁸.

Nevertheless, it must be stressed that the general situation of LGBT+ in Polish society is slowly improving. The acceptance towards the LGBT+ community and of same-sex civil unions is growing³⁹. More and more public personalities *come out*, including politicians⁴⁰. In 2019, twenty equality marches (pride parades) were, or are, yet to be organized in Poland – from Warsaw to small towns like Gniezno.

MEDIA FREEDOM

Freedom of media is a derivative of general freedom and democracy, which is why it is appropriate to also look at the *World Press Freedom Index* by Reporters Without Borders (RWB)⁴¹.

Poland has started building its strong position in the ranking since 2009, when it joined the group of the countries with free media. However, in 2016, a dramatic downgrade was observed, and ever since Poland has continued its decline in the RWB index, coming in 59th out of 180 countries in the 2019 report. This sandwiches it between Fiji

³⁸ https://www.ilga-europe.org/sites/default/files/Attachments/annual_review_2016-for_web.pdf, p. 13.

³⁹ <https://oko.press/rekordowe-poparcie-dla-zwiazkow-partnerskich-i-rownosci-malzenskiej-sondaz/> [in Polish]

⁴⁰ For instance, Robert Biedroń and his newly emerged Wiosna party scored 6% in the EP elections. Additionally, Paweł Rabiej of the Nowoczesna party is now the deputy mayor of Warsaw.

⁴¹ The *Press Freedom Index* is an annual ranking of countries compiled and published by Reporters Without Borders, based upon the organization's own assessment of the countries' press freedom records in the previous year. It intends to reflect the degree of freedom that journalists, news organizations, and netizens have in each country, and the efforts made by authorities to respect this freedom. The report is partly based on a questionnaire, which asks questions about pluralism, media independence, environment, and self-censorship, legislative framework, transparency, and infrastructure. See: <https://rsf.org/en>

”

TO THOSE WHO
URGE MODERATION,
THE PiS
GOVERNMENT
ALWAYS RESPONDS
WITH THE SAME
ARGUMENTS BASED
ON AN IDEOLOGY
THAT TOLERATES
NO DISSENT

and the Dominican Republic, and thus ties Poland with its record-low score of 2006. In a scathing justification of Poland's position titled *Blinded by Ideology*, Reporters Without Borders cited the tightening of control by the ruling party over public media⁴².

Press freedom is one of the main victims of the Law and Justice government, RWB claims. "The public media have been re-named 'national media' and have been transformed into 'government propaganda mouthpieces'. Their new directors tolerate neither opposition nor neutrality from employees and fire those who refuse to comply"⁴³. Many blamed state-owned TV broadcaster TVP's "hate propaganda" for Gdańsk mayor Paweł Adamowicz's murder in January 2019 – frequent demonstrations were held outside its headquarters in War-

⁴² <https://rsf.org/en/poland>

⁴³ Ibid.

saw and in front of regional branches.

The increase in harassment of independent media in recent months is looking more and more like full-blown judicial persecution. As it already was before, the government's leading target has been the daily *Gazeta Wyborcza*, which is now in the personal sights of Jarosław Kaczyński. To those who urge moderation, the PiS government always responds with the same arguments based on an ideology that tolerates no dissent⁴⁴.

EDUCATION

Education is an aspect that may be a great indicator of overall success of a given country. Mature democracies with future-oriented political class, which believe in development of the entire community and look rather for a consensus for big projects than pointless fights that can bring only short-term gains, tend to invest in an educational system that will benefit the next generations.

The data on education shows that Poland has improved all basic indicators [See: Table 1]. The general educational structure of the country is closer to the Western democracies, fitting better modern societies building their economies on services and their growth on innovation [See: Table 2].

⁴⁴ *Gazeta Wyborcza* has been for PiS and Kaczyński a symbol of a post-1989 success of the old elites. Kaczyński sees in *Wyborcza* a tube of this part of the anti-communist opposition that negotiated and found compromise with the communists. He cannot accept that *Wyborcza* is spreading the version of the newest history where Polish transition is a big success and Lech Wałęsa (not Lech Kaczyński) is the biggest hero of "Solidarność". To promote his alternative version of history PiS-connected business people and journalists invested heavily in a network of right-wing media that were niche before 2015 and now are heavily subsidized by the state and work as PiS's propaganda tube. Available [online]: <https://rsf.org/en/poland>

The number of kindergartens has grown, so has the number of kids attending them, thus making pre-school education almost universal. The important issue is still the lack of kindergartens in the countryside and nurseries all over the country.

Additionally, the number of schools that provide higher education⁴⁵ has grown significantly. Although many of them are private and often provide educational services of rather low quality, some of the top universities as well as technical, medical, and arts academies are climbing up in international rankings and attract more and more foreign students⁴⁶.

An interesting international ranking that confirms Poland's success in education is the OECD's Programme for International Student Assessment, known as PISA [See: Figure 8]. No other European country climbed PISA so consistently as Poland. Polish students improved their results in all three competence fields tested: mathematics, science, and reading and interpreting. The results of Polish students were below the OECD average in 2003 and in subsequent surveys in 2006 and 2009 – at the OECD-average level, while in 2012 Polish students achieved results significantly above the OECD average. 2015 placed Poland 5th in Europe and 11th in the world⁴⁷. This steep increase has been due to reforms introduced in the early 1990s, accompanied by cutting off the ideological content of the old Soviet-influenced curricula. The most important change of the 1999 education reform was an extension of comprehensive education

⁴⁵ In the Polish system occur universities, academies, and higher schools.

⁴⁶ Eg. <https://serwisy.gazetaprawna.pl/edukacja/artykuly/1192832,polskie-uczelnie-w-rankingu-szanghajskim-2018.html>, <https://www.wprost.pl/edukacja/10227185/szesnascie-polskich-uczeln-w-prestizowym-qs-world-university-ranking.html> [in Polish]

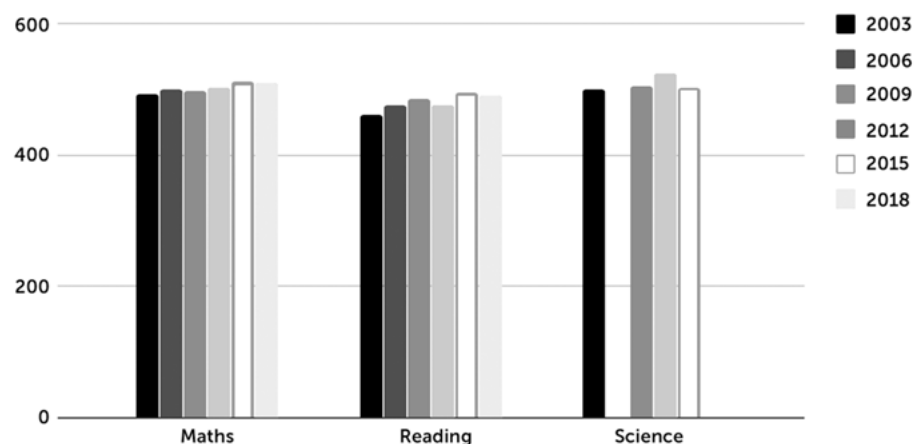
⁴⁷ <https://data.oecd.org/poland.htm>

Table 1: Dynamics of the level of education in Poland)

	1990	2019
Number of higher education institutions	98	394
Spots in kindergartens in the countryside	230,000	286,000
Spots in kindergartens in cities	680,000	881,000
Number of 3-5-year-olds in kindergartens per 1,000 citizens	318	847 (2018)
Number of foreigners studying in Poland	4,100	72,000 (2017)

Source: GUS

Figure 8: Poland's PISA results in Reading, Maths & Science (overall)



Source: OECD

by one year (from 8 to 9 years) and introducing a modern curriculum⁴⁸.

This positive trend will, however, most likely be stopped by the so-called deform of education run by PiS in the years 2015-

2019, which assumes a return to the pre-1999 school system and a change in the curricula, which significantly limits natural science, civil education, critical thinking, and soft skills development⁴⁹.

⁴⁸ Ibid.⁵⁰ According to ISCED, UNESCO standards.⁵¹ According to UNSECO-F2013.

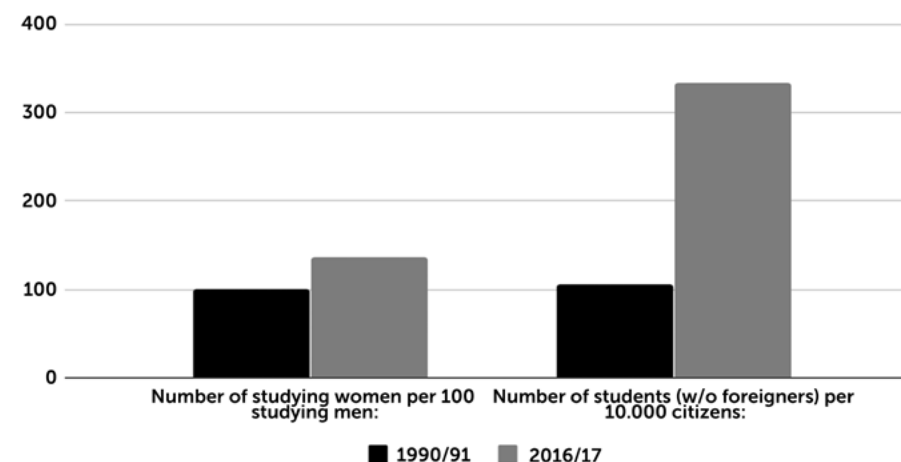
⁴⁸ http://4liberty.eu/wp-content/uploads/2017/04/Mi%C5%82osz-Hodun-Education-in-Poland-at-the-Service-of-the-Ruling-Party_Review-6.pdf

Table 2: Most popular groups of higher education areas among students:

Year	In general	Group of areas					
		First		Second		Third	
		Name	%	Name	%	Name	%
1990/91 ⁵⁰	100	Technical	16.9	Pedagogical	14.2	Business and management	13.2
2016/17 ⁵¹	100	Business and administration	18.7	Engineering and technical	10.6	Social	10.5

Source: GUS

Figure 9: Female and foreign students in Poland (1990-2017)



Source: GUS

Unfortunately, there is no reliable ranking that would show Poland's cultural position vis-à-vis other countries and its change in the last three decades. There is, however, no doubt that Polish arts and culture have been successful in the world and are now prominent. Polish artists continue to receive prestigious international awards (e.g. recent international recognition of Polish writer Olga Tokarczuk or film director Paweł Pawlikowski).

Table 3 and Table 4 prove that Polish culture managed to develop in the market without full state subsidies, like it was during the old times. Not all the titles and institutions survived the transition, especially the case of local newspapers and cultural organizations in smaller locations. But on the national level the number of magazines published has doubled and the number of books have almost quadrupled. There are more seats in theaters, opera houses and philharmonic

Table 3: Publications in Poland (1990 versus 2017)

	1990	2017
Books	10,242	36,260
Newspapers	130	46
Magazines	3,007	6,939

Source: GUS

halls than ever before, and every year Poles spend more and more money on culture.

Noteworthy, the successes of Polish culture may be partly connected with long-term plans and strategies developed by newly created institutions, for instance Polish Film Institute (PISF)⁵². PISF created a systemic solution to support the film industry (engaging public and private money) and became the nation's key funding and international networking hub for cinema production. The institute has helped scores of films achieve international success and changed the image of Polish films abroad.

CONCLUSIONS

All the data presented above proves that Poland has used the last 30 years well, and thus managed to build a prosperous and democratic country and a free society of active citizens. Poland's position in all discussed rankings, although clearly not perfect, places the country in the European and world's top. Poland's success was prized with membership in the most important international organizations⁵³ and the European Union, the most elite club of developed states⁵⁴.

⁵² <http://en.pisf.pl/> [in Polish]

⁵³ After 1989, Poland became a member of (among others): Council of Europe (1991), WTO (1995), OSCE (1995), OECD (1996), and NATO (1999). Currently, Poland is a non-permanent member of the UN Security Council (UNSC) and has chances to join G20 in 2029.

⁵⁴ Jerzy Buzek was the President of the European Parlia-

”

POLAND HAS USED THE LAST 30 YEARS WELL, AND THUS MANAGED TO BUILD A PROSPEROUS AND DEMOCRATIC COUNTRY AND A FREE SOCIETY OF ACTIVE CITIZENS

There is a lot to be proud of. Of course, there is still a lot to do – especially in the area of protection of human rights, in particular minority rights. The last four years have shown that the transition has not been deep enough, and that newly established democratic institutions and liberal values are not fully internalized.

Moreover, the process of building the new state went perhaps faster than the process of building the new society. There has not been enough (civic) education in schools, and permanent evaluation of the actual transition within the society. This, in turn, resulted in the victory of a populist party (PiS) that demolished the fragile achievements of last three decades of transition.

ment (2009–2012), whereas Donald Tusk was the President of the European Council (2014–2019).

Table 4: Cultural institutions in Poland (per 1000 citizens)

	1990	2017
Books in libraries	3589.0	3340.0
Library users	195.0	157.0
Seats in theaters and music halls	1.6	2.5
Number of 3–5-year-olds in kindergartens per 1,000 citizens	338.0	345.0
Seats in cinemas	9.8	7.5
Spectators in cinemas	862.0	1480.0

Source: GUS

Law and Justice was able to easily push backwards many of the crucial reforms in the field of democracy, and especially the judiciary, free media, and protection of human rights. People gave up their rights almost without a fight and put in danger their future in Europe and the Western World for nationalistic promises of greatness and blurry visions of social solidarity. This can still be repaired, but only with constructive and far-sighted policies, responsible politics, and a long-term and far-reaching education.

The recent illiberal revolution in Poland is not something unique, it is a part of a universal trend that is contrary to the paradigm of development Poland followed for 25 years. It is visible in most of the indexes that show that it is not only Poland that is less free and less democratic, it is true for the whole world. As if the world started moving the other way around and Poland was getting closer to what it was back in 1989. Such a state of affairs simply cannot be accepted. In summation, liberals must view this trend towards illiberalism as a huge obstacle that must be overcome. Still, it is my belief that after this troublesome period of

“correction” in transformation, Poland will shake it off, recover, and get back on the path towards real development, thus regaining the position of a European champion. I am positive about that because Polish people perceive the transformation and its fruits as something positive for the country, for the people in general, and for themselves. They certainly do not want to go back to the pre-revolution era.



*

MIŁOSZ
HODUN

International Officer of Projekt: Polska Association and international advisor at Nowoczesna, Polish liberal party. Member of the Board of Directors of the European Liberal Forum, think tank of the ALDE Party. Part-time teacher at Reykjavik University School of Law. He focuses on comparative constitutional law and federalism. Formerly he worked as an expert at the Chancellery of the President of the Republic of Poland



It's Not Only the Economy, Stupid: Progress in Poland after Socialism



*
MAREK
TATAŁA

Many people are familiar with President Bill Clinton's "It's the economy, stupid" campaign slogan. The economic success of Poland since 1989 is indisputable. Nevertheless, defenders of Poland's success story may sometimes hear that they focus too much on economic advances, prosperity, and GDP growth instead of thinking about the actual lives of "average people" and the "social costs" of Poland's transformation.

There are many myths connected with the concept of "social costs" and its understanding by the opponents of Poland's path towards a free-market economy. Critics of the transformation usually ignore "social costs" of no reforms and root causes of many negative developments that can be linked to over 40 years of socialism. The transformation is closely linked to the idea of progress and its impact on human beings – not only elites but also "ordinary people". Various external and internal forces made it difficult for Poles to reap the full benefits of the intellectual revolution of the Enlightenment, industrialization and globalization.

One of the key barriers to prosperity was the lack of individual freedom. Only in 1989 did Poland become a full member of the club of progress, which gave the country an opportunity to catch up with the more prosperous West. Various measures – from life expectancy to some environmental and political indicators – show how life has been improving since 1989. Special attention is devoted to the topic of nature because the disastrous environmental impact of socialism is often forgotten. In the end of the article the nostalgia towards socialism is discussed and how, in a free market economy, even this type of nostalgia can be...profitable. Furthermore, Civil Development Forum (FOR) is active in educating young people about

”
DISTINGUISHING
BETWEEN
ECONOMIC
AND NON-
ECONOMIC
CHANGES IS
OFTEN FUTILE

Poland's transformation, including a virtual "Museum 1989".

It is also important to emphasize that distinguishing between economic and non-economic changes is often futile. Economics is not only a study of consumption, production, or money – although it is often associated only with these measures, – but mostly of human choices and behavior in the world of incentives and constraints.

From this perspective, it does not really matter if we say that "It's the economy, stupid" or "It's *not only* the economy, stupid", as many areas can be associated with the economy and prosperity anyway. While GDP is not a perfect indicator (such a perfect measure has not yet been identified), it is a good proxy of standard of living and essential (but not the only) condition for human progress. Moreover, many other qualitative aspects of human lives are correlated with GDP and income.

The celebrations of the 30th anniversary of the transformation in Poland and elsewhere should be forward-looking. Remembrance



THE REFORMS FREEING THE ECONOMY AND INDIVIDUALS ONLY REVEALED MANY FAILURES OF THE PREVIOUS SYSTEM

about failures and the costs of socialism is needed so people do not repeat mistakes from the past. Post-transformation achievements are also an important lesson and inspiration for another wave of necessary reforms in the future. And awareness of progress in Poland after socialism matters as excessive pessimism is a fertile ground for various radical demagogues in politics – people who are willing to sacrifice catching up with the Western standard of living in Poland for their short-term political gains.

THE MYTH OF “SOCIAL COSTS” OF TRANSFORMATION

Debates about transformation in Poland usually fall into a rather familiar pattern: One side is rightly showing enormous economic success of Poland, visible in comparative analyses of GDP per capita since 1989 in Central and Eastern Europe (CEE). The other side usually responds with “social costs” of transformation, a vague term meaning usually everything people dislike – unemployment, poverty, insecurity, and even stress. “It was very safe in our police state. We didn’t have competition, or the accompanying

stress. There was no rat race” – wrote Slawomir Sierakowski¹, a founder of one of the leading left-wing NGOs that frequently publishes articles in which the transformation is blamed for its “social costs”.

It is true that people who understand and appreciate Poland’s success story after 1989 should talk more about measures other than GDP and its spectacular growth which enabled Poland’s economic miracle². It is, however, mostly a question of better communication, but “social costs” propagators are wrong on various levels and they spread many myths and manipulations that should be exposed.

Firstly, people speaking about “social costs” usually ignore the benefits of transformation and the potential costs of alternative reform paths. As Leszek Balcerowicz explained, “People associate social cost with reforms, while delaying reforms brings about much larger social costs”³. The father of the economic transformation in Poland also claimed “those who talk of the social costs of reforms omit the far higher social costs of failing to reform”⁴. How delays and failures in reforming the economy and the socio-political system can generate enormous costs one can learn from the post-1989 history of Russia, Belarus, Ukraine, and some other post-Soviet republics⁵.

¹ <https://www.theguardian.com/commentisfree/2019/jun/04/communism-poland-democracy-pepsi>

² In June 2019, FOR Foundation launched a special website dedicated to Poland’s economic miracle. Available online: <http://cud.for.org.pl/>

³ An interview with Leszek Balcerowicz conducted by the IMF, see: <https://www.imf.org/external/pubs/ft/fandd/2017/06/trenches.htm>

⁴ <https://www.obserwatorfinansowy.pl/tematyka/in-english/we-can-avoid-the-slowdown/>

⁵ For comparison of Poland and Ukraine see: Hartwell, Ch. A. (2016) *Two Roads Diverge: The Transition Experience of Poland and Ukraine*, New York: Cambridge University Press; for comparative analysis of post-socialist economies see, for example: Aslund, A. (2012) *How*



THE RATE OF PROGRESS WAS NOT EVEN ALL AROUND THE WORLD

Even when we speak about Slawomir Sierakowski’s nostalgia towards the Polish People’s Republic and its “very safe police state”, we should ask ourselves, what kind of stress is worse? One stemming from a competition in a liberalized labor market and free market economy? One that is caused by a threat of an arbitrary arrest or killing? Or being unable to buy some basic consumer goods for you and your family? And is this “rat race” (which obviously did also exist under socialism) to get a better job or higher salary worse than a race to buy necessities after several hours of queuing?

Secondly, many economic developments that happened in the early years of transition had root causes not even in transformation itself, but in over forty years of socialism. The reforms freeing the economy and individuals only revealed many failures of the previous system. Hidden unemployment and over-employment or huge inefficiencies, driven by mass state ownership and central planning, were extremely costly. The system was, in fact, dominated by economic lies. Valery Legasov, one of the characters of a popular 2019 TV-series “Chernobyl”, points out in the last episode that “Every lie

we tell incurs a debt to the truth”, and then adds that “sooner or later, that debt is paid”. Some of the phenomena branded as “social costs” of transformation were, in fact, repayments of this debt to the truth.

Finally, we should also remember all the benefits that appeared after 1989. If the word ‘social’ is added to the word ‘costs’ to emphasize that costs are paid by the society, one can even talk about social benefits. But adjectives here are meaningless. What is needed is better awareness that the list of benefits enabled by a successful transformation in Poland (with similar situations in some other CEE countries like the Baltic states or Slovakia) is long and goes beyond typical economic measures like GDP per capita and income, although many positive developments correlate with these indicators. If we want to use a broader category associated not only with money and value of goods and services that we have in our wallets, households, or economy, we shall talk about progress.

JOINING THE CLUB

When analyzing the history of progress, we can easily notice that it is a rather short period in comparison to the history of mankind. For a long time, the majority of the global population was poor and died young (from today’s perspective) and after a short life in very bad conditions. This is why the graphs of GDP since the year 0 to 2019 resemble a hockey stick⁶.

“Serious growth happened only after 1800 – at first in north-western Europe, 2% per capita in PPP conventionally adjusted for inflation, as in the USA 1800–present, and now the world”, explained one of the experts on progress, Deirdre McCloskey, au-

Capitalism Was Built: The Transformation of Central and Eastern Europe, Russia, the Caucasus, and Central Asia, Cambridge: Cambridge University Press.

⁶ See also a nomination for “most important graph in the world” by Jonathan Haidt. Available online: <https://www.humansandnature.org/culture-how-capitalism-changes-conscience>

thor of *The Bourgeois Virtues: Ethics for an Age of Commerce* and other books about the Bourgeois Era⁷. The Enlightenment and Industrial Revolution “were enough to liberate a large part of humanity from the harsh living conditions it had always lived under”, – Johan Norberg reminded us in his book *Progress: Ten Reasons to Look Forward to the Future*. Another acceleration happened due to post-Second World War globalization⁸. The Enlightenment is also a leading theme in a work by Steven Pinker, the author of the book *Enlightenment Now: The Case for Reason, Science, Humanism and Progress*, who also appreciates “longer, healthier, safer, freer, richer[,] and wiser lives” of people thanks to the processes initiated in the late 18th century⁹.

Nevertheless, the rate of progress was not even all around the world. In the 19th century, during the partitions of Poland, the possibilities to reap the benefits of the intellectual revolution of the Enlightenment and industrialization period were limited. Then, as concluded by Piotr Korys, “in the interwar period, Poland did not manage to achieve developmental success”¹⁰. The post-war socialism, with its state-led industrialization and central planning, failed to close a huge gap between the standard of living of the West and Poland. In all these periods “we tried to industrialize in a way that was led and financed by the state” but since the transformation, as indicated by Rafał Trzeciakowski at the special Civil Development Forum’s website on Polish economic miracle, “we decided to follow the example

⁷ https://www.deirdremccloskey.com/docs/pdf/McCloskey_HowGrowthHappens.pdf

⁸ <https://www.asiatimes.com/2016/12/article/abstract-book-progress-johan-norberg/>

⁹ <https://www.wsj.com/articles/the-enlightenment-is-working-1518191343>

¹⁰ Korys, P. (2018) *Poland from Partitions to EU Accession: A Modern Economic History, 1772–2004*, Palgrave Macmillan, p. 245.

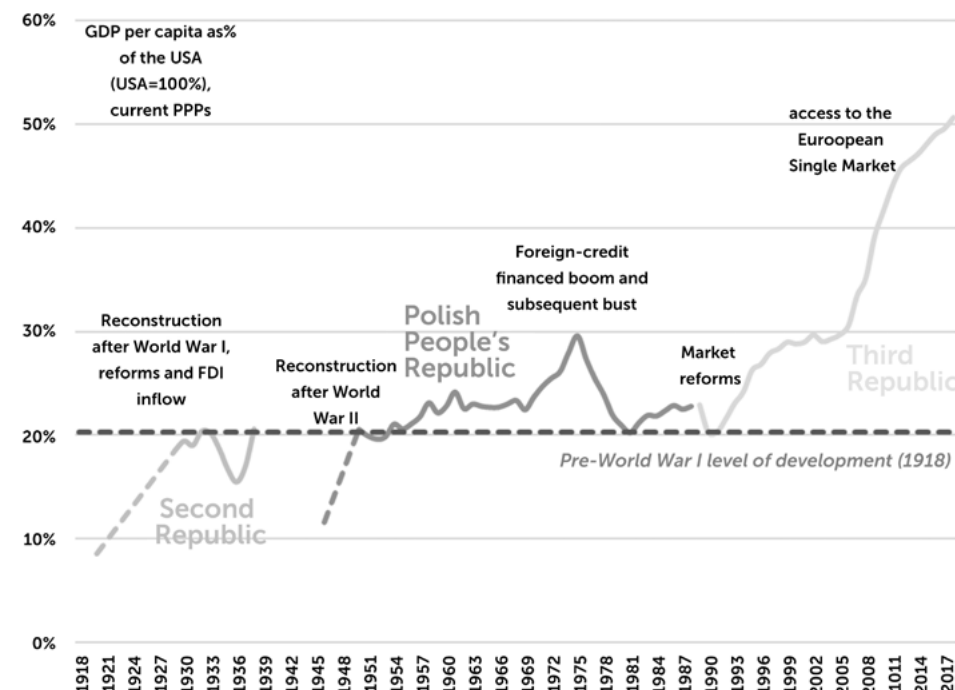
“
ONLY AFTER
1989, THANKS
TO THE TRANSITION
FROM
AUTHORITARIAN
SOCIALISM
TOWARDS
CONSTITUTIONAL
DEMOCRACY
WITH A FREE
MARKET ECONOMY,
WAS POLAND
ABLE TO GET
A FULL MEMBERSHIP
IN THE CLUB
OF HUMAN
PROGRESS

of the West: we allowed the Poles to act, developing the market and reforming state institutions”¹¹.

This observation does not, of course, mean that in certain areas there was no progress at all before the transformation, because there was. Nonetheless, after achieving

¹¹ <https://for.org.pl/pl/a/6846.komunikat-21/2019-pol-ski-cud-gospodarczy-droga-na-zachod> [in Polish]

Figure 1: Poland’s level of economic development relative to the United States



Source: Trzeciakowski, R. (2018) “Poland’s Independence and Standard of Living in Poland”, [in]: 4liberty.eu. Available [online]: <http://4liberty.eu/polands-independence-and-standard-of-living-in-poland/>

some progress, the ceiling was reached, and Poland was unable to break through it due to various forces – the main thing missing was individual freedom. Only after 1989, thanks to the transition from authoritarian socialism towards constitutional democracy with a free market economy, was Poland able to get a full membership in the club of human progress.

POLAND’S TRANSITION TOWARDS A BETTER LIFE

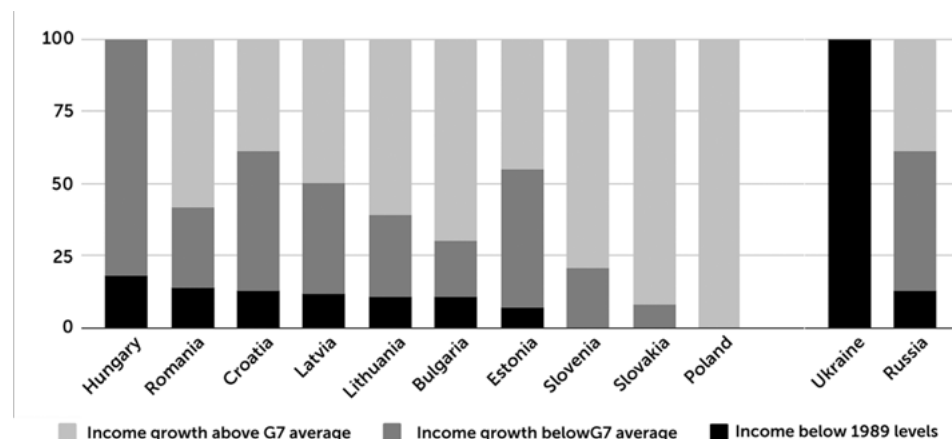
What was this ceiling for Poland? For many years Poland [See: Figure 1] was unable to permanently break a barrier of around 20% of the standard of living in the United States¹². The transformation of 1989 and the continuation of the reform-path afterwards,

based on a free market economy, openness for trade, enhanced by the accession to the European Union, and advancement of democratic institutions (including the rule of law), finally enabled Poland to close a substantial part of the gap between the country and much more developed Western economies. What is even more important is that all income groups benefited from the transition as demonstrated by the EBRD’s calculations from 1989 to 2016 [See: Figure 2]. Since the transformation the pie has been growing, almost everyone has benefited from the growing pie, and even the government has had more money for various public services.

¹² GDP per capita is used as a proxy.

¹³ G7 countries: Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States.

Figure 2: Percentiles of the population with income growth above/below the G7¹³ [average, 1989-2016]



Source: EBRD (2016) *Transition Report 2016-17*. Available [online]: <https://www.ebrd.com/news/publications/transition-report/transition-report-201617.html>

Source: EBRD (2016) *Transition Report 2016-17*. Available [online]: <https://www.ebrd.com/news/publications/transition-report/transition-report-201617.html>

Steven Pinker wrote about “longer lives” as one of the aspects of progress. In Figure 3 we can see how life expectancy in Poland became stagnant from the mid-1960s for males and the mid-1970s for women. Only after reforming the economy in 1989 did both genders observe a steady improvement of a perspective of longer lives. The ceiling was broken when Poland became

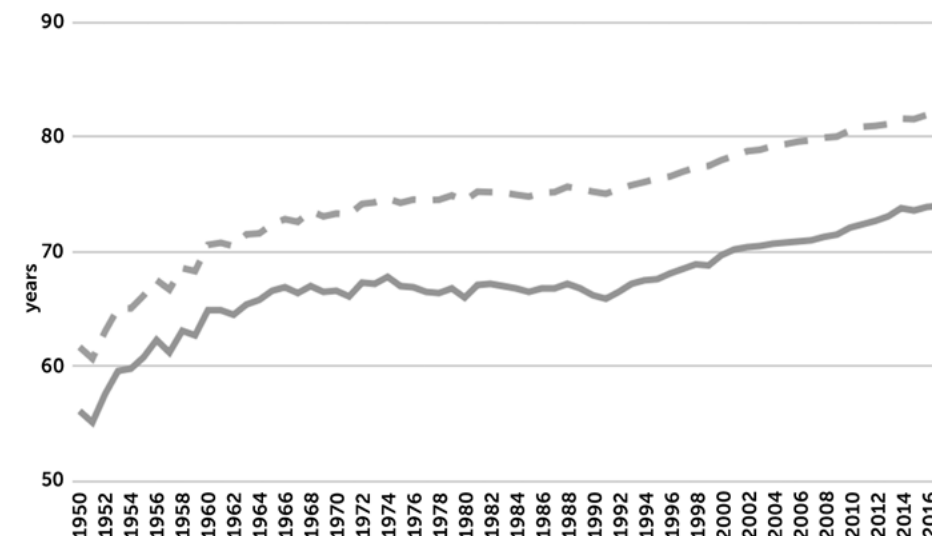
a full member of the club of progress.

In some areas, progress in Poland was re-launched after reaching a certain ceiling during the socialist times, whereas in others – it accelerated. These changes enabled Poland to catch up with the wealthier countries of the West not only in terms of GDP per capita, but also in other areas that affect the standard of living [See: Table 1]. Much bigger shops are beneficial for consumers as they mean access to supermarkets with their “services (...) indispensable to making quality food available to consumers, when and where they need it, at a reasonable price. The institution of the supermarket testifies to their usefulness” – as concluded by Pierre Desrochers and Kevin Brookes in their report *The Miracle of Supermarkets*¹⁴. Higher life expectancy is, of course, good news – especially when combined with the fact that more people are satisfied with their health¹⁵.

¹⁴ https://www.iedm.org/sites/default/files/web/pub_files/cahier0418_en.pdf

¹⁵ Since the Polish people are known for their

Figure 3: Life expectancy in Poland (1950-2017)



Source: Statistics Poland (GUS)

Infant mortality is currently also more than three times lower than it was at the beginning of the transformation. It is true that it has been falling for decades in many places around the world, including various political and economic systems, but this trend should not be taken for granted. Policy failures in countries like Venezuela can easily move the infant mortality rate in the opposite direction.

Noteworthy, better environmental protections have contributed to a smaller number of deaths related to air pollution. Finally, access to education in Poland has also improved, which enables people to learn, acquire new skills, and have better professional careers – which translates into higher incomes.

predisposition to complaining, it is not surprising that this measure is still not very high. Meanwhile, the current quality and opinions about the healthcare system may also be a contributing factor in the evaluation process.

When we look in greater detail into environmental protection, one may see how it has changed thanks to the transformation. Clearly, environmental factors matter for the quality of life. Moreover, when economic well being grows, people care more about nature, whereas governments have more resources to protect environmental heritage.

The history of Poland under socialism shows a significant disregard for the quality of water, air, land, and other important parts of nature. In an interview with Ilona Jedrasik we can read that “Balcerowicz was the greenest politician”¹⁶ during the transition, for which he was responsible as the Deputy Prime Minister and Minister of Finance. Under his term, many inefficient state-owned factories and heavy polluters ceased to exist. They were not only inefficient and costly from a budgetary perspective, but also disastrous to the nature and health of Poland.

¹⁶ <https://kulturaliberalna.pl/2019/07/02/jedrasik-ekologia-wywiad-polska/> [in Polish]

“
ENVIRONMENTAL
FACTORS MATTER
FOR THE QUALITY
OF LIFE

Table 1: Selected positive changes in Poland after 1989

Average size of a shop	45 m ² (1990)	105 m ² (2018)
Satisfaction with health	9% of people (1990)	19% of people (2017)
Infant mortality	15 per 100,000 births (1990)	2.9 per 100,000 births (2016)
Deaths due to air pollution	55 per 100,000 people (1990)	30 per 100,000 people (2017)
Secondary or higher education	28% of people (1990)	53% of people (2017)

Source: Polish Economic Institute (2019) *30 lat transformacji gospodarczej: Polska gospodarka zbliża się do standardów zachodnich*. Available [online]: <http://pie.net.pl/30-lat-transformacji-gospodarczej-polska-gospodarka-zbliza-sie-do-standardow-zachodnich/> [in Polish]

Only after the fall of socialism, discharging of industrial and municipal wastewater requiring treatment into waters, or into the ground, diminished. Moreover, the untreated part of wastewater fell from above 40% to less than 5% [See: Figure 4].

What about CO₂ emissions before and after the transformation in Poland? We can see how emissions were growing in the 1960s and early 1970s [See: Figure 4]. Despite a minor fall due to various economic failures¹⁷, the level still exceeded 11 metric tons per capita in the late 1980s. The transformation changed this picture significantly and in less than ten years the emissions reached around 8 metric tons per capita. Also, there is a growing efficiency of business, as less and less kilograms of CO₂ were emitted per steadily growing GDP [See: Figure 5].

Under socialism, especially in the 1980s, the pollution in many parts of Poland posed a threat to the lives and health of the

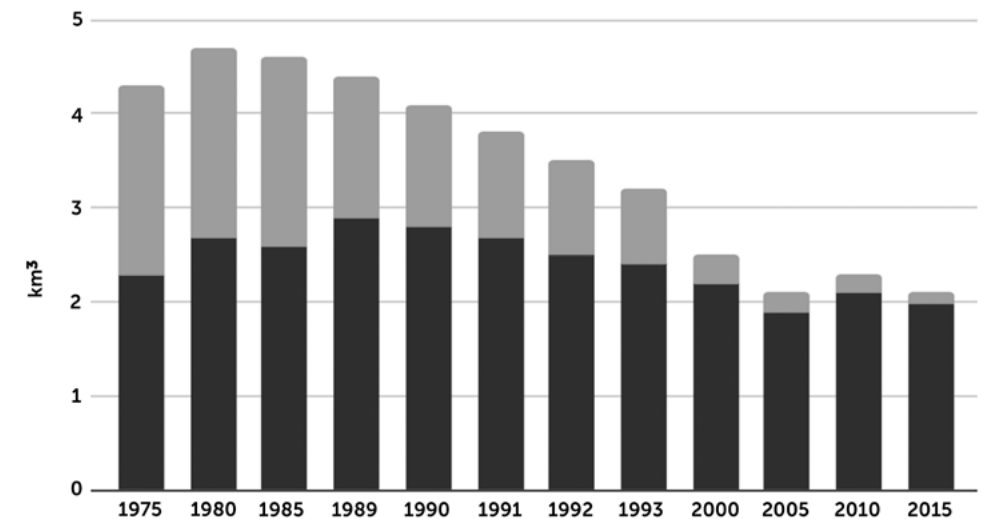
inhabitants. "In the early 1980s the Statistics Poland (GUS) distinguished 27 areas of ecological threats, covering 10% of the county with 1/3 of Poland's population"¹⁸, with the worst conditions in the Upper Silesia. Poles had to wait until 1980 for comprehensive legislation on environmental protection – hence, it is not surprising that the environment was an important element in the anti-communist opposition agenda. In the 1989 Roundtable Talks, one working group was strictly devoted to ecology and managed to work out twenty-seven postulates.

Thanks to the transformation, the activity of the most poisonous heavy industry was significantly reduced due to modernization or liquidation. Privatization enabled the government to focus on its regulatory activities and not on the ownership. When government was both the owner and regulator of enterprises, conflicts of interest were evident and enforcing certain standards,

¹⁸ https://for.org.pl/pliki/podstrony/5404_5-korzysci-z-transformacji-poprawa-ochrony-i-stanu-srodowiska-naturalnego-w-polsce-po-1989-r.pdf [in Polish]

¹⁷ E.g. economic crisis after foreign-credit financed boom under the 1970s.

Figure 4: Industrial and municipal wastewater requiring treatment discharged into waters or into the ground



Source: Statistics Poland (GUS)

even if they existed, were illusory. Moreover, ownership supervision of state-owned enterprises was transferred to the Ministry of Ownership Transformation (later the Ministry of Treasury), which weakened influences of various ministries, responsible for regulations in their areas of specialization, on public sector companies. It was another important step to at least minimize potential conflicts between the ownership and regulatory activities.

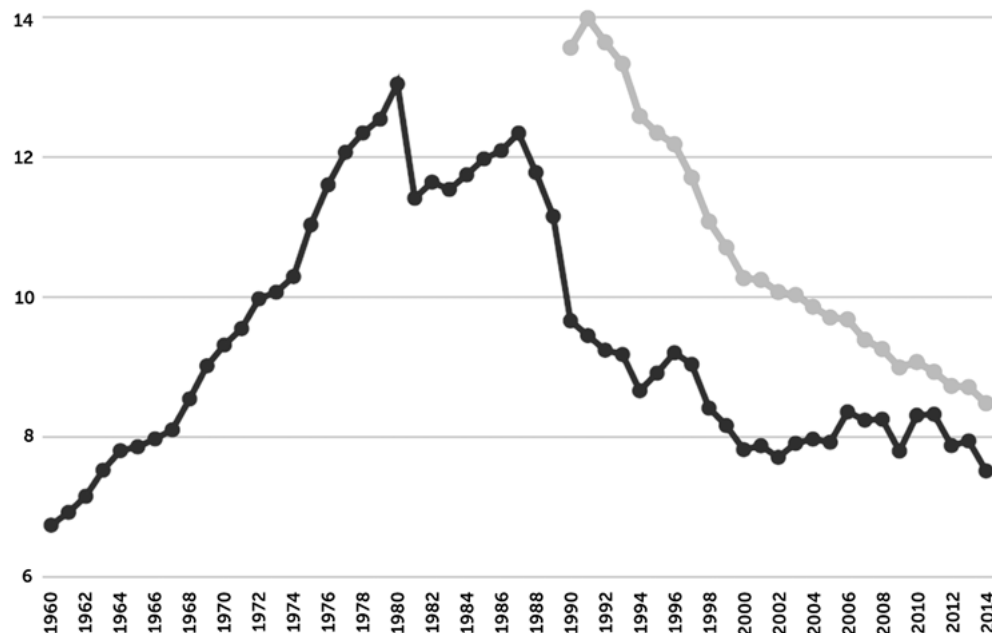
Legal changes introduced higher standards of environmental protection, awareness of consumers raised, and – especially with the growth of personal income – people have become more active in the field of ecology without the threat of harsh repercussions by the authorities. So, even though "it's not only the economy, stupid", economic and political transition definitely helped achieve environmental progress in Poland. This is why in 2018, the Civil Development Forum (FOR) decided to include the ecological

factor to its special edition of the contest for economic comic books devoted to the Polish transformation. We truly believe this positive aspect of the post-1989 transition shall also be promoted and acknowledged by the public opinion in Poland.

Another area which should not be neglected is constituted by political rights and civil liberties – freedom of speech, assembly, or association. On the Internet, one can easily find many stories about President Ronald Reagan telling Soviet-era jokes¹⁹. One of them is about an American and a Russian arguing about their two countries. The American says: "I can walk into the Oval Office, I can pound the president's desk, and I can say, Mr. President, I don't like the way you're running our country." And the Soviet citizen responds, "I can do that". And, to the surprise of the American, he explains that:

¹⁹ <https://www.upi.com/Archives/1987/11/18/Reagans-jokes-draw-Soviet-frown/2291564210000/>

Figure 5: CO2 emissions in Poland in metric tons per capita (left axis) and CO2 emissions in kg per 2011 PPP USD of GDP (right axis)



Source: World Bank Open Data. Available [online]: <https://data.worldbank.org/>

"I can go into the Kremlin to the general secretary's office, I can pound his desk and say, Mr. General Secretary, I don't like the way President Reagan's running his country." Of course, entering the Oval Office or the Polish prime minister's office is not an easy thing to do, but the joke is about possibility to question the authorities.

The transformation in Poland led to enormous progress in the fields of political rights and civil liberties, as measured by Freedom House [See: Figure 6]. Poles were finally able to enjoy free elections, create or join various political parties, and challenge the incumbents without the threat of intimidation. A much higher level of freedom of expression has also been enjoyed. Still, it may be extremely difficult to visit the prime minister's office, pound on the desk, and say

that "we don't like the way you're running our country", as in the joke, but Polish citizens are free to do it in public – from major squares and streets to the Internet.

Moreover, Poles now have access to various media outlets that are not controlled by the government – the media environment is more vibrant overall. Freedom of religion is much higher and believers are not controlled nor repressed by the government and its agencies.

The transformation converted the system of the rule of a single party into the system of the rule of law. While due to the ruling party Law and Justice's policies we observe some challenges to the rule of law²⁰ and

²⁰ Tatała, M. (2018) "Freedom-Loving People Should

various civil liberties (which may explain the deterioration of Poland's score in the Freedom House dataset), we should appreciate what was achieved after 1989 thanks to a successful transformation. Additionally, any attempts to push the Polish institutional system, which guarantees and secures our rights and liberties, into the gloomy socialist past should be sternly opposed.

Still, despite the numerous examples of how the lives of Poles have improved after the transformation and enabled a full membership in the club progress, some nostalgia towards the socialist past may be observed in the society.

UNDERSTANDING RECENT HISTORY AND BIASED NOSTALGIA

The last available opinion poll from 2014 shows that 44% of Poles had positive, or rather a positive attitude, towards socialist Poland; whereas 46% exhibited a negative or rather a negative attitude. When asked about their main associations with the Polish People's Republic, 19% indicated "lack of unemployment/full employment". The next connotations on the list were negative – "queues in the shops" (18%), "empty shops and shortages" (17%), and "rationing of food and other consumer goods" (17%). Apart from this, 10% indicated association of the socialist period with "better life/sentiment towards the past". When only people above forty years old were taken into consideration, the positive attitude towards the socialist past was even higher²¹. Therefore, to some extent, it may not be so much about "nostalgia towards socialism" but rather people's youth. But will these proportions change over time?

Defend the Rule of Law in Poland", [in]: *4Liberty.eu Review*, No. 8. Available [online]: <http://4liberty.eu/review-8-freedom-loving-people-should-defend-the-rule-of-law-in-poland/>

²¹ https://cbos.pl/SPISKOM.POL/2014/K_061_14.PDF

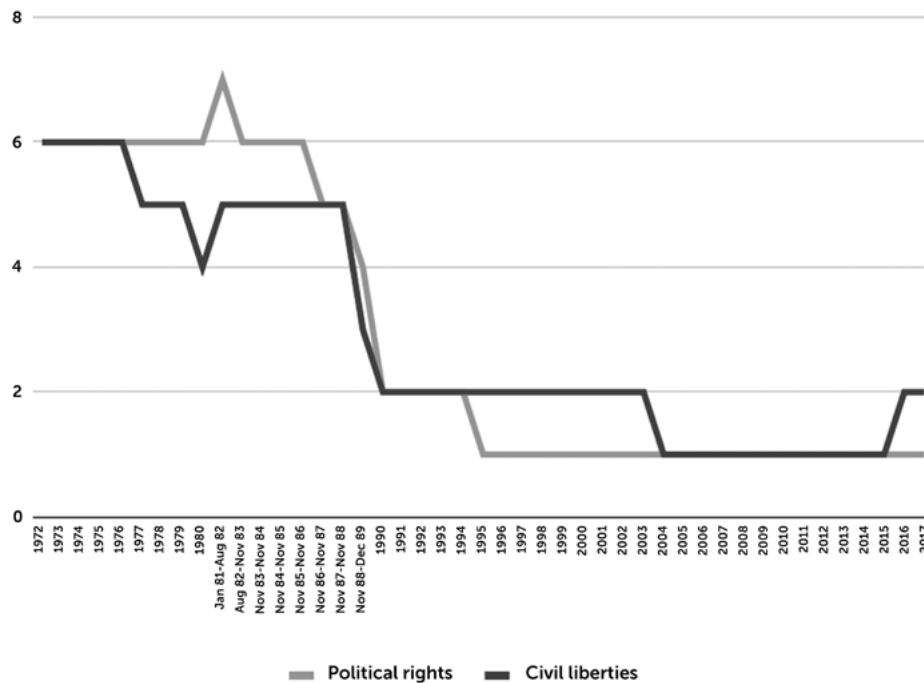
“
UNDER SOCIALISM,
ESPECIALLY
IN THE 1980s,
THE POLLUTION
IN MANY PARTS
OF POLAND
POSED A THREAT
TO THE LIVES
AND HEALTH
OF THE INHABITANTS

FOR decided to become more active in the field of education about transformation. After an analysis of almost all Polish history textbooks for the secondary schools, we learnt that they either ignore the transformation completely, or present a much manipulated and excessively critical picture of this period.

This is why in June 2019, FOR opened "Museum 1989" – a virtual museum of the transformation²². In various "rooms" of this online museum, visitors may learn about the gloomy days of the 1980s and the elections of June 4, 1989, which led to the successful Polish transformation – the event that had a significant contribution to the fall of the Berlin Wall and the collapse of the Soviet Union. In September and December 2019, new rooms of the virtual museum connected with the first non-communist government in Poland of Tadeusz Mazowiecki and the

²² <https://muzeum1989.pl/>

Figure 6: Political Rights and Civil Liberties in Poland in 1972-2017 [1 – highest level; 7 – lowest]



Source: World Bank Open Data. Available [online]: <https://data.worldbank.org/>

“Balcerowicz Plan” – a foundation of Polish economic transition – will be opened. Noteworthy, the main target group of the “Museum 1989” is young people, in hopes that nostalgia towards the socialist past is not re-born in the new generations of voters.

What is an interesting paradox is that nostalgia towards socialism can generate... profits. In various cities in Poland, one can find museums of the Polish People's Republic (many of them are private initiatives), join a guided tour around socialist relics, or have a ride in one of the achievements of the pre-1989 automobile sector. Although some of these activities remind us about hardships of this period, they are also fun for locals and foreigners. Moreover, you can find shops with souvenirs and gadgets connected with

the history and everyday life in the Polish People's Republic – even some brands, popular under socialism, have their second life nowadays.

There is, of course, nothing wrong in providing goods and services to people willing to voluntarily exchange money for them. In 2019, it might be fun to pay for a little experience with real socialism, but let us not forget that it was precisely the transformation that enabled to run all these nostalgia-based businesses. At the same time, it is necessary to raise awareness that the life of Poles is better under constitutional democracy with a free market economy, thanks to the economic success after the transition and all interrelated aspects of progress.

”

LET US NOT FORGET THAT IT WAS PRECISELY THE TRANSFORMATION THAT ENABLED TO RUN ALL THESE NOSTALGIA-BASED BUSINESSES

PREACH THE GOOD NEWS

Why does spreading information about positive economic and socio-political aspects of the transformation in Poland and elsewhere matter? Steven Pinker noticed that “indiscriminate pessimism can lead to fatalism: to wondering why we should throw time and money at a hopeless cause. And it can lead to radicalism: to calls to smash the machine, drain the swamp or empower a charismatic tyrant”²³. We can observe these types of behaviors in Poland.

I am convinced that strong pessimism about progress after 1989 and inaccuracies about Polish achievements, so clear especially from a comparative perspective, create a fertile ground for authoritarian populists and other radical demagogues. Therefore, when we hear again and again about the “social costs” of the transformation or – what was told by the Law and Justice party's

leaders before 2015 elections – “Poland in ruins”, we should respond with facts (in an attractive way, as facts still require true and emotional narratives).

In 1989, Poland finally broke the ceiling, and through enabling people to utilize their individual freedom we have been improving our lives as the full member of the club of progress. Higher life expectancy, much better access to consumer goods, a better natural environment, and various political rights and civil liberties have all been conducive to improving the lives of Polish citizens.

Nevertheless, in many areas we still observe a substantial gap between Poland and the more prosperous West. We should not allow nostalgia towards socialism, ignorance towards facts about Poland's successes, and bad policies restricting various forms of individual freedom to restrain or halt progress when we finally live in the times when we can reap the full benefits of the world of ideas, entrepreneurship, technology, trade, and globalization.



*

MAREK TATAŁA

Vice-President and Economist at the Civil Development Forum (FOR), a think tank from Poland founded by Professor Leszek Balcerowicz. Graduate of the University of Bristol, Warsaw School of Economics and Atlas Leadership Academy. His research interests include law and economics, rule of law, justice system reforms, populism and economic freedom

²³ <https://www.wsj.com/articles/the-enlightenment-is-working-1518191343>

Bulgaria on the Path towards Elected Autocracy: How Far Have We Gone?



*
ADRIAN
NIKOLOV

During the transition towards liberal democracy and a market economy, some countries from the former Eastern Bloc managed to successfully mimic the model that had already been proven to be successful in the West – a multiparty democratic system, combined with mostly free market capitalism.

Some, however, were less successful – especially in the democracy department – and several decades later ended up with a form of a *façade* democracy, which in reality conceals a type of oligarchic rule that shares little of the characteristics of a genuine liberal democracy.

Political science has dubbed this concept *electoral authoritarianism*, and it is present to a degree in a number of post-Soviet countries. A quite telling thing of its presence is the de-ideologization of real politics, while maintaining an outside stance – usually a populist and nationalist one – accompanied by the consolidation of the party system and marginalization of the opposition. Such a phenomenon occurred also in Bulgaria, which is why it is worth examining the development of the Bulgarian party system and government ideological lean through the lens of the concept of electoral authoritarianism and tracing how far towards the establishment of this model of government Bulgaria has gone in the past three decades.

ELECTORAL AUTHORITARIANISM: WHAT IS THAT?

Before we proceed to the specifics of the Bulgarian case, it is necessary to define the concept of electoral authoritarianism, as it is the starting point of this evaluation of the development of electoral politics in the country. A very popular definition comes from Bogaards (2009), whose work focuses particularly on the transformation of the countries from the third wave of

”
ELECTORAL
AUTHORITARIANISM,
IS PRESENT
TO A DEGREE
IN A NUMBER
OF POST-SOVIET
COUNTRIES

democratization into hybrid regimes, and the failure of some of them to develop fully functional democratic institutions¹. While those types of definitions often also include assessments on the quality of markets and economic competition in the studied countries, here we focus primarily on the political side of the matter.

Contrary to the cold-war clear-cut distinction between democracies and dictatorial regimes, Bogaards points out that in the wave of transition after the 1990s, many countries now exist in a “gray area” between the two. These typically have *façade* democratic institutions modelled after the fully functional Western democracies, particularly when it comes to holding elections, but in practice have entrenched political elites that capture all the institutions and political power that are pitted against puppet opposition as well as compromised civil liberties.

Moreover, Bogaards points out that there are quite a few terms coined for this type

¹ Bogaards, M. (2009) “How to Classify Hybrid Regimes? Defective Democracy and Electoral Authoritarianism”, [in]: *Democratization*, Vol. 16(2), pp. 399-423.

of regime – “semi-authoritarianism”, “illiberal democracy”, “liberalized autocracy” to name just a few, each with its own specifics and differences. In short, he provides a spectrum, from functioning democracy to full-blown totalitarianism, with electoral authoritarianism in the middle of it.

Bogaard's two-pronged approach to the definition of the concept also points to the primary indicators to be taken into consideration when identifying the regime – the freedom of elections, political participation, civil rights, horizontal accountability, and effective government. Apart from that, he emphasizes that the concept of *electoral authoritarianism* focuses chiefly on the role of the electoral process. Here, however, let us use a less strict definition, borrowing somewhat from the broader concept of *defective democracy*.

The need to go beyond the electoral process and study institutions in a broader sense in order to properly classify regimes is also stressed by Snyder (2006)². He views regime classification not as clearly defined groups, but as a spectrum. In his view, it is possible to have competitive democracy from the legal perspective, combined with captured institutions and lack of real opposition.

Meanwhile, Howard and Roessler (2006) offer a more traditional approach to the matter, focusing on the electoral process itself, and the presence of true pluralism and the rule of law in truly democratic regimes, with electoral authoritarianism retaining the electoral process, but lacking those two features³. They stress the importance

² Snyder, R. (2006) “Beyond Electoral Authoritarianism: The Spectrum of Nondemocratic Regimes”, [in]: *Electoral Authoritarianism: The Dynamics of Unfree Competition*, pp. 219-231.

³ Howard, M. M., & Roessler, P. G. (2006) “Liberalizing Electoral Outcomes in Competitive Authoritarian Regimes”, [in]: *American Journal of Political Science*, Vol.

”

AMONG THE THIRD WAVE OF DEMOCRATIZATION COUNTRIES, RUSSIA IS OFTEN POINTED TO AS AN EXAMPLE OF WORKING ELECTORAL AUTHORITARIANISM

of opposition and their ability to leverage elections as an instrument and overall liberalization. Howard and Roessler's findings, however, are more relevant to slowly democratizing authoritarian regimes than to former full democracies declining towards electoral authoritarianism.

This brings us to the cases of electoral authoritarianism in the former Eastern Bloc. Among the third wave of democratization countries, Russia is often pointed to as an example of working electoral authoritarianism. Gel'man (2013) enumerates all the characteristics that rank it among those regimes: widespread abuses of power, full control of the media by the ruling elite, marginalized and weak opposition, and almost complete capture of the institutions by the ruling party.⁴ To this we may add electoral

50(2), pp. 365-381.

⁴ Gel'man, V. (2013) “Cracks in the Wall: Challenges to Electoral Authoritarianism in Russia”, [in]: *Problems of*

fraud and active targeting and suppression of the opposition, from the more recent years. While Gel'man stresses that the country is far from a completely captured authoritarian state, it still appears that true liberalization of political life and genuine competition are far off.

The phenomenon is also present among the countries which managed to become members of the European Union (EU) – most notably Hungary, as demonstrated by Ágh (2015), among others⁵. The scholar clearly demonstrates how the ruling elite infiltrated the institutions, changed key “rules of the game”, and marginalized the opposition. An important note on the role of the EU institutions in constraining the expansion and full capture of the Hungarian state by the currently present hybrid regime, however, is made by Bozóki and Hegedűs (2018)⁶. According to them, the EU has a dual role in this case, as it also serves as a source for external legitimacy for the regime. Parallels with Hungary will thus be quite common as it is the country with the closest conditions to Bulgaria, both historical and present, internally and relative to the EU.

TOWARDS DE-IDEOLOGIZATION: DEVELOPMENT OF THE BULGARIAN PARTY SYSTEM

In any study of the *de facto* (as opposed to *de jure*) nature of a democratic political system, it is necessary to pay very close attention to the development of the party system, its chief ideological cleavages, and the makeup and ideological lean of the governments. The reason for this is that, more

Post-Communism, Vol. 60(2), pp. 3-10.

⁵ Ágh, A. (2015) “De-Europeanization and De-Democratization Trends in ECE: From the Potemkin Democracy to the Elected Autocracy in Hungary”, [in]: *Journal of Comparative Politics*, Vol. 8(2), pp. 4-26

⁶ Bozóki, A., & Hegedűs, D. (2018) “An Externally Constrained Hybrid Regime: Hungary in the European Union”, [in]: *Democratization*, Vol. 25(7), pp. 1173-1189.

often than not, truly democratic country's party systems include ideologically diverse parties, which are actually divided along the lines of ideological differences, while authoritarian ones (especially in more economically developed countries) only provide an ideological *façade*, while the dividing lines between the parties are focused on obtaining and maintaining political power – especially for currently ruling parties.

As is typical for the post-socialist space, the traditional cleavage for the Bulgarian party system is the socialism versus liberal democracy divide. The past three decades have brought about the deterioration of this cleavage, and while its dampening over time is quite typical for post-socialist systems, it has not been replaced by some of the other cleavages characteristic of mature democratic systems – such as urban versus rural or working versus capitalist class, as exemplified by Whitefield (2002) in relation to the post-socialist space⁷. Therefore, the current party system is shaped primarily by power distribution and struggles, not by ideological clashes.

The most value-driven parliaments in modern Bulgarian history were the two at the beginning and end of the 1990s. The first one marked the most intensive debates on the formation of the new political and economic systems of the country, while the second confirmed the geopolitical path towards the country's integration in the Western world, through its accession in the EU and NATO.

One could argue that the 1995 government, led by the former communist party, is also quite ideologically-driven as many of its policies were attempts to restore the features of the planned economy of the previ-

⁷ Whitefield, S. (2002) “Political Cleavages and Post-Communist Politics”, [in]: *Annual Review of Political Science*, Vol. 5(1), pp. 181-200.

“ THE TRADITIONAL CLEAVAGE FOR THE BULGARIAN PARTY SYSTEM IS THE SOCIALISM VERSUS LIBERAL DEMOCRACY DIVIDE

ous regime (resulting in the worst economic crisis in the contemporary history of the country). From this point onward, ideological concerns gave way to more “practical” ones.

THE UDF AND ITS SUCCESSOR PARTIES

Fundamentally, the right-wing alliance of the Union of Democratic Forces (UDF) was built as an opposition to the communist party – not as a monolithic political entity, but rather as a loose alliance of small organizations united as an opposition to the previous socialist regime⁸. Its founding organizations come from the entire political spectrum – from labor unions and greens, through agrarian parties and social democratic organizations, all the way to conservative politicians and business circles. Its only uniting principle was the opposition of the previous regime and the successor party of the Bulgarian communist party, which

changed names to the Bulgarian Socialist Party (BSP) at the beginning of the transition, but retained many of its members. Additionally, some key leaders insisted on the retention of a largely state-run economy, albeit combined with a competitive electoral democracy.

This heterogeneity is in a large part the reason why the union did not last very long in its original form, and did not manage to retain many of its original member organizations. A major breakup came as early as the discussion of the new, post-communist constitution of the country.

Soon after, the first free National Assembly election saw four separate anti-communist parties, former members of the UDF competing. One of them, considered to be the successor of the original anti-communism movement called UDF, managed to win the elections and steer the first few years of liberal democracy towards the establishment of free market institutions, land restitution, and privatization of the vast state property. On the international scene the country's lean is evident in its accession to the Council of Europe, demonstrating its intent to join the family of Western democratic countries.

The party had its most important time during the third parliament, when it formed a government led by its most emblematic leader, Ivan Kostov. His government was tasked with fixing the major economic and social damage done by the Videnov government in the 1995-1997 period, and confirming the European and Atlantic orientation of the country.

This was also the time the UDF managed to solidify its party structure, if only for a short while. The key measure during this government was the introduction of currency boards, pegging the Bulgarian lev first to the German mark, then to the euro, aiming to

control rampant inflation and stabilize the economy, and continuing privatization. At the same time, the country formally joined NATO and worked on fulfilling its conditions for joining the EU.

After losing the 2001 elections, the UDF movement – in an attempt to unite – split into several factions, all positioned center-right on the Bulgarian political spectrum, with none of them ever holding a dominant position over the landscape. Some of them did join ruling coalitions during the following two decades, but were never influential

“ UDF, MANAGED TO WIN THE ELECTIONS AND STEER THE FIRST FEW YEARS OF LIBERAL DEMOCRACY TOWARDS THE ESTABLISHMENT OF FREE MARKET INSTITUTIONS, LAND RESTITUTION, AND PRIVATIZATION OF THE VAST STATE PROPERTY

enough to significantly impact important policies.

THE BULGARIAN SOCIALIST PARTY

The longest-surviving political party in Bulgarian history is the direct successor of the communist party, and for a significant part of its post-socialist history it has maintained political inertia, slowing down the transition – and, in some cases, even reversing the liberalization policies. This was especially true for the 1990s, when the country's orientation and international stance was being decided, and its economic model was under development becoming less prominent after the country became and a EU member.

The most telling period for the original ideological lean of the BSP is the 1995-1997 Videnov government, which, in practice, halted the entire transition of the country for two years, and even reversed some of the previous progress. Officially, the reversal was marketed as socially-oriented market economics, but instead proved to be an attempt to return to central planning by introducing price controls on more than half of the goods sold, while heavily subsidizing state-run industries – even though those operated at heavy losses. Meanwhile, privatization was basically halted, and as a result of these policies, inflation ran rampant, savings were destroyed, the country hit a record in terms of most costly banking crisis in transition countries (of about 42% of GDP)⁹, and the winter of 1996-1997 is remembered for its lack of basic goods, including food.

However, the leanings towards planned economy were fairly short-lived. The Stanishev government in the late 2000s is remembered for its introduction of a flat, 10% corporate and income tax, and it was

⁸ The section on the history of the party system is based on the seminal work on Bulgarian parties, Karasimenov (2006) and newer editions, as well as data from the Manifesto project on the party's ideological leans. See: Karasimenov, G. (2006). *The Bulgarian Party System*, Gorrex Press.

⁹ Tang, H., Zoli, E., and I. Klytchnikova (2000) “Banking Crises in Transition Countries: Fiscal Costs and Related Issues”, [in]: *World Bank Working Paper* 2484.

then that the accession to the EU was finalized. Even more importantly, the traditional stance of left-wing parties to favor workers' rights and fight for increased social spending and redistribution was mostly relegated to the large trade unions. Where some ideological traces remain, it is in the party's international lean and its preference towards maintaining good relations with Russia and its favor to large Russian infrastructure projects, particularly in the energy sector.

It must be noted, however, that lately the socialist BSP party has been facing decreasing electoral support and significant internal tension, which has resulted in its ongoing marginalization. While this process is by no means finished or irreversible, it appears more and more likely that the BSP will be a less important factor in Bulgarian politics in the coming years.

ASSORTED NATIONALISTS

An array of smaller nationalist parties has been a mainstay in Bulgarian politics in the past two decades, usually playing the role of a junior coalition partner to one of the primary political forces, or as a minor member of the opposition. Two of them are particularly notable – the Inner Macedonian Revolutionary Organization (IMRO) and Ataka (Attack), mostly due to their resilience. The former has played a role in the anti-communist coalition, and has overall presented more moderate nationalist policies, while the latter came to prominence at the beginning of the 21st century, on the back of more radical nationalism and opposition to Bulgaria's EU membership.

In the past decade, these forces have been riding the nationalist wave that has risen throughout Europe. However, at the same time, ideologically they have converged more toward the political center. As far as the stance of the nationalists is concerned, much like their European counterparts, it is

”

GERB HAS RUN BULGARIA FOR THE PAST DECADE, MINUS A YEARLONG HIATUS WHEN THE SOCIALISTS TOOK POWER

based on Euro-skepticism and a strong emphasis on national interest combined with populist positions on minority rights. Also notable are their close relations and lean towards Russia and the Putin regime, widely considered to be the archetype of the electoral authoritarianism government type. This is particularly true for Ataka, which is the patron of many pro-Russian organizations and benefits heavily from the pro-Russian vote.

GERB – THE POPULIST CATCH-ALL

GERB has run Bulgaria for the past decade, minus a yearlong hiatus when the socialists took power, but were ousted by sweeping protests, which lasted for the better part of a year. The party is centered on its leader, a former Sofia mayor and chief internal affairs secretary, Boyko Borisov, and owes most of its success to his charisma and popularity. Apart from him, no one member of the party appears to be a mainstay, and so far it has failed to produce other significant political figures, especially ones that stay in politics long-term.

It is very hard to pin down the ideology driving GERB. While the party is nominally a part of the conservative family in the European parliament, the only constant in its policies is the pro-EU position. In the past few years, the Borisov government has relied heavily on the EU as a source of legitimacy. It has also used anti-Communist rhetoric, but this comes only when convenient and is used as a tool for confrontation with chief opposition.

Apart from this, GERB can only be defined as a populist party; its policies are hardly based on any inherent values, but rather reactions to changes in the current political conditions. These vary from holding back energy prices as a tool for reducing social pressure, to committing to no tax raises for an entire period in government. Notable are the party's many changes to the Electoral Code, the conditions of which change constantly in order to adapt to the current political landscape and maximize election results.

Additionally, in the past few years, GERB has attempted to foster an image of a “true” conservative party, chiefly by supporting (both officially and unofficially) conservative circles and organizations, which in turn provide legitimizing positions and arguments to government policies.

SOME OTHER PLAYERS

It is impossible to consider the development of the Bulgarian party system without mentioning its most resilient member – the Movement for Rights and Freedoms (MRF), which has taken part in every single parliament since the beginning of the transition. While formally recognized as a liberal party, in practice, the MRF represents the interest of the Turkish minority, and has always relied on the electoral support of compact Turkish (and some Roma) communities.

The party has played the role of a junior coalition partner in a number of governments, and has proven to be quite an effective opposition in blocking government initiatives when put in that position. Apart from GERB, it is the one constant factor in Bulgarian politics that appears unlikely to diminish in importance in the coming years, as its popularity among its tight electoral base remains virtually unchallenged.

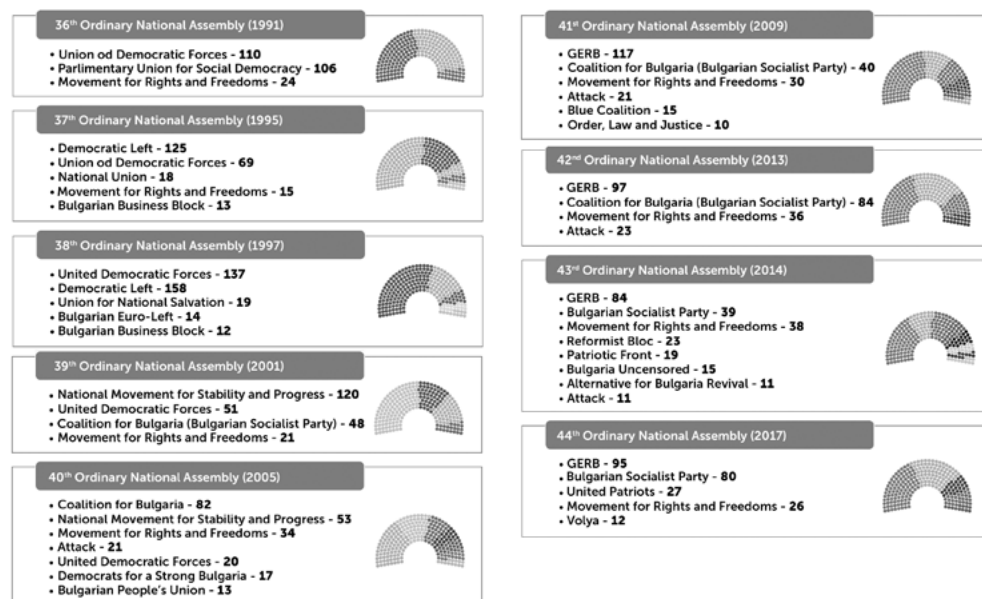
The role that the party of the last Bulgarian king's heir Simeon II played is also noteworthy. It was instrumental for the removal from power of the UDF, and, while relying on a populist platform, attempted to govern in a pronounced technocratic fashion. This was, however, short-lived, as this approach was not appropriate for the time period. Nevertheless, it was later adopted by GERB, which largely applies the same policy towards appointing officials and members of the administration.

A more modern phenomenon is the intermittent appearance on the political scene of small parties, which attempt to mimic Boyko Borisov's populist rhetoric and behavior, most often led by businessmen or media personalities. Although none of them has so far managed to emulate his unparalleled success, the fact that such “clones” exist is a testament to the attractiveness of such an approach.

CHANGES IN POPULAR SUPPORT, PARLIAMENT, AND GOVERNMENT MAKEUP

The dynamics of government and parliament makeup and the electoral support for the parties in Bulgaria are undoubtedly worth analyzing. As may be seen quite clearly in Figure 1, it would be pretty difficult to claim that party diversity has changed significantly over the 30-year period. If anything, today there are more parties in the Bulgarian parliament compared to the 1990s. This

Figure 1: Parliament composition and government makeup (1990-2019)



Source: Central Electoral Committee data, IME calculations

being said, the parties in the lead are far less ideology-driven than the ones from the first few democratic governments.

The distribution, however, must also to be put into the context of the popular support for those parties. While the makeup of government and opposition usually ends up similar, Figure 2 presents the vastly different popular support shared as obtained on legislative elections by those parties.

The “nationalists” group takes together several formations. Newer data on the UDF group together its significant successor parties.

This figure provides more context to the dynamics of the support and position in the party system of the various parties, especially when it comes to the success of GERB. Here, it becomes quite clear that the

very high levels of support that the party has maintained over the past decade have been almost unparalleled.

At the same time, although both the BSP and the UDF have enjoyed higher levels of popular support in the 1990s, their rivalry never allowed one of the parties to stay on top for long. This is, of course, partially a result of the significant drop in turnout – from 84% to 54% in the last election in 2017 – allowing a lower number of votes being converted into more support. The long undisputed support for GERB, however, does indicate a significant decrease in the competitiveness of Bulgarian elections.

CHECKING THE CONDITIONS – HOW FAR HAVE WE GONE?

Bulgaria’s party system started the transition as a quite diverse and ideology-driven one, but has more recently become rather

consolidated, akin to those of some other post-socialist countries, particularly Hungary. At this point, it is worthwhile to return to the conditions that define the concept of electoral authoritarianism, as it is clear that ten years of rule of Mr. Borisov and his party have set the country down this path. The key conditions that allow classifying the country among the hybrid regimes include:

1) Free and fair elections – while in the past years there have been numerous changes to electoral rules (and even more proposals for radical changes such as introducing a completely majoritarian system), the electoral process has remained largely unchanged.

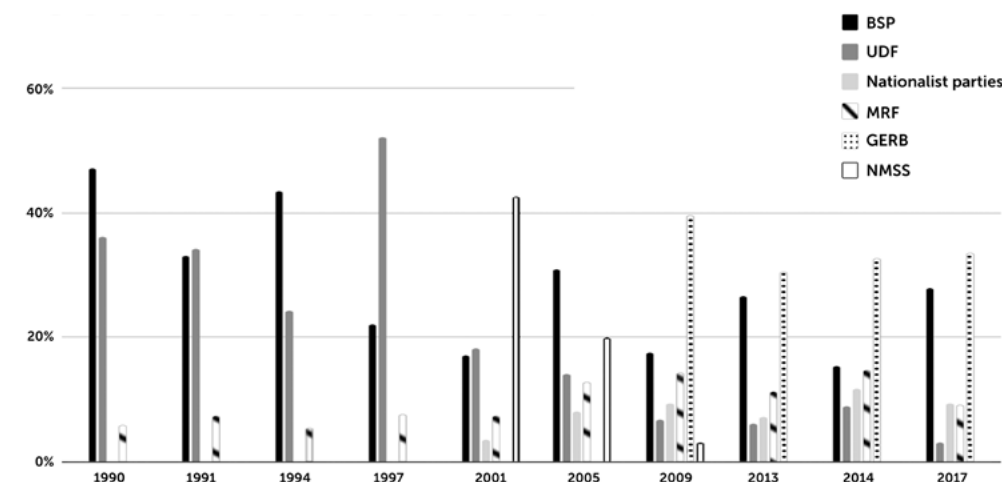
Usually, amendments to the Electoral Code become a full-flagged struggle between all the parties in parliament, and much of them get reversed in quite a short order. Vote purchasing remains a significant problem, however, but as it does not benefit one party or the other specifically, it can hardly be claimed that it is used as a tool for ensuring

the continued rule of the dominant party. Even if it desires it, GERB has not been able to amend election rules to such an extent that it would be clearly favored in the electoral process (i.e. the Hungarian reform adding bonus seats to the largest party).

2) Media freedom – the state of media freedom in Bulgaria has lately been deteriorating significantly, as can be seen in the development of the country’s score in the RSF’s *World Press Freedom Index*.

Particularly worrying is the trend towards consolidation of media (online, paper, and television) in the hands of groups with ties to various political parties. While the largest media conglomerate is tied to the MRF, lately GERB has also been expanding its influence in the media space, particularly in television. Some disconcerting tendencies might also be seen in the persecution of investigative journalists and trials of journalists from opposition media.

Figure 2: Change in popular support over time for the largest parties and groups (1990-2017, % of the vote at legislative elections)



Source: Central Electoral Committee data, IME calculations

“ THE INDEPENDENCE OF THE JUDICIARY, MOSTLY DUE TO THE UNCONTROLLED PROSECUTOR CHIEF’S ROLE (ENSHRINED IN THE CONSTITUTION), IS AMONG THE WEAKEST POINTS OF THE BULGARIAN SYSTEM OF GOVERNANCE

3) State of opposition – among the more worrying factors is the state of the opposition, particularly that of the BSP. Its continued loss of support and internal conflicts mean that GERB is left without its most significant and credible political rival. At the same time, the MRF has demonstrated that if its economic interests and electoral control are not disputed, it would prefer not to present significant opposition.

It is also notable that in the past years smaller parties (the nationalist ones, and the GERB-clones) have flocked around the government party, and support most of its initiatives. The

only credible and vocal opposition, uniting the remains of the original anti-communist coalition and groups of civil activists gathered around the fight against government corruption, has fringe support and at best doubtful ability to influence the political process, even if it makes it to the parliament after the next legislature elections.

4) Rule of law – there have been numerous voices putting the rule of law in Bulgaria into question, including reports from the European Commission. Overall, the independence of the judiciary, mostly due to the uncontrolled Prosecutor Chief’s role (enshrined in the constitution), is among the weakest points of the Bulgarian system of governance, and there are reports on cases of state capture with prosecutors, law enforcement officer, and even some key judges.

This phenomenon goes hand in hand with rampant corruption, and there has hardly been much improvement in this regard in the past decade – on the contrary, observers point to deterioration, which can be exemplified by the Freedom House downgrading the country to a *semi-consolidated democracy* last year.

5) Freedom of expression and civil rights – among the indicators taken into consideration, this is the one where Bulgaria performs best. There is little resistance against civil society, and no active persecution for criticism of state policy (of course, this would, in general, be rare in a European country). However, while there are no active attempts to suppress civil society, its influence on political decision-making is also quite limited.

This list can be continued with such matters as personal freedoms and government efficiency and effectiveness. The above, however, appear to be sufficient to demonstrate the conditions of government created

by a decade of (almost) continuous rule of GERB – while there is some evidence for centralization and merger of party and government in authoritarian style, those developments have not gone as far as in some other former post-socialist states.

CONCLUSIONS

It is not inconceivable to consider a future for Bulgaria in which the country slides down the path towards electoral authoritarianism, or a similar form of imperfect democracy. This appears to be an ever-present threat in many post-communist countries, and some of them have already wandered too far down this road.

Considering the Bulgarian case, however, only the first symptoms are present – the political system appears to have become devoid of ideology, and in the past decade, there has been a clear domination of a single political party, which has managed to entrench itself in a number of institutions.

The real danger today is that opposition parties become more and more marginalized, with no party left or right of the center political party to oppose the control of GERB should the party attempt to legislate its way into complete control and establish a true

façade democracy, concealing an autocratic regime of the party’s leader, with Russian-style dependence of the judiciary. Thus, the viability of the opposition is key. This can come as a return of the socialists to their former stability, or as a consolidation of the opposition parties on the right. At the same time, the country can benefit greatly from heavier involvement of civil society in the policy-making process, as an additional balance against the expansion of government and party power.

“ THE REAL DANGER TODAY IS THAT OPPOSITION PARTIES BECOME MORE AND MORE MARGINALIZED



*

ADRIAN
NIKOLOV

Researcher at the Institute for Market Economics in Sofia, Bulgaria, focusing primarily on the economics of education, inequality and poverty. He holds an MA in Democracy and Governance from the University of Tartu, Estonia

There Will Be a Liberal East-Central Europe Again!



*
GÁBOR
HORN

After the collapse of the Soviet Union, there was a distinct need for the achievements of liberalism. The parties that embraced the rights, freedoms, and the values of a market economy enjoyed more significant voter support, while the non-liberal parties viewed some liberalized basic values as self-evident.

Living in Prague, Berlin or Budapest in 1989 was liberating and intoxicating. Neither my generation, nor the one before us believed that the Soviet soldiers would leave the country and that the communist nightmare would come to an end. Just like for Budapest, called at that time the "Happiest Barrack" in the Soviet Bloc, the same disbelief was felt in Honecker's DDR or Ceausescu's Romania, a country suffering from even greater atrocities than the rest of the region. In all these states, even if to different degrees, communism made freedom and the hope of a western life impossible.

On the one hand, the popularity of basic liberal values in the post-communist states is related to the fact that most countries of the region actually had liberal opposition (except the Polish movements, which had a rather complex identity) so the voters also viewed them as the strongest anti-communist forces.

On the other hand, there was an unwavering consensus about basic liberal values – except the extremist parties, as well as regards the fact that belonging to the European Union is gratifying and valuable with all its opportunities and obligations.

All of this ended with the worldwide economic crisis in 2008, in the aftermath of which the popularity of far-right parties rose and certain central-European conservative parties radicalized. Although in different national parliaments and – to a lesser

degree – in Brussels, illiberal politics have a scenic appeal, social-psychological researches prove that in moral questions central-European citizens decide based on liberal values. Without question, among the young population, the desire of freedom is the guiding principle.

At the end of the 1980s, the unbearability of the communist system became clear in every country of the Eastern Block. The helpless indulgence of the Soviet Union strengthened this phenomenon – for example, in certain countries (Czechoslovakia, Hungary, East Germany, Poland), the Soviet soldiers were strictly prohibited to intervene. A few years earlier, this would have been unimaginable. The sudden freedom was unexpected to those who did not live among active oppositionists or those who were proficient in international politics. The accelerating disintegration of state socialism was smooth to varying degrees in different countries.

In Poland, in the summer of 1988, Lech Wałęsa, the founder of Solidarity, was invited

”
IN DIFFERENT
NATIONAL
PARLIAMENTS AND –
TO A LESSER DEGREE
– IN BRUSSELS,
ILLIBERAL POLITICS
HAVE A SCENIC
APPEAL

“
IN BULGARIA,
CZECHOSLOVAKIA,
HUNGARY,
AND THE GERMAN
DEMOCRATIC
REPUBLIC,
THE ONE-PARTY
SYSTEM DEGRADED
GRADUALLY,
AND MORE OR LESS
WITHOUT VIOLENCE

to negotiate with the communist leaders, which was followed by the inauguration of the first anti-communist prime ministership of Tadeusz Mazowiecki in the spring of 1989. While this process was not free of political or street conflict, it showed conspicuous differences compared to the 1970s.

At the same time, in Romania, dictator Nicolae Ceaușescu won yet another election and continued on his path of the exploitation of police forces – including the arrest of László Tőkés, a Hungarian ethnic dissident pastor. The communist regime tried to deaden the rebellion (which started in Timisoara) at first to obey Mr. Ceaușescu's commands. Then, on the sixth day of the demonstration, the police forces stopped following orders after the suicide of the defense minister, Vasile Milea. Eventually, Nicolae Ceaușescu and his wife were executed.

In Bulgaria, Czechoslovakia, Hungary, and the German Democratic Republic, the one-party system degraded gradually, and more or less without violence. While the formation of a new political system needed many closed-door negotiations, the general public remembers the change of the regime as a symbolic event, which embodied the desire of freedom.

Irrespective of how the liberal parties performed in the first democratic elections in respective countries of the post-Soviet bloc, the fall of the Berlin Wall, the reburial of Imre Nagy and other martyrs, or the Velvet Revolution meant an unimaginable liberation from the oppression or national terror. So, regardless of who voted for which party, the freedom – which the previously mentioned events stood for – was one of the most important and inalienable basic values for the whole region. In Hungary, for instance, most of the society greeted the change of a regime with euphoria, which showed in the – still unprecedented – civil and political activity. Numerous civil organizations and trade unions were formed. Many people joined the newfound democratic parties. The appealing status of political presence showed in the high numbers of voter turnout throughout the region.

Those who had earlier been important figures of the opposition became the leaders of the new political systems. In 1989 in Czechoslovakia, Václav Havel, who was formerly banned from writing in his own country, was elected president. In 1990, in Poland, so was Lech Wałęsa. That same year in Hungary, Árpád Göncz, the hero of the 1956 revolution, also took the helm as the head of state.

During the first free elections in all former Soviet states, liberal parties were very popular. In Hungary, two parties (SZDSZ, Alliance of Free Democrats and Fidesz, Alliance of

Young Democrats) obtained seats in parliament, while in Czechoslovakia liberals had the majority in both regions of the country (Civic Forum in Czechia and Public Against Violence in Slovakia). In the once eastern-German provinces, the conservative-liberal parties won without exception. In Poland, in the Lower House of parliament (Sejm), liberal-Christian-democratic and social-democratic parties received the most votes, while Solidarity became the second most powerful force in the Senate.

With the transition from communism, the liberal world and its attachments became a part of everyday life for the citizens of the former Eastern Bloc. The basic rights, freedom of speech and assembly, all parts of the democratic life became undeniable. Private property – apart from the obvious financial value – gained an intellectual meaning. Entrepreneurs' success in the market was now driven solely by their talent and endurance. Finally, trust in capitalism emerged, creating chiefly positive connotations in the minds of most of Eastern European society. In the 1990s, far-right parties reappeared – only now they identified their main enemy as globalism instead of communism. The normative liberal forces – reflecting on the political turn of the last ten years – did not give the most effective answer to the appearance of emotional and economical anti-Westernism, anti-Semitism, and xenophobia. Although parties with a far-right agenda entered parliament, they were not a significant force. Wanting to catch up with the West, the newly formed national governments were working hard to get the countries of the Eastern Block to join NATO and the European Union (EU) as soon as possible, which happened soon thereafter. In addition to economic recovery and new opportunities for all post-Soviet states and their citizens, these developments further strengthened the fundamental importance of freedom among public opinion.

“
WITH
THE TRANSITION
FROM COMMUNISM,
THE LIBERAL WORLD
AND ITS ATTACHMENTS
BECAME A PART
OF EVERYDAY LIFE
FOR THE CITIZENS
OF THE FORMER
EASTERN BLOC

At the time of accession, the EU enjoyed widespread popularity in Central European societies. The majority supported these attempts even in those countries where political parties regarded as problematic from the Brussels' perspective were the most successful.

However, recently, the spread of illiberalism, a phenomenon frequently discussed in relation to Hungary, may now be observed in other countries (including Poland).

DISRUPTING THE LIBERAL CONSENSUS

The Great Recession in 2008 wrecked Hungary's economy, which – among other reasons – caused the socialist-liberal coalition government to lose the trust of the people¹. The referendum of 2008, which

¹ Nevertheless, the 2008 financial crisis cannot be compared to the loss in human capital and economic prosperity caused by the communist regimes in the region.

had become a keystone of the then government's downfall, proved that in regards to certain questions, people were reluctant to approve of reforms and a capitalist attitude, and instead required the assistance and intervention of a strong state².

Those who lost the most in the crisis became severely vulnerable, which greatly contributed to the 2010 success of the Fidesz party and its moderate, catch-all promises, along with the far-right Jobbik party with its anti-bank rhetoric.

Meanwhile, one of the most important Hungarian parties of the regime change of 1989-90 – the Alliance of Free Democrats – had lost its political weight and was dissolved. The aforementioned 2010 election brought about the crisis of liberalism in Hungary. Noteworthy, it was not only because of its winner – the populist Fidesz party, but also because it was symptomatic – the media wrote about the voters of green parties and LMP (which is a globalization- and EU-critical party) as the orphans of voters of the Alliance of Free Democrats. This diagnosis was a rather good reflection of the liberal voters' options at the time.

In the campaigns of the right-wing parties, banks or the International Monetary Fund were made to represent the real fight for people's hearts and minds.. To Fidesz (Alliance of Young Democrats), Jobbik (For a Better Hungary), and part of their voters, the banks, the EU, and the international funds were deemed as the institutionalization of liberal views and their financial collapse.

² According to a 2010 Pew Research Study, in 2010, 72% of Hungarians said that the country was worse off economically as under Communism. See: Wike, R. (2010) *Hungary Dissatisfied with Democracy but Not Its Ideals*. Available [online]: <https://www.pewresearch.org/global/2010/04/07/hungary-dissatisfied-with-democracy-but-not-its-ideals/>

”

WITHOUT REALIZING
IT OR REFLECTING
IT IN THEIR
VOTES, MOST
HUNGARIANS ENJOY
THE ACHIEVEMENTS
OF THE FREE
WORLD

The second Fidesz-government had a very popular slogan: "The last eight years", which was not only a generalized condensation, but also the onset of the politics revolving around attacking the banking sector and international institutions, like the IMF. These kinds of attacks became more forthright and frequent as Viktor Orbán's government moved toward a more manifest nationalism during and after the 2015 refugee crisis. One of the most infamous ones was the government's poster-campaign against George Soros and Brussels.

Later, the Fidesz party further disrupted liberalism and the authority of the West in the eyes of Hungarian citizens. Meanwhile, through its economic relations, the government got the idea of opening the country and thus started emphasizing the importance of a friendly relationship with Russia. With the so-called 'Eastern Opening' the government tried to expand Hungary's economic opportunities, but at the same time relativized Western values and liberal civic liberties.

Since 2010, the continuously changing political system under the rule of Prime Minister Viktor Orbán and his acolytes has less and less liberal elements. While during the second election term of the Fidesz-government the familiar, moderate, conservative figures still played significant roles, they gradually disappeared from the political scene. In 2014, Viktor Orbán himself described his regime as 'illiberal'. However, many people in the European People's Party are still, even today, reluctant to recognize the real nature of Mr. Orbán's system.

According to Viktor Orbán himself, the main reason behind the conflict is the different attitudes towards immigrants and refugees. The successful fight against immigration in the 2014 election shows that Hungarian society has no need for a liberal approach toward certain human rights issues.

At the same time, it is spectacular that, if the concept is not conscious – not only as regards moral issues, but also in day-to-day politics – the majority of voters represent a liberal standpoint, regardless of party sympathies, as evidenced by the response to the idea of the internet tax and the closure of shops on Sundays³.

Without realizing it or reflecting it in their votes, most Hungarians enjoy the achievements of the free world – from the sacredness of privacy, to the variety of goods in the shops. Due to the fact that they do not want to give up the rights they fought to gain thirty years ago, we can trust in the recovery of liberalism⁴.

³ The 2014 Internet tax proposal triggered massive protests in Budapest. As a result, the government withdrew the proposal. Apart from this, the socialist party initiated a referendum against the mandatory closure of shops on Sundays – the government revoked that plan as well.

⁴ The results of the 2019 European Parliamentary elections confirm this phenomenon, as the left-liberal Democratic Coalition and the liberal Momentum Movement parties became the major forces of the opposition

According to János Kis, a former leader of the democratic opposition and an influential contemporary philosopher:

*"In a democracy based on the competition of parties, the party that casts the majority in the elections will become the government; the minority will be the opposition of the government. Although the opposition doesn't have a part in governing, it can hold the government accountable. They are the public power factor that can force the government to defend its decisions in public debate; they can push the government to a certain degree of self-restraint. But whether or not to withhold unprotected decisions, they can make it easier for voters to make informed decisions in the next elections"*⁵.

We cannot see anything from this system today – on the national and local level, the government's overt power is not constrained by democratic competition described above. Just like it was not granted in the three decades after 1956, during the dictatorship of János Kádár, when there were also sham elections. The Hungarian system is increasingly moving towards a 'state capitalist' model, where the power of state market distortion rivals the socialist era.

FAILED POPULIST REVOLUTION AND LIBERAL CHALLENGERS OF ILLIBERALISM

This temporary disillusionment could be an important learning period for those who undertake the task of making freedom a political asset. The liberal Momentum party, well represented in the 2019 European Parliament election, devotes great energy to building a nation-wide base, trying to outperform the Alliance of Free Democrats,

– instead of the nationalist, far-right Jobbik (For a Better Hungary), or the anti-capitalist, anti-globalist LMP (Another Politics is Possible).

⁵ Kis, J. (2013) "Gondolatok a demokráciáról", [in]: *Élet és Irodalom*, Vol. 57(19), p. 5. [in Hungarian]

”

THE HUNGARIAN SYSTEM IS INCREASINGLY MOVING TOWARDS A 'STATE CAPITALIST' MODEL, WHERE THE POWER OF STATE MARKET DISTORTION RIVALS THE SOCIALIST ERA

whose voters – after 2002 – have been mainly residents of Budapest. The party's promising presence (which was founded by intellectuals who studied in the west) shows that for university students and young workers, freedom, the European Union, and Western values are still unquestionable.

While the Austrian, Italian, and Polish allies of Viktor Orbán still had electoral support in the last elections, the year of the rebellion did not fully come true in 2017, nor since then. Following the French and Austrian presidential elections and Dutch parliamentary elections, the 2019 European Parliament elections also demonstrated the failure of a right-wing populist takeover. Whereas in Hungary, Fidesz achieved great success, in Poland, the main opposition party, Civil Platform (which is somewhat critical of PM Orbán) defeated the ruling Law and Justice party, which was becoming more and more extremist. The failed populist electoral rebellion, as well as the ongoing migration in

the EU, the Western values, and experiences of the Hungarian voters, give hope to the liberal advocates of Hungary.

All in all, we can trust – and that is what we need to work towards – that the European community, which has been protecting its members for more than seven decades since the Second World War, has made human rights declared and preserved. Despite the unnecessary administrative regulations, the European Union also let the market live and has an appeal to citizens who lost their freedom. These dissatisfied people can herd their country to a self-correcting path as soon as they have an opportunity and a liberal European institutional framework is granted.

With the loss of liberalism, Hungary has wasted some valuable time that is yet to come. It will take years of hard work to rebuild a stable liberal democracy again. Nevertheless, as Western values and individual freedoms are still respected by major societal groups in Hungary, it is my unshakable faith that it is going to happen.



*

GÁBOR
HORN

Chairman of the Board at Republikon Foundation since 2010. At the time of the regime change, he was a prominent figure of the union movements. After that he joined the SZDSZ (the Alliance of Free Democrats) and became an MP in 1994 and the campaign director of the party. Between 2002 and 2008 he worked as under-secretary for coordination in the Hungarian Prime Minister's office as well. For 10 years, he was teaching economics and finance and then took part in the founding of the Economic Polytechnic Foundation School, where he worked as director of the curriculum until 2002



The Last 30 Years in a Historic Perspective



*
KRASSEN
STANCHEV

These years are already forgotten: hardly any political activist or commentator of current economic and political affairs takes into account the enormous advance of the 2004-2007 members of the EU in terms of prosperity, way of life, and political and economic liberties. This volume compensates for this lack of historic memory. But why is it important to realize and remember the significance of the last thirty years in the CEE region? There are several reasons.

WHAT WE DO NOT TALK ABOUT

A year ago, while working on a short commentary on the Warsaw Pact invasion of Czechoslovakia¹, I was surprised to learn that many young people in former Warsaw Pact nations – including every fourth² young Czech and Slovak – have little to no idea what caused it and what the lessons were of that Czechoslovak summer invasion. This was the largest military deployment in the history of post-war Europe, and was recognized as a crime by international law. It was also the beginning of a new tradition, in a sense, which was cultivated by means of the 1956 crackdown of the Hungarian Revolution, or armed suppression of the 1953 Berlin strikes and riots.

The invasion was a technical “success” of the Soviet army, which held the command of over 80% of the troops. The real victor, however, was the generation of the 1960s, which dismantled central planning and the one-party dictatorial regimes in Europe – in short, dismissed the Warsaw Pact itself.

¹ Stanchev, K. (2019) “Prague Summer: The Invasion of Czechoslovakia in a Historical Detail”, [in]: *Public Policy*, Vol. 10(2), March. Available [online]: <http://ejpp.eu/index.php/ejpp/article/viewFile/311/312>

² Kenety, B. (2018) “Poll Shows Most Czech Know Little about Their Country’s Modern History”, [in]: *Radio Praha*, July 26. Available [online]: <https://www.radio.cz/en/section/cultura/poll-shows-most-czechs-know-little-about-their-countrys-modern-history>

”
IN ORDER
TO UNDERSTAND
THE REGIMES
OF 1944-1989, ONE
SHOULD ALSO TAKE
INTO ACCOUNT
THAT THEY WERE
ESTABLISHED
EVERYWHERE
AGAINST THE WILL
OF THE PEOPLE

I am proud to be a representative of a generation of individuals who contributed to the effort.

The articles in the 11th issue of *4liberty.eu Review* often deal with the challenges encountered by the new generation of “new Europe” societies. Challenges habitually imposed by the politicians of the last fifteen years.

In order to understand the regimes of 1944-1989, one should also take into account that they were established everywhere against the will of the people. As Anne Applebaum has demonstrated³, a foreign power appointed the regime apparatchiks (most often functionaries of the

³ See: Applebaum, A. (2012) *Iron Curtain: The Crushing of Eastern Europe, 1944-1956*, New York: Knopf Doubleday Publishing Group, pp. 43-63.

“ AT THE ADVENT OF THE OCTOBER REVOLUTION IN 1917 RUSSIA, PRACTICALLY ALL INDUSTRIAL WORKERS WENT ON STRIKE AGAINST THE BOLSHEVIK RULE

Communist International in Moscow, Joseph Stalin's henchmen), dismantled and moved to the USSR virtually all functioning industrial facilities (even from invaded countries like Poland and Czechoslovakia), and installed KGB advisers to eradicate the rule of law, civic and religious liberties, counting dissidents and their relatives as enemies of the state.

Against all this oppression, people not only rebelled, but also rose to oppose the Soviet-style reforms with arms. One of the longest lasting movements of this kind was the Bulgarian Goryani Movement (from the Bulgarian word "goryani", meaning "forest dwellers" or "forest men"). Similarly, in other countries in the region, there were the anti-Communist partisans: the Ukrainian Insurgent Army (defeated in 1956), the "Forest Brothers" in the Baltic states (extinguished in the early 1960s), the Romanian Resistance Groups of Haiduks (or

Highwaymen, as people called them in appreciation of their heroic deeds; eventually crushed in 1962), the Polish "Cursed Soldiers" (who organized at least nine guerrilla-warfare divisions, the last of which was destroyed as late as 1963), the anti-Soviet revolution in Hungary (October 1956), the partisan movements of Croatia (known as "Crusaders"), Serbian "Chetniks" or "Četnici", the Albanian National Front (a nationalist, anti-communist, and republican organization), the Moldovan resistance of Soviet occupation of Bessarabia and Bukovina, and resistance movements in Belarus and Slovenia (which were all defeated by the end of the 1940s and the early 1950s).

Such resistance was nothing new – at the advent of the October Revolution in 1917 Russia, practically all industrial workers went on strike against the Bolshevik rule, and in the next four-five years historians counted about 5,000 peasants' rebellions⁴.

REFORMERS AND THE WIND OF CHANGE

The imposition of the communist regime and the associated loss of human life led to unprecedented destruction of wealth and prosperity. On the eve of the World War II, today's Visegrad countries (V4) were richer or on par with Austria. Not to speak about Germany – we in Bulgaria still have a saying "as miserable as a German", a remnant of the 1920-1930s, when Germans immigrated to Bulgaria in search of jobs and a better life (the country was developing fast, and was twice as rich as Greece). In 1989, all the V4 countries, Romania, and the Baltic states were at least three times poorer than their European neighbors (in terms of real GDP per capita).

⁴ See: Figes, O. (1996) *A People's Tragedy: The Russian Revolution: 1891-1924*, New York: Penguin, p. 627.

The 1989 revolutions were first of all anti-totalitarian. The reforms were a restoration of pre-communist ways of public governance, a "Return-to-Normality". A term "New Europe" was coined, a misnomer referring to the post-Soviet countries. After all, these states had always been *European*, and so the launch of the 1989 reforms was supposed to simply bring them back home.

The constitution-making processes of the early 1990s in virtually all formerly communist countries confirms that this was a common strategy adopted by all political leaders of the period – from Vaclav Havel in Czechoslovakia to Zhelyo Zhelev in Bulgaria. Recent analytical recounts of the 1980-1990s, the newly opened archives, and contemporary reading of Mr. Havel, Georgy Markov, Josif Brodsky, Milan Kundera, Toams Veclova, Alexander Solzhenizyn, Paul Goma, and a plead of Polish

“ THE IMPOSITION OF THE COMMUNIST REGIME AND THE ASSOCIATED LOSS OF HUMAN LIFE LED TO UNPRECEDENTED DESTRUCTION OF WEALTH AND PROSPERITY

“ IN 1989, ALL THE V4 COUNTRIES, ROMANIA, AND THE BALTIC STATES WERE AT LEAST THREE TIMES POORER THAN THEIR EUROPEAN NEIGHBORS

and Hungarian artists, writers and movie makers confirm that public anticipation of *normality* was one of the key driving discontents with the former regime⁵.

In response to this expectation, the reformist politicians of the 1968 generation provided for a political pluralism and competition between parties and ideas, a state power friendly to market and private property, a prevailing role private property and enterprise in the economy, a market coordination and buyers' market, hard budget constraints and temporary shortages, unemployment, typical business (not political) cycles. I repeat here Jonos Kornai's⁶ list

⁵ This too was nothing new. Recently, Icelandic economist Hannes H. Gissurarson published a thought-provoking account on the matter. See: Gissurarson (2018) *Voices of the Victims: Notes towards a Historiography of Anti-Communist Literature*.

⁶ Kornai, J. (2000) "What the Change of System from Socialism to Capitalism Does and Does Not Mean", [in]: *The Journal of Economic Perspectives*, Vol. 14(1), Winter, pp. 27-42.

of reforms, but he, in fact, repeats Ludwig von Mises' critique of socialism that dates back to 1922.

THE SUCCESS

The success of what has been achieved has been clearly visible [See: Figure 1]. First, the post-Soviet countries had never been performing better in terms of economic well-being. Second, in the first years of the reforms, the newly introduced changes paid for the central planning, whereas the state-owned sectors were producing nothing but losses. As a result, in the early 1990s, the average GDP per capita of state-owned enterprises decreased to about 30% below the world average. By contrast, now, they are much more prosperous.

Third, even though all formerly communist states are still not as rich as the United States or Western Europe, the picture is changing – slowly but surely.

Currently, the political reformers of 1968 have stepped aside, replaced by others who promise quick fixes of everything. Nevertheless, the normality and the achievements ought to be presented to the voters as an unsatisfactory state of affairs. At least, this is the hypothesis. The authors of this volume provided their own explanations.



*

KRASSEN
STANCHEV

Professor in Public Choice and Macroeconomic Analysis of Politics at Sofia University in Bulgaria. A board chairman, founder, and former executive director of IME, Bulgaria's first independent, free-market think tank

MEMBERS OF 4LIBERTY.EU NETWORK

Free Market Foundation (Hungary) is a think tank dedicated to promoting classical liberal values and ideas. The organization's projects focus on advocating a free market economy and fighting racism. The Foundation's activities involve education, activism, and academic research alike, thus reaching out to different people.

Liberální Institut (Prague, Czech Republic) is a non-governmental, non-partisan, non-profit think tank for the development, dissemination, and application of classical liberal ideas and programs based on the principles of classical liberalism. It focuses on three types of activities: education, research, and publication.

The Lithuanian Free Market Institute (Vilnius, Lithuania) is a private, non-profit organization established in 1990 to promote the ideas of individual freedom and responsibility, free markets, and limited government. The LFMI's team conducts research on key economic issues, develops conceptual reform packages, drafts and evaluates legislative proposals, and aids government institutions by advising how to better implement the principles of free markets in Lithuania.

The F. A. Hayek Foundation (Bratislava, Slovakia) is an independent and non-political, non-profit organization, founded in 1991, by a group of market-oriented Slovak economists. The core mission of the F. A. Hayek Foundation is to establish a tradition of market-oriented thinking in Slovakia – an approach that had not existed before the 1990s in our region.

IME (Sofia, Bulgaria) is the first and oldest independent economic policy think tank in Bulgaria. Its mission is to elaborate and advocate market-based solutions to challenges faced by Bulgarians and the region face in reforms. This mission has been pursued since early 1993 when the institute was formally registered a non-profit legal entity.

The Academy of Liberalism (Tallinn, Estonia) was established in the late 1990s. Its aim is to promote a liberal world view to oppose the emergence of socialist ideas in society.

INESS (Bratislava, Slovakia), the Institute of Economic and Social Studies, began its activities in January 2006. As an independent think tank, INESS monitors the functioning and financing of the public sector, evaluates the effects of legislative changes on the economy and society, and comments on current economic and social issues.

Projekt: Polska (Warsaw, Poland) comprises people who dream of a modern, open, and liberal Poland. It is those to whom a democratic, effective, and citizen-friendly government is a key goal, and who help accomplish this goal while enjoying themselves, forming new friendships, and furthering their own interests.

Liberales Institut (Potsdam, Germany) is the think tank of the Friedrich Naumann Foundation for Freedom dedicated to political issues such as how liberalism can respond to challenges of the contemporary world and how liberal ideas can contribute to shaping the future.

Fundacja Liberté! (Lodz, Poland) is a think tank created in Łódź in 2007. Its mission is to promote an open society, liberal economic ideas, and liberal culture, and to organize a social movement around these ideas. Among the foundation's most recognizable projects are: Liberté!, Freedom Games, 6. District. The foundation is coordinating the 4liberty.eu project on behalf of Friedrich Naumann Foundation.

Republikon Institute (Budapest, Hungary) is a liberal think tank organization based in Budapest that focuses on analyzing Hungarian and international politics, formulating policy recommendations, and initiating projects that contribute to a more open, democratic, and free society.

Civil Development Forum (FOR) (Warsaw, Poland) was founded in March 2007 in Warsaw by Professor Leszek Balcerowicz as a non-profit organization. Its aim is to participate in public debate on economic issues, present reliable ideas, and promote active behavior. FOR's research activity focuses on four areas: less fiscalism and more employment, more market competition, stronger rule of law, and the impact of EU regulations on the economic growth in Poland. FOR presents its findings in the forms of reports, policy briefs, and educational papers. Other projects and activities of FOR include, among others, Public Debt Clock, social campaigns, public debates, lectures, and spring and autumn economic schools.

Visio Institut (Ljubljana, Slovenia) is an independent public policy think tank in Slovenia. Aiming for an open, free, fair, and developed Slovenia, the Visio Institut is publishing an array of publications, while Visio scholars regularly appear in media and at public events.

COOPERATING PARTNERS FROM EASTERN PARTNERSHIP COUNTRIES

The Institute for Economic Research and Policy Consulting (Kiev, Ukraine) is a well-known Ukrainian independent think tank, focusing on economic research and policy consulting. IER was founded in October 1999 by top-ranking Ukrainian politicians and scientists, and a German advisory group on economic reforms in Ukraine, which has been a part of Germany's TRANSFORM program. Its mission is to provide an alternative position on key problems of social and economic development of Ukraine.

Svetilnik (Ljubljana, Slovenia) is a non-profit, non-governmental, and non-political association. Its mission is to enlighten Slovenia with ideas of freedom. The goal of the association is a society where individuals are free to pursue their own interests and are responsible for their actions.

New Economic School – Georgia (Tbilisi, Georgia) is a free market think tank, non-profit organization, and NGO. Its main mission is to educate young people in free market ideas. It organizes seminars, workshops, and conferences for education and exchanges of ideas. NESG was founded by Georgian individuals to fill the knowledge gap about the market economy in the country and the lack of good teachers and economics textbooks.

TOMASZ KASPROWICZ

30 YEARS OF FREEDOM IN CEE: VARIOUS PATHS AND DESTINATIONS

PAGE 004

After the fall of the Communism, the newly formed states declared to be democracies. Still, we need to remember that the USSR also considered itself a form of democracy, so this term is quite ambiguous. The Central European countries, along with the Baltic States, became liberal democracies, at least for the time being.

IRYNA FEDETS

30 YEARS LATER: WILL SOVIET LEGACY STILL SHAPE UKRAINE'S FUTURE?

PAGE 034

Considering the checkered transformation progress so far, it is unlikely that Ukraine will reach a significant breakthrough if it keeps current administrative barriers in place and does not make more active efforts to fight corruption. Without serious steps towards economic freedom, transparency, and competitiveness, Ukraine's economy will continue to serve vested interests.

MÁTÉ HAJBA

ORGANIZATION OF THE MAGYAR STATE: HUNGARY IN THE PAST 30 YEARS

PAGE 056

In a firmly democratic country, where civic institutions stand strong and watch over the authorities, where media hold people accountable, where checks and balances ensure the rule of law, and where people are tolerant and supportive of these democratic institutions, Viktor Orbán could not have, and would not have been able to do what he is now doing in Hungary.

ROMAN MÁČA

"GOOD OLD TIMES": FAKE NEWS MACHINE IN THE CZECH REPUBLIC

PAGE 084

There are still people unsatisfied with the path of development of their countries after the dissolution of the Eastern Bloc, and mostly have become a target of domestic and foreign authoritarian and extremist forces who employ fake news and manipulation. Even though these forces consider themselves patriotic, they are often affiliated with the Kremlin.

MAREK TATAŁA

IT'S NOT ONLY THE ECONOMY, STUPID: PROGRESS IN POLAND AFTER SOCIALISM

PAGE 114

The economic success of Poland since 1989 is indisputable. Nevertheless, defenders of Poland's success story may sometimes hear that they focus too much on economic advances, prosperity, and GDP growth instead of thinking about the actual lives of "average people" and the "social costs" of Poland's transformation.

GÁBOR HORN

THERE WILL BE A LIBERAL EAST-CENTRAL EUROPE AGAIN!

PAGE 140

With the transition from communism, the liberal world and its attachments became a part of everyday life for the citizens of the former Eastern Bloc. The basic rights, freedom of speech and assembly, all parts of the democratic life became undeniable. Private property – apart from the obvious financial value – gained an intellectual meaning.