

Anatomy of Illiberal Capitalism

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BUDAPEST – Populists such as US President Donald Trump and *de facto* Polish leader Jarosław Kaczyński, and authoritarians such as Turkish President Recep Tayyip Erdoğan and Russian President Vladimir Putin, do not just share Hungarian Prime Minister Viktor Orbán’s brand of so-called “illiberal democracy.” Each also espouses a form of “illiberal capitalism.”

But what does illiberal capitalism entail, and how compatible is it with illiberal democracy? For starters, as nationalists, Trump, Kaczyński, Erdoğan, Putin, and Orbán regard the market economy not as a means of boosting dynamism, efficiency, prosperity, and individual freedom, but mainly as an instrument for strengthening state power.

Historically, there have been various schools of authoritarian right-wing thought about the relationship between the market and the state. At one extreme, the Nazis established a command economy while maintaining private property and a high level of income inequality. At the other extreme, early twentieth-century social Darwinists in Europe and the United States called for unfettered domestic free markets in which only the “fittest” would survive, leading to a stronger country.

Today, Russia sits at one end of the illiberal-capitalist spectrum. Putin views the collapse of the Soviet Union as largely an economic failure, and he recognizes that private property and the market can make the Russian economy more resilient in the face of Western sanctions. But he also believes that private-property rights come second to the needs of the Russian “security state,” which means that ownership is always conditional.

As befits a former KGB officer, Putin also believes that the Russian state has “ultimate ownership rights” to its citizens’ private assets not just in Russia, but also abroad. Russian oligarchs and companies operating internationally – such as those that have interacted with The Trump Organization – are thus potential instruments of Russian foreign policy.

Hitler famously quipped that while the Bolsheviks had nationalized the means of production, the Nazis had gone further by nationalizing the people themselves. This is similar to – albeit more “total” than – Putin’s own understanding of the relationship between capitalists and the state, according to which even the richest Russian oligarch is essentially a serf of the state.

Under Russia’s highly concentrated ownership structure, the Kremlin’s control of wealth is synonymous with political control. Rather than trying to control millions of bourgeoisie, the state can deploy secret police to manage just a few dozen oligarchs.

Trump is at the other end of today’s illiberal-capitalist spectrum: no less comfortable than Putin with deep income inequalities, but not as inclined to use the state to favor particular businesspeople (other than himself). As a result, his administration has been using executive orders to roll back many of the regulations that former US President Barack Obama introduced.

Still, there are exceptions to Trump’s support for free-market policies. He is in favor of protectionism and cheap money, presumably because these positions play well with his core political constituency – white working-class voters.

If Trump goes down the protectionist road, however, US trade partners will retaliate, often with measures targeted directly at his base, as when the European Union recently threatened tariffs against Kentucky bourbon. Given that threat, Trump’s economic populism will most likely manifest itself through abstinence – avoiding pro-market measures that clearly hurt the white working class.

In Turkey, Erdoğan came to power in 2003 as the champion of devoutly Muslim Anatolian entrepreneurs. Opposing the traditional statism of Turkey’s Kemalist ruling elites, Erdoğan introduced pro-market reforms and feigned a commitment to the EU-accession process by supporting Turkish democratic institutions.

Having achieved his political aims, Erdoğan is now dispensing with his commitment to democracy. But it remains to be seen if he will do the same with market capitalism. Even when he first came to power, Erdoğan’s support for free markets never stopped him from denouncing imaginary economic conspiracies. But if he tries to usher in a return to statism, Turkey’s rising entrepreneurial class may well turn on him.

In Hungary, Orbán’s approach to capitalism has been more complex. Although he is often called a “populist” in the West, his approach combines social Darwinism and nationalism. On the one hand, he has introduced a flat income tax that favors the wealthy and a child tax credit that benefits only higher-income households; on the other hand, like Putin, he maintains a coterie of “friendly” oligarchs who help shore up his power, not least by controlling the Hungarian media.

Kaczyński is the most economically populist of the illiberal capitalists. He started out as a social Darwinist, once introducing a child tax credit that would later inspire

Orbán. But since his Law and Justice Party (PiS) returned to power in 2015, Kaczyński's flagship policy has been monthly cash payments of €115 (\$138) to Polish families for each child after the first.

Moreover, Kaczyński has pushed for raising the minimum pension – rather than all pensions – and for lowering the retirement age, which plays well among rural, lower-income voters, even if it renders the pension system less sustainable. When it comes to trade, Kaczyński's government loudly protests protectionism directed against Poland's interests, as in the case of changes to the regime for delegated workers proposed by French President Emmanuel Macron.

Today's examples of illiberal capitalism range from toleration of extreme inequality to favoring heavy redistribution, and from overweening statism to broad deregulation of markets. Beyond a shared inclination toward protectionism, they do not seem to have much in common. But far more important than each government's economic policies is its *political* orientation.

It is no coincidence that all five leaders discussed here have attacked the independence of their country's judiciary. To be sure, Putin's and Erdoğan's crackdowns have been far more effective than Trump's tweets or PiS's stalled attempt at judicial reform this summer. But in each case, independent judges are viewed as rival power holders.

When politics comes first, there is a temptation to bend the law toward one's own ends. But without the rule of law, businesses lose confidence that contracts and private-property rights will be enforced or independently arbitrated, and the economy cannot sustain strong long-term growth. That is why illiberal democrats who place politics first will ultimately undermine the prosperity and strength of their countries, and thus their own legitimacy.



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