

# The Long Road from Neoliberalism to Neopopulism in ECE: The Social Paradox of Neopopulism and Decline of the Left

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**Abstract.** We live in a “post-neoliberal world”, as it has been discussed in the mainstream literature, but the vital link between neoliberalism and neopopulism has been rarely discussed. Nowadays in international political science it is very fashionable to criticise the long neoliberal period of the last decades, still its effect on the rise of neopopulism has not yet been properly elaborated. To dig deeper into social background of neopopulism, this paper describes the system of neoliberalism in its three major social subsystems, in the socio-economic, legal-political and cultural-civilizational fields. The historical context situates the dominant period of neoliberalism between the 1970s in the Old World Order (OWO) and in the 2010s in the New World Order (NWO). In general, neoliberalism’s cumulative effects of increasing inequality has produced the current global wave of neopopulism that will be analysed in this paper in its ECE regional version. The neopopulist social paradox is that not only the privileged strata, but also the poorest part of ECE’s societies supports the hard populist elites. Due to the general desecuritization in ECE, the poor have become state dependent for social security, yet paradoxically they vote for their oppressors, widening the social base of this competitive authoritarianism. Thus, the twins of neoliberalism and neopopulism, in their close connections—the main topic of this paper—have produced a “cultural backlash” in ECE along with identity politics, which is high on the political agenda.

**Key words:** New World Order, nature of neoliberalism, post-neoliberal world, desecuritization and nativist identity politics

*„There is no such thing as society”*

(Margaret Thatcher, 31 October 1987)

*TINA – There is no alternative*

(The famous dictum of Margaret Thatcher)

*Introduction: the conceptual framework and periodization of neoliberalism*

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## Introduction: the conceptual framework and periodization of neoliberalism

In the international literature, there have been more and more warnings that nowadays all challenges to democracy are being called populist, therefore the conceptual clarity of populism is fading away. To avoid conceptual stretching, I have insisted in my former papers on the major differences among its regional varieties and I have concentrated on the ECE/NMS regional variety of populism. The situation has been even worse in the case of neoliberalism, since in a huge amount of the literature there have been many—at least partly—contradicting approaches. Many analysts have declared that it is an “amorphous” subject, or a “slippery” or “shifting” concept (Rodrik, 2017), lacking any clear definition. Although the term is too large and too vague, since it has embraced a large variety of social processes and sectors, at the same time it properly systematized the common features of the societal structure (O’Neill and Weller, 2016, pp.84,88). In fact, despite the whirling of many definitions and approaches, the core of neoliberalism is clear: the minimal state and maximal market. With due simplification, neoliberalism can be defined as a special kind of social system, popular discourse, and approach of social sciences based on market fundamentalism.<sup>1</sup>

Neoliberalism has developed into a comprehensive social system, since it has embraced and transformed all social subsystems according to its internal logic. Therefore, in this paper, I focus on the neoliberal world in three—socio-economic, legal-political, and cultural-civilizational—dimensions, resulting, as a reaction of losers, in the emergence of neopopulism. First, this paper investigates the general features of neoliberalism in its three dimensions and two historical stages—before and after the global crisis—in the global world based on recent international literature. Second, it describes a special type of ECE neoliberalism in its first wave, generating the “populism from below” or soft populism provoked by increasing inequality with social polarization and marginalization in ECE. Third, it analyses the second wave of neoliberalism in ECE producing the “populism from above” or hard populism resulting from the missing crisis resilience of ECE countries and the evident failure of the catching-up process in the 2010s. This hard populism developed a cultural and nativist profile, in which identity politics gains an upper hand, and can be discussed as a counter-ideology against the neoliberalism.<sup>2</sup>

Neoliberalism has been often mistaken for and identified with classical liberalism— and vice versa—though they are very different as a result of a long divergence process. This long process has been carefully studied in many papers, starting from the late nineteenth-century and culminating in the 1930s, when Hayek elaborated the first version of neoliberalism and Friedman completed it (Nik-Khah and Van Horn, 2016). This early version may be called “neo-liberalism” to indicate the difference between this “prehistory” and its mature version introduced in the 1970s. While neo-liberalism only means a set of theoretical approaches, the neoliberalism succeeding

<sup>1</sup> Most analysts agree on this common substance of neoliberalism, see first of all the most comprehensive overview of neoliberalism, the Routledge *Handbook of Neoliberalism*, (Springer et al, 2016), (See also Cahill et al, 2018). Centeno and Cohen (2012) have used the term “the arc of neoliberalism” to express this comprehensive character and common substance of neoliberalism in various social sectors.

<sup>2</sup> This paper continues my former analysis of neopopulism (Ágh, 2016, 2017a,b and 2018) in two directions, first by pointing out the reasons for the eruption of neopopulism in ECE, and second, by widening its analysis in the field of cultural or identity politics, in both respects, in the ECE case. While there is a vast amount of literature on populism, the critical analysis of neoliberalism has been less elaborated in the international political science, therefore this paper tries to contribute to its presentation.

the period of the welfare state has basically transformed Western societies. Moreover, the main tenet of liberalism is that social sectors have their own internal logic in their interactions; thus Polanyi emphasizes: liberalism has assisted at the elaboration of social science disciplines in their autonomy or according to their inherent logic in the economy, political science and sociology. Stiglitz (2001) has pointed out their interrelatedness, “Polanyi saw the market as part of broader economy, and the broader economy as part of a still broader society.” Neoliberalism, in turn, considers, by monopolizing the market logic, that the economic science is the only real social science, the “natural science” among all social sciences, since market acts “like the force of nature”. Therefore, it denies the autonomy of other social sciences; they are only derivatives of the logic of the market economy. Similarly, although liberalism introduced and later developed several “generations” of human rights, neoliberalism is based on the strict version of “homo oeconomicus”, the isolated individual with rational choice.<sup>3</sup>

In Western societies the last decades of the twentieth-century were a period of “neoliberal hegemony” (Plehwe, 2016). It began in the 1970s with “a sharp line of social, political and intellectual discontinuity . . . so that we can think of the last quarter of the 20<sup>th</sup> century as a new historical realm” as Claus Offe (2018, p.74) notes. Western Europe went through unprecedented economic growth in three decades after WWII—a period usually called the “thirty golden years”—but in the 1970s the resources of the transition to the service economy were exhausted, parallel with the first wave of globalization, hence the oil crisis aggravated that of the welfare state (Temin, 2002; Vaughan-Whitehead, 2010). As a reaction to this crisis, the neoliberal world expanded, in general, it turned into a global system. This transformation of the West was continued and copied in the Western-dominated world, rather brutally in Latin America (Pinochet in Chile, see Baer and Love, 2000 and Grugel and Riggirozzi, 2009).<sup>4</sup>

Neoliberalism changed a lot in these decades, from the rigid structure in the holy trinity of liberalization, deregulation, and privatization formulated in the Washington Consensus in November 1989. It was considered the symbol of US global dominance with its global fiscal institutions like the World Bank and the IMF. The Washington Consensus peaked in the early 1990s, and it was symbolized later, by the annual meetings in Davos. In 1971, the European Management Forum was formed and transformed in 1987 into the World Economic Forum (WEF), which has produced annual reports and organized meetings in Davos involving leading politicians and experts worldwide. Instead of closed and rigid system of Washington Consensus, the WEF or “Davos” period has shown the dynamic and open face of neoliberalism, since it has regularly reformed its conceptual framework and has opened to the communicative space of the international media and scholar-

<sup>3</sup> From the literature on neoliberalism, this paper relies on the work of the following authors: Birch (2015), Birch and Mykhnenko (2010), Bresser-Pereira (2010), Crouch (2017), England and Ward (2016), Gerbaudo (2016), Graefe (2016), Harvey (2005, 2007), Kotz (2015), Leshem (2016), Mitchell and Fazi (2017a,b), Müller (2018), Ostry et al (2016), Steger and Roy (2010), Stein (2008), Vidra (2018) and Whiteside (2016).

<sup>4</sup> Offe has also pointed out that neoliberalism is a typical Anglo-Saxon product, and in the Routledge Handbook, Bob Jessop (2016) has written a chapter about this “heartland” of neoliberalism. The Anglo-Saxon countries have been mostly hit by the global crisis, and the pernicious consequences have appeared first of all in the “white” middle class turning precariate: “In 2008, 53 per cent of Americans self-identified themselves as being middle class, with another 25 per cent associating themselves with the lower middle class category. But by 2014, the former figure dropped to 44 per cent, while the latter rose to 40 per cent.” (Eagleton-Pierce, 2016, p.24).

ship. In 2015 WEF was qualified as a non-profit, non-governmental international organization, and with its Global Competitiveness Reports it has significantly contributed to the detailed analysis of the sustainable development. Paradoxically, it represents both the multipolar neoliberal globalism and the dynamic, crisis-resilient factors going beyond the logic of this neoliberal world. It is not by chance that in the last years the criticism of post-neoliberalism has focused on Davos (see Alemanno, 2018, Báez Mosquera, 2018 and Standing, 2016a,b,c).

These “thirty terrible years” have produced many losers, deep social problems, increasing social inequality that turned out to be the main obstacle of economic development. It has also created widespread populism and Euroscepticism in Western Europe, and world-wide discontent erupted during the global fiscal crisis and its aftermath. Thus, the global fiscal crisis, starting in the late 2000s, introduced the period of “post-neoliberalism”. As a reaction to neoliberalism, in the 2010s, a new form of populism emerged and the stage of neopopulism has begun. In such a way, the periodization of neoliberalism provides the backbone for an explanation of the difference between generations of populism and neopopulism.

### **The nature of neoliberalism in its three social subsystems**

In the seventies, the neoliberal social system appeared step-by-step in West European societies in all the three social subsystems, as a self-reinforcing process between these dimensions. The increasing crisis of neoliberalism in the 2000s and its climax in the 2010s resulted in a Polanyi renaissance—with frequent references to his work (see Hopkin, 2017; Smith, 2017). Since the oeuvre of Karl Polanyi has been the classical counterpoint to the neoliberal approach, describing the relationship between the market economy and the “self-defence of society”. Joseph Stiglitz offers a concise summary of Polanyi’s theory in his foreword to the 2001 edition of *The Great Transformation* (1944), already in the spirit of the strong criticism of the neoliberal ideology following the arguments of Polanyi. Stiglitz emphasizes that Polanyi’s ideas “have not lost their salience”, namely “Among his central theses are the ideas that self-regulating markets never work”. Their deficiencies are big in their internal workings, and even more in their disastrous social consequences, therefore “government intervention becomes necessary”. Altogether, “Polanyi’s analysis makes it clear that popular doctrine of trickle-down economics—that all, including the poor, benefit from growth—have little historical support.” (Stiglitz, 2001, p.VII). Altogether, “Polanyi exposes the *myth* of the free market: there never was a truly free, self-regulating market system.” (Stiglitz, 2001, p.XIII).

In *The Great Transformation*, Polanyi offers a comprehensive analysis of social transformation in the nineteenth- and twentieth-century: “Social history in the nineteenth century was thus the result of a double movement: the extension of the market organization . . . on the other hand the network of measures and policies was integrated into powerful institutions designed to check the action of the market relative to labor, land and money.” (Polanyi, 2001,79). He argues that the emergence of the market economy also generated the “self-defence of society”, as “a movement of self-preservation”. Society created the proper legal-political institutions and all kinds of social and cultural measures to regulate the market and counterbalance its disastrous effect. Polanyi has used very strong statements to express the dangers of the unregulated market: “To allow the

market mechanism to be the sole director of fate of human beings and their natural environment . . . would result in the demolition of society . . . In disposing of a man's labor power the system would, incidentally, dispose of the physical, psychological, and moral entity 'man' attached to that tag. Robbed of the protective covering of cultural institutions, human being would perish from the effects of social exposure" (Polanyi, 2001, 76). It is no wonder that Polanyi has been followed and often quoted during the crisis period of neoliberalism, when – as Stiglitz (2001, p.X) points out, "the myth of self-regulating economy is, today, *virtually*, dead." Moreover, it has turned out that increasing social polarization and decreasing wages for the larger part of society were the main reasons behind the slow economic growth.<sup>5</sup>

Like Polanyi, mainstream post-neoliberal literature characterizes neoliberalism as "economic imperialism". William Davies-Goldsmiths departs from the contrast between liberalism and neoliberalism, and arrives at the market fundamentalism of the latter: "The achievement of nineteenth century liberalism was to produce a sense of economic activity as separate from and external to social and political activity", unlike neoliberalism, since "A defining trait of neoliberalism is that it abandons this liberal conceit of separate economic, social and political spheres, evaluating all three according to a single economic logic . . . the basic assumption that all action is principally economic action is common to all neoliberal styles of theory . . . Within the academy neoliberalism has been characterized by aggressive economic 'imperialism'" (2017, pp.21-22).

Many authors have also argued that although neoliberalism emerged in developed democracies, it still contained authoritarian, antidemocratic tendencies. The mainstream literature on neoliberalism in the 2010s has presented this tendency as an inherent danger for democracy due both to rising authoritarian neoliberalism in the global crisis management and by damaging human and social capital (Peters, 2016). Its political version was often called neoconservatism, and these neoconservative governments undertook the neoliberal economic measures: the drastic reduction of social or welfare systems and the privatization of public services (MacLeavy, 2016, pp.253-254). The victory of the "neoliberal agenda" was accompanied by and combined with radical state interventions, hence "state-directed coercion insulated from democratic pressures is central to the creation and maintenance of this politico-economic order, defending it against impulses toward greater equality and democratization." (Bruff, 2016, p.107). Thus, the principle of the "market alone" was false, since the birth pangs of the neoliberal era were politically managed, and its crisis also came to the surface as an eruption of political anger about deepening social polarization.

By focusing on the internal contradiction of neoliberalism, Jason Hickel (2016, p.142), has even mentioned "the end of democracy" or a "democratic backlash": "A contradiction lies at the very centre of the neoliberal project. On a theoretical level, neoliberalism promises to bring about a purer form of democracy, unsullied by the tyranny of the state . . . But, in practice, it becomes clear that the opposite is true: that neoliberalism tends to *undermine* democracy and political freedom". This line of argument emphasizes that "opposite to the rhetoric of neoliberal

<sup>5</sup> The increasing inequality is well-known from the works of Thomas Piketty (see with Alvaredo, 2018), but it has also been discussed in several chapters of the Handbook (2016) and by Milanovic (2016a,b). The European Parliament (2017) passed a resolution on 16 November 2017 on combating inequalities as a lever to boost job creation and growth.

ideology”, there was a close connection between the victory of neoliberalism and the crisis of representative democracy during those decades: “the history of the past 40 years suggests a different story: namely that the erosion of democracy has been a necessary political precondition for the implementation of neoliberal economic policy. In other words: radical market deregulation has required the dismantling or circumvention of the very democratic mechanism that the neoliberal ideology claims to support and protect.” In this spirit, Hickel has also pointed out that “in the name of freedom”, neoliberalism has, in fact, reduced freedom. The concept of freedom has been narrowed down to the free choice and actions of market players that has appeared at the social level as an elitism based on market success. In general, the basic concept is the amoral principle that market success verifies everything. Summarizing the conflicts between neoliberalism and democracy Travis Holloway (2018, p.6) has concluded that “neoliberalism has quietly and effectively eroded the basic elements of democratic government over the past three decades”.

The main function of neoliberal ideology is hiding the main features of the neoliberal economy, society, and political structure. In this period of neoliberal hegemony the ideological, or cultural-civilizational dimension of neoliberalism, was also fully developed in the spirit of technocratic modernity. In hegemony building, the main feature of the neoliberal ideology is its hidden curriculum. Namely, the advocates of neoliberalism mostly try to avoid using this term, they argue with the technical terms of economic, governmental, and policy efficiency, with various kinds of modernization in separate social fields: “The new way of talking about inequality, poverty and social spending consisted in a shift from normative to *functionalist* categories” (Offe, 2018, p.75). This is the best way for the demobilization of the losers through the desideologization of socio-political and economic perspectives. The interrelatedness of these seemingly separate measures in one tight neoliberal system disappears and the code word for accepting these changes is the technical necessity. In the transition to the neoliberal hegemony, there was a process of constant reference to the idea of good governance, concentrating on the efficiency and effectiveness. It was, again, a double-faced process, on its positive side enhancing indeed the efficiency of governing in the separate cases, but also leading to the ideology of technocracy and meritocracy on the other to cover the systemic effects. The technocratic neoliberal ideology focuses exclusively on output legitimacy, with success in particular fields achieved by neglecting the complex effects on the social and political system (Buti and Pichelmann, 2017).<sup>6</sup>

Accordingly, the economic theory has used the neoliberal term, so has the media, but usually the changes in other social sectors have been introduced under other names by the advocates of neoliberalism. This “neutral” approach is the best protection for the various neoliberal socio-economic measures presented policy wise separately in order to point out, in the spirit of Margaret Thatcher, that “there is no alternative” (TINA), since this suggested step is allegedly a technical necessity. They present the neoliberal measures as technical or scientific, professional, neutral actions, from which there is no way to escape, since supposedly these measures are evident as a common sense. The neoliberal ideology penetrated all social sciences and the entire public opinion

<sup>6</sup> The Gramsci concept of hegemony is fashionable, many authors mention that the dominant period of neoliberalism was achieved in this way (Eaton, 2018), and the counter-strategy should follow this “war of position”, gaining the field step by step.

with a large variety of often competing versions of ideas and theoretical approaches. But first, after the chaotic period of the so-called overwhelming and ineffective state, technocrats proposed neoliberal socio-economic measures as the only rational solution for “the return to normalcy”. The neoliberal elites use foggy language and meaningless jargon of “Davos Man”, so the parallel universes of the “expert reality” as seen by professionals close to the state and big firms and the “everyday reality” seen by the men of the street have been clashing during the last thirty years. The “professionals” have claimed that they should govern the world, since they are experts of everything, which has resulted in the inflation of scientific expertise in the eyes of the average citizens who feel misled and cheated (Metcalf, 2017). The effects of neoliberal ideology have close connections not only to the crisis of “elite professionalism” and the loss of its creditworthiness, but also to the even bigger issue of the contradictions of the digital era with the “professional” mass production of fake news (Brand, 2016; Cupples and Glynn, 2016; Duménil and Lévy, 2016).<sup>7</sup>

Finally, the interrelatedness of socio-economic, legal-political, and ideological-cultural dimensions has been very marked in the case of complexity management and good governance. David Chandler (2014, p.51) describes the transition from government to governance from the simple fact that in modern societies “the object of governance can be understood as shaped through determinate but complex causality”, since the governance process has become much more multifaceted and it can only be understood as complexity management. Neoliberalism offers to this emerging and deepening problem of complexity management only a reductionist answer: “Prices here played a fundamental role revealing or giving access to the plural reality of complex life and also acting as a guide of to future behaviour . . . The market worked here as the *deus ex machina*, resolving the problems of the limits of governmental and individual reasoning and providing indirect access to the reality of complex life”. The reductionist approach, concentrating on the direct effects of the separate individual actions, has led to totally “fragmented governance”. The neoliberal ideology has preached its sentences in the same way, teaching about the effectiveness of separate technical-regulatory measures from the period of extending social complexity until the collapse of the global fiscal system and its aftermath. It has produced the tragedy of the global crisis, therefore, “This approach was subsequently rejected for its reductionist cause and effect understandings and reworked through an increasing attention to general complexity and resilience.” (Chandler, 2014, pp.53-54, 56).<sup>8</sup>

### **The political paradoxes of neoliberal hybrids in ECE**

In general, the nature of neoliberalism discussed above is key for to discovering the internal logic of neopopulism, including its regional variety in ECE. But at the very start there is a basic difference. Namely, in the West the period of neoliberal hegemony followed that of the welfare state

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<sup>7</sup> Marco Buti and Karl Pichelmann (2017) have deeply analysed the issue of loss of credit by the technocratic elites.

<sup>8</sup> The neoliberalism has still been “resilient” to the global crisis to a great extent, since it has survived in many modified forms and even in the austerity measures of the EU member states (Schmidt and Thatcher, 2013 and Schmidt and Thatcher (eds) 2013). The current era of “post-neoliberalism” has been presented as the crisis of crisis management, including the reaction of the EU and member states’ governments because of the application of neoliberal methods in the global crisis management and afterwards like the strong austerity measures.

with well-developed democracies and strong “self-defence of society”, unlike in the ECE countries, which were underdeveloped, weak, and vulnerable at the time of the systemic change, and therefore they were actually defenceless against imported neoliberalism. Originally, in the spirit of Washington consensus, the “advocates of neoliberal doctrines” declared the new “orthodoxy” that the free market would solve all problems in the emerging democracies: “The people of the country had been promised that once market forces were unleashed, the economy would boom”, but actually there have been “disastrous results” for the large part of society (Stiglitz, 2001, p. XII).

In the West, the incoming neoliberalism was built on the foundation of well-developed Western economies, societies, and politics, unlike in the Eastern semi-periphery of the EU with its underdeveloped society, just liberated from the Soviet empire. During the welfare society period, income and consumption levels increased drastically in the West, which meant an extended, enlarged social reproduction, including the “knowledge production” in large layers of society. They became both generally more educated and more “socially minded”—it may be called “citizenization”, i.e. acting more intensively as true citizens. This provided a strong resistance against the pernicious effects of neoliberalism. To the contrary, in ECE, both the knowledge production and citizenization processes were derailed more and more for a large part of population, since polarization mattered in both ways, imported neoliberalism met only weak resistance.

In ECE the two poles of market and society do not fully capture the complexity of these transformations, since the state entered as the chief actor, which managed the transformations, hence we have to characterize the distinctive patterns of transformations across the triangle formed by the state, market and society. In the West, the neoliberal transformation started from below, from economy, and mainly the development of market forces led to social polarization, although some political measures of the governments also influenced the social situation in favour of propertied classes. In ECE, from the very beginning, there has been no “Chinese wall”, no clear and real separation between politics and business, therefore instead of agency capture from below, like in the West, there has been a state capture from above by the politicians, governments, and parties as the main road of transformations. First of all, the winning parties, after the elections, have been using both the methods of conquering the entire state apparatus—by dislocating or destroying the “checks and balances” system—and by colonising the economy and civil society by means of crony capitalism. The ECE neoliberal hybrid can be described through a series of paradoxes—“the strange bedfellows”, “the perverse privatization”, and “the impotence of centralized power”—that demonstrate the deeply controversial character of authoritarian populism.

First, *the paradox of strange bedfellows*: In ECE this transformation started from above, from politics, since the ruling elite introduced those measures that gave the strong state framework to the new neoliberal hybrid. Traditionally, these societies were integrated from above as state organized-managed societies and the systemic change as their “great transformation” has reinforced this pattern of the integration-reorganization of society by the state. The new elite was ambivalent about the market, or simply distrusted the market, but accepted the market economy as a state-managed market. Under the pressure of the foreign firms and their governments, willingly or unwillingly, a wide range of social changes were introduced by the state that can be described as a compromise of interventions from above with those from “below”. It has created the strong state in political life in combination with the preferences of foreign firms in economic

life, as an arrangement between the national-conservative elite and the multinationals. Despite nationalist rhetoric about economic nationalism, the political rulers made a deal with the big multinationals behind the scenes—often even giving them special privileges in taxation—and, in turn, the representatives of big firms tolerated the ECE hard populist elites internationally and, if needed, mobilized support for them in their own home country, basically in Germany and Austria (Book, 2018).

Second, *the paradox of perverse privatization*. Seemingly, this strong state has produced the dominance of “public” or national interest over the “private” sectors, exercised by political rulers who claim to fight for the national sovereignty. In fact, this new socio-political construct has turned out to be the rule of private over public in disguise, since an amalgam of public-private ownership has emerged, and therefore the entire process can be qualified as perverse, upside-down privatization. The hard populist elites have been surrounded by satellite organizations as combinations of public and private, and they have exercised rule by both official, legal-administrative means and unofficial, covert-informative means. On one hand, the political rulers have “privatized” the official, public institutions by putting their loyalists there, since populists do not respect the institutional limits on their power once in office. But on the other hand, by blurring the borders of public and private, they have created pseudo-private institutions in all social fields. State run organizations have appeared in private masks, including state financed and managed private firms, media outlets, research institutes, and private security organizations in order to camouflage their state dependent workings and creating the appearance of their independence. The ECE political parties, without social embeddedness or genuine roots in civil society, have penetrated all social segments to fine-tune a governance that has generated a radical uncertainty, because these pseudo-private units have dominated in their own fields and disturbed the normal workings from the economy to the media or higher education.

Thus, two types of informal economies have risen; beyond the usual form of the small-scale informal economy, there has been a well-organized big politico-business network of politicians that has managed to channel EU transfers to friendly oligarchs. At the top of this perverse privatization, a new parasitic politico-economic elite has been formed, and due to extreme social polarization, “conspicuous” or “ostentatious” consumption habits have become widespread to show the high social or political status. It may even be called provocative consumption, the members of the new politico-business oligarchy who have used state resources as part of their private incomes through institutionalized “money pumps” that turn public money private. This perverse privatization as a tidal wave in the 2010s has remained a blind spot for the EU, although it has actually devoured huge amounts of resources meant for the socio-economic progress that has led to social disinvestment.

Third, *the paradox of the impotence of centralized power*. The overwhelming formal and informal power of the new parasitic elite significant contrasts from the low government performance due to fragmented governance. This paradox can be formulated as the necessity of widely coordinated social reconstruction in the systemic change on one side, and chaotic governance instead of complexity management or “flying blind” without a clear development strategy by the politically over-centralized management on the other. The masterplan was the introduction of a neoliberal economy under the flag of liberalism promising, at the same time, the competitiveness of socio-economic management. Both failed, the liberal democracy has been fatally wounded and

competitiveness has declined in the global crisis. Transformations are painful and difficult, since they are the result of complex interactions. The tsunami or monster wave of systemic change has also demanded a transition from the old, postindustrial economy to the new, innovation-driven economy with a tidal wave of deregulation and reregulation for enhancing the human and social capital that has completely contradicted to the nature of the new political regime with its social disinvestment. Moreover, in this unprecedented social reconstruction, multidimensional governance as massive social engineering would have been required for the coordination of policies, but the ECE governments have been able to coordinate policy only within a very narrow scope of action. Thus, small policy corrections have become a standard part of government actions that have institutionalized the crisis management. This mass production of collateral damages has to be overviewed in political, economic, cultural and social fields, caused also by the excessive foreign ownership in a dependent, dual economy as well as by the voluntarism of the political elites with forceful interventions against a weak and disintegrated society.

In sum, the “polity” as the basic institutional architecture has been almost completed in ECE, but it has been radically weakened by the erosion of the checks and balances system, described above, as a special kind of “privatization” by the incoming authoritarian populist elites. The sector of “politics” has only been half-made even at the formal level with its fragmented, and partial transformation, since the parties have not established contacts organically with the civil society, but they have developed informal politico-business networks to penetrate the society that have resulted in political polarization beyond the socio-economic polarization. At the lowest level of the political system, the “policy” sector has become chaotic and controversial, with many counter-productive and unwanted side-effects, so the socio-economic and political crisis processes have cumulated in a cultural or civilizational crisis with a much bigger contrast between East and West in quality of life and well-being in the 2010s than in the nineties. Millions of youngsters from the ECE countries were beyond hope and have been looking for a “European way of life” for themselves in the West. This mass exodus has proven, more than any theoretical argument, that the authoritarian populism is a blind alley, a fatally wrong answer to the challenge of the New World Order.

Altogether, the actual neoliberal hybrid in ECE is market-based but state-directed and managed. This strange combination means that this neoliberal market economy has been over-politicized, ruled by the traditionalist strong state, and managed from above by frequent, direct, state intervention in favour of the politico-business networks. This neoliberal hybrid produces a bad governance with the unpredictability for most economic actors, but offers stability for the multinationals with special agreements. The “reductionism” or fragmented governance discussed above with its unwanted side effects and high social costs has hit many social strata and social sectors hard, even in the West, and has generated the eruption of anger in the form of neopopulism. The fragmented governance, combined with the perverse redistribution favouring the rich strata, has made the ECE story worse by creating a “national bourgeoisie”. By turning social policy upside down and working in the opposite direction of redistribution, a “negative” social policy has also entered ECE with a mechanism that favoured the richest part of society.

## The recombination process in the emerging neoliberal hybrid

Thus, in order to understand the basic combination of the ECE neoliberal hybrid, it is necessary to reconceptualise the systemic change as a deep, quasi-complete disintegration as well as an ensuing complete reintegration of the ECE societies when they were taken into the Euro-Atlantic camp. This process has been described in this paper with the concept of “recombination” and “reconfiguration” following the footsteps of David Stark who was an observer of these radical transformations during the time of systemic change in ECE. Reflecting on the explosive rapidity of the collapse of communism, and realizing that the changes were far-reaching and dramatic, Stark was very sceptical of the ideal model of transition in the early nineties, “capitalism by design” or “cookbook capitalism”, in which all social sectors were supposed to change in a complete harmony of social integration as the modernization narrative promised at that time. The “capitalism by design” presupposed an “all-encompassing institutional change according to comprehensive blueprints”. Namely, “cookbook capitalism is that the system designers and international advisory commissions who fly into the region with little knowledge of its history tend to approach the problem of ‘transition’ exclusively through the lenses of their own general models.” By contrast, Stark concluded that “we find not one transition, but many occurring in different domains—political, economic and social—and the temporality of these processes are often asynchronous and their articulation seldom harmonious.” (Stark, 1992, pp.17-18).

Against the dominant view of experts, he emphasizes that “the structural innovations that will bring about dynamic transformations are more likely to entail processes of complex reconfigurations of institutional elements rather than their immediate replacement.” Being an observer of the actual transformations on the spot, Stark insisted on the controversial, multifaceted character of these radical changes because “Seen from this vantage point, transformative processes taking place in contemporary East-Central Europe resemble less architectural design than bricolage, construction by using whatever comes to hand.” (Stark, 1992, pp.22-23). In this process of reconceptualization, he admits, “The terminology is cumbersome but it reflects the complex, institutionally intertwined character of property transformations” (Stark, 1992, p.46). Consequently, “The resulting process will resemble innovative adaptations that combine seemingly discrepant elements, bricolage, more than architectural design. We should not be surprised, however, if the blueprints of foreign experts continue to figure in the transformative process.” (Stark, 1992, p.52). Against the tidal wave of neoliberalism he also formulates the main point of criticism that “markets are but one of a multiplicity of coexisting coordinating mechanisms in modern capitalism” (Stark, 1992, p.54).

Some years later, David Stark (1996) completed his reconceptualization and described this controversial transition in great details with the—more or less hidden— process of recombination. He elaborated the theory of the “recombinant property”, meaning some kind of cross-ownership between the state and private property, conceptualized as the combination of opposite sides. An especially important dimension of this recombination is that the recombinant property blurred the boundaries of public and private and this resulted in the victory of the private sector in a very special way. These hybrid mixtures are viable hybrid forms, they are not inherently unstable or transitional. By the hybrid recombinant forms and initiatives “actors respond to uncertainty in the organizational environment by diversifying their assets, redefining and recombining resources” (Stark, 1996, p.997).

Stark indicates that this type of recombination also took place in other fields of society during this period of “social dislocation”. According to the recombinatory logic, the discontinuity was counterbalanced by the reconstruction of the old elements in the ongoing social reintegration. By recombining resources in the relative normative and institutional vacuum, i. e. suspended between one social order and another, the entire society goes through a passage of transitory forms: “Change, even fundamental change, of social world is not the passage from one order to another but rearrangements in the patterns of how multiple orders are interwoven.” (Stark, 1996, p.995). This aspect is studied as “a social world in which various domains were not integrated coherently”, given the “multiplicity of social relations that did not conform to officially described hierarchical patterns”. The collapse of formal structures was combined with “persistence of routines and practices, organizational forms and social ties that can become assets, resources, and the basis for credible commitments and coordinated actions in the post-socialist world.” Moreover, in the “dense network of informal ties . . . we find the metamorphosis of sub-rosa organizational forms and the activation of pre-existing networks of affiliation.” This concept of recombination has basically changed the usual approach of path dependence with its fatalism as captured by the past history: “Such a conception of path dependence does not condemn actors to repetition or retrogression, for its through adjusting to new uncertainties by improvising on practiced routines that new organizational forms emerge” (Stark, 1996, pp.994-995).

Stark’s concept of a recombination of old and new elements, internal and external effects was a big discovery, but almost completely forgotten or pushed aside by the approach that has considered the dominance of neoliberalism evident in the young democracies and avoided any analyses of heterogeneity and fragmentation with the unwanted pernicious side effects. The internal workings and the real structure of these complex changes have never been analysed properly in the ECE area studies. This concept can be a good point of departure also for the analysis of the ongoing “great transformation” as the present “transition to the authoritarian system”. The search for unusual terms to express the nature of this current process is equally valid for the present situation.

Actually, in the nineties, all social sectors changed radically, mostly beyond recognition and working according to the opposite rules and values as before. In the permanent process of decomposition and recombination, “dual” and “plural” economies and societies emerged, provoking an often changing relationship between social integration and disintegration as a “precariate society”. This was a rapid process that can be qualified as a collapse, not only from the side of the political power of the former rules, but also from the economic side, and consequently, in every aspect of social life. The term transformation crisis has usually been applied to the nineties—until the relative stabilization of the main economic and political sectors—but the meaning of transformation crisis can be extended to a much longer period, during which the “Westernization” of the major social sectors was more or less completed. With its deep and rapid change, this was an historically unprecedented process, thus its direction was not properly perceived by the populations and elites concerned in an atmosphere of enthusiasm and naïve hope for a “Return to Europe” starting in 1989 with this “miraculous year” (annus mirabilis). Since the systemic change itself was something unbelievable, like a miracle, still it happened, people believed for a while also in the other magical transformations of the social life around them. However, the new system was built not only on the ruins of the old one, it was also built, in fact, by the ruins and with the ruins of an

old, century-long system. The transformation process had two sides: discontinuity-disintegration and recombination-reintegration. No doubt, a deep change took place, basically in the first decade of systemic change, on one side, in the concrete processes of complex changes the new and old elements have been combined for the viability of the new structures on the other.

The trend of recombination has appeared in all social fields, not only some social strata have been in an ambiguous, insecure situation, but the entire society, including the winners who have also been politically dependent, since with smaller-bigger changes in the political power and in their informal business connections, they could become losers overnight. In this age of uncertainty the ECE people thought, until the global crisis, that uncertainty was only transitory, but after the crisis they have realized that this is the very nature of the new socio-political system. This last quarter-century has been some kind of a long, continued exlex, extraordinary or exceptional situation, in which there has still been constant reference in the public discourse to “unique cases” and extreme circumstances. It is not by chance that it has been actually a “qualified period” of state or governmental power or continued state of emergency in many ways. The politically strong state from above introduced a system of crony capitalism, as a distorted market economy with constant state interventions, to support major international and domestic actors. The ECE type of crony capitalism means systemic corruption, i.e. not individual cases, but an organized system of informal politico-business networks with the government on the top. Both the build-up of these negative informal networks and the high level of systemic corruption are well elaborated and documented topics in the ECE literature.<sup>9</sup>

The ECE states were driven by the imported neoliberalism to the direction of the dependent development due to the dual economy of successful multinationals and the weak local SMEs (small and middle size enterprises) that has resulted in a dual society of the Europeanized and marginalized strata. It is easy to give both the model of fragmented dual governance in economy, based on the well-working Western firms making their compromises with the actual government and its parties on one side, and the dysfunctional economic environment for the other parts of the national economy on the other. Basically, nobody has bothered with the absolute and relative losers as the mass by-products of this politico-neoliberal hybrid. In this world of fragmented governance, the social consequences of political actions have been unforeseen, unpredictable, and unwanted that gives the complex picture of the chaotic democracy in the 1990s and 2000s, before the global crisis. Consequently, the ECE countries were not crisis resilient in the 2010s and the global crisis divides the two main periods of chaotic democracy and (semi) authoritarian system, or those soft and hard populism. In the 2010s, a tough version of state-integrated neoliberalism was introduced, and the new rulers tried to get rid of liberalism, or the liberal democracy with the rule of law.

Thus, the ECE neoliberal hybrid on the semiperiphery of the EU has evolved in two stages. In the state-managed neoliberalism—first in the transformation period during the rapid and perverse privatization, later by the (semi)authoritarian state—the social integration from above played a

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<sup>9</sup> On the ECE situation see Ademmer (2018), Bugaric (2016), Buzogány (2017), Dawson and Hanley (2016), Dobry (2000), Easterly (2016), Jezierska (2016), Krastev (2016), Münchrath and Rezmer (2017), Orenstein (2013), Pappas (2018), Rupnik (2016). Especially interesting the recent debate around the Piketty’s thesis on the “unequal exchange” between the EU and NMS (see e.g. Piketty, 2018 and Bershidsky, 2018).

dominant role and generated a special political-neoliberal hybrid. This first stage was studied as “varieties of capitalism” in ECE (Bohle and Greskovits, 2007, 2012), in fact, it was the rising combination of the traditional strong, overwhelming state with the crony capitalism and dependent development. This first hybrid has undergone series changes with the oligarchization and with the emptying of democracy leading to a façade democracy with “the politics of appearance” during the first stage, therefore the ECE states were not resilient during the global fiscal crisis and its aftermath. The second stage produced a much more mature form of the state-coordinated neoliberalism with extreme forms of neopopulism from above that has been represented by the autocratic politico-business elites. Obviously, Hungary and Poland offer the worst case scenarios as velvet dictatorships, but the other ECE states have a similar political itinerary with their crony capitalism and politico-business oligarchs, but are producing more shaky and unstable governments.<sup>10</sup>

The picture in the 2010s was that “Authoritarian-Populists favour strong governance preserving order and security against threat . . . even at the expense of democratic norms . . . They have won government office in Eastern and Central Europe, such as in Hungary, the Czech Republic, Slovenia and Poland” (Norris and Inglehart, 2018, p.10). This model can be called, indeed, authoritarian populism: running a strong state while preserving the appearance of democracy as a camouflage. The ECE regional variety may also be called “kamu-cracy”, or “cramucracy”, by maintaining the appearance, of democracy, a thin veil of democracy for covering the authoritarian nature of the political system within the conditions of the EU membership.<sup>11</sup>

### **The neopopulist social paradox in ECE in the embrace of identity politics**

The global crisis has seriously hit ECE countries, and their lack of crisis resilience has made clear to their populations that the catching-up process has been a failure, so the “convergence dream” has evaporated. The emergence of the New World Order (NWO) has been the international background of this process and its impact has recently been reinforced by the refugee crisis. After the global crisis, many ECE citizens felt they were driven into an insecure, alien, and inimical world, and were neglected by the EU, too. Within the ECE countries, democratic political competition has been systematically undermined by the economic and media power of the politico-business, oligarchic, informal networks. This situation has produced more or less free, but regularly unfair elections with an uneven political playing field by the colonization of the public sphere, as public discourse, media and communication. It has culminated in the ECE neopopulist social paradox, in

<sup>10</sup> This paper cannot deal with these sub-regional versions of more politicized Polish and Hungarian case and the oligarchs driven Czech, Slovak and Slovenian case. Ademmer (2018) has reviewed the varieties of capitalism literature in the NMS and has concluded that there are two models: (1) liberal market economy, which is more competition than consensus based (SK and the Baltic states) and (2) coordinated market economy, which has inclusive coordination processes (CZ, HU, PL and SI). Obviously, she prefers the first, directly neoliberal model with very restricted role for the state and other social actors.

<sup>11</sup> “The story of cultural backlash can be broken down logically into a series of sequential step involving: (1) long-term structural changes in the living conditions and security which successive generations have experienced during their formative years; (2) the way these development led to the silent revolution in cultural values; (3) the conservative backlash and authoritarian reflex that this has now stimulated; (4) medium-term economic conditions and the rapid growth of social diversity accelerating the reaction; (5) how the backlash mobilizes voting support for Authoritarian-Populist parties and leaders” (Norris and Inglehart, 2018, p.14).

which the poorest and most marginalized social strata in a want for security have voted for their oppressors, for the hard populist elite representing the richest oligarchs.<sup>12</sup>

At the beginning of systemic change there were two main narratives in ECE, the Europe-centric-Modernization and the Nation-centric-Traditionalization narratives. The first narrative was imported and contained a rather simplified new evolutionary or linear model of Westernization as the catching-up process with increasing democracy and welfare combined, but actually the neo-liberal modernization was in the background and it deeply distorted system building. The second was an old, homemade narrative in strong continuity with the resistance against the Soviet rule that oppressed the national sovereignty and cultural traditions, and promising now the restating the national identity after this “Easternization”. With some simplification, both narratives had two components, the first one was based on the combination of general legal-political Europeanization and the welfare-concerned socio-economic expectations. The second component was based on the priority of national independence—with the expectation of traditional ruling elites as the present “national bourgeoisie” to return to power with restoring some kind of the former traditional social and political system. Anyway, in the nineties the first narrative was mostly represented by the Left and the second one by the Right. Due to the obvious failure of the catching-up process, the Right has made gradually a recombination of these components, namely the Right by appropriating the leftist social message has combined it with a nationalist-nativist framework for the large part of population. In such a way, both centre-right and centre-left has changed their face. The centre-right has slid closer to the extreme right, so this recombination has become the political, social, and cultural base of neopopulism. The centre-left has been seriously weakened, since it has been unable to develop a proper answer as a strong message neither about the Europeanization, nor about the protection of social security against the increasing inequality and polarization, and later about the refugee crisis.<sup>13</sup>

The continued socio-economic crisis weakened the Left, its narrative about a Social Europe and improving welfare for the entire society became emptied and lost its credibility step by step by the 2000s. After the nineties a mass sliding to the Right—and later to the extreme right—began, since the Right overtook the leftist slogans and demands for better life, as well as the claims for solving these teasing social issues and protecting people from poverty. This success of the Right was due to the updated nationalist frame, namely arguing that the failure of the catching-up process was caused by external factors. So there was a combination of leftist demands with a nationalist-nativist narrative and soft, later hard, Euroscepticism. The mainstream traditionalist-conservative centre-right grew more and more critical of Europeanization and promised protection for the poor and marginalized people from a strong nation state against external and internal enemies. While the governments have pursued austerity policies particularly harmful for the

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<sup>12</sup> In the nineties Stark (1996, p.1019) notes that “the depth and length of the transformational crisis in East Central Europe now exceeds that of the Great Depression of the interwar period”. Nowadays a similar situation has created deep state dependence.

<sup>13</sup> Basically, the conservative right has usually pursued neoliberal policies as e.g. Buzogány (2017, pp.7-8) explains: “Thus, ‘anti-liberal conservatism’ was combined with clear-cut neoliberal policies like the introduction of a flat tax of 16% (later reduced to 15%), tax holidays for ‘productive’ international companies, and a variety of measures against the poor like reduced unemployment benefits or compulsory public work for the unemployed.”

poor strata, instead of developing a credible alternative for the society as a whole, the ECE leftist parties—like in many developed Western democracies—have been captured by the demands of well-educated elite. In the increasing economic nationalism, the Right has been blaming the Left for economic incompetence and being traitors of national interests. Finally, the Left has gradually lost its creditworthiness in this long, protracted transformation crisis due to its simplified, sometimes also technocratic-neoliberal, modernization narrative reduced to the evolutionary model of Europeanization, whereas the place of the pro-EU centre-right has become emptied, and the Eurosceptic, nativist right has become dominant.

At a closer look, in the nineties the right side of the political spectrum the traditionalist-nationalist narrative was defensive but turned offensive with the fading promises about social security and improving welfare. This shift of political discourse from Left to Right accelerated in the 2000s in the post-accession crisis, in which the centre-right appropriated many slogans of the strengthening extreme right. Leftist messages could not offer real alternatives, so their mass support was weakening and the Right succeeded in imposing its traditionalist vision on society. In the critical elections, under the pressure of a global crisis, the national-conservative parties have become dominant in ECE with their contradictory profile of “leftist” demands for better life and nationalist-nativist demands for the stronger national state within—if not against—the EU. Under the pressure of the global crisis, the nativist-traditionalist narrative defeated the previously dominant Europeanization-Democratization narrative, and the national cultural identity issue returned with a vengeance: “what is striking in recent years . . . [is] how successful the right-wing populists have been in terms of being able to provide a cultural framing, a cultural narrative, an ethno-nationalist narrative to provide an explanation for what is going on.” (Rodrik, 2018, p.3, see also Lulle, 2016).

The global “organic” crisis (Gill, 2015) is a turning point in the ECE political system, hence the neoliberal hybrid has also been rather different during these two periods. In the first period of soft populism there was a depolitization-demobilization effect, whereas in the second period of hard populism a repolitization-remobilization effect. Namely, in the first period, the socio-economic exclusion also produced the exclusion of ECE populations from the political process in a special ECE-type crisis of the weak representative democracy as “democratic disconnect” (see Foa and Mounk, 2016). Soft populism was accompanied by soft Euroscepticism, with the relatively marginal role of extreme right and hard Euroscepticism, and based on a defensive and gravaminal attitude. Due to the desecuritization of the complex social life for most people, the socio-economic polarization and the ensuing alienation from the EU, this process resulted in widespread apathy with demobilization and depoliticization. Although these emerging populist ECE elites have underperformed in many ways in the fields of economic policy and good governance, they have been very successful in the subordination and populist remobilization of the people.

The “magic formula” for the subordination of a large part of the population to a paternalistic populist elite is to claim to take care of people’s security in both “body and mind”, i.e. providing security in the complex process of desecuritization and protecting them from the internal and external enemies. These fears have historical antecedents but their present forms have been produced by the hate campaigns of the populist elite. After the state capture in the first period of soft populism, in the second period of hard populism the ruling elites have also masterminded

the “social capture” as the control over the society and “the capture of the minds” in the large masses of society by the nativist narrative. Hard populism has emerged parallel to the eruptions of hard Euroscepticism as the centre right moving to extreme right. The ruling elite has become offensive and active, based on enemy image inside-outside, leading to the mobilization of large masses. In this period of remobilization and repoliticization, the deep political polarization along the narratives has resulted in the hegemony of authoritarian populism, with the cultural colonization of the ECE population through the “software” of media rule.

In this controversial process, the richest strata of society have claimed to be the strong protector and true representative of the poorest part of society. Paradoxically, the losers vote for populist governments, since the most marginalized and desecuritized strata seek protection from the state, while the government prepares means to mobilize them for the elections, too. Thanks to the radical desecuritization effect of the global crisis, the precariate has seen the strong state and its nationalist leaders as the best source of protection for keeping the remaining minimal social security for them in this uncertain world, although this is a “social disinvestment state” (Lendvai-Bainton, 2018, p.3). It has to be added that the poorest part of society has suffered most in the prolonged transformation process, both from the worsening situation and the increasing desecuritization, therefore they are the most open to the prejudices about the Muslim culture, or against the “aliens” in general.

This strong nation state is the chief actor in the ECE-type of neoliberal hybrid with various forms of authoritarianism in ECE countries. The recombination of state-managed neoliberalism with parochial nationalism has become the basic model for political systems in ECE. The domestic and international lines of desecuritization have met in the aftermath of the global crisis, and even more in the New World Order with the refugee crisis and mass migration. In the new crisis situation, the EU has been presented by the hard populist elites not only as helpless in the catching-up process, but also incapable of protecting Europe against the “invasion of aliens” threatening European culture. In this marked case of competitive authoritarianism, the deeper the social polarization is, the more dependent marginalised people feel on the authoritarian state and offer their voting support for it.

### **Conclusion: perspectives for the “smart state” in ECE**

In this final stage of this historical trajectory discussed in this paper, the “populism from above” with its basically cultural and nativist profile as the identity politics gets upper hand. The paternalistic elite populism has introduced the discourse of economic nationalism with a strong anti-EU rhetoric. The ECE populist elites use ideological slogans, based on traditional national narratives, to veil their vested interests. The tradition of a centralized and strong state in direct or covered forms has ideological appeal for a large part of the population with statist ideas and an orientation towards government-led paternalism. Nowadays, all the advantages of EU membership have usually been pushed to the background by the ECE ruling elites and “Brussels” has been blamed for all social diseases of the democratization process, including the refugee crisis.

The emerging New World Order as the Age of Uncertainty has strengthened this tendency of neopopulism, at the same time it has forced the EU to speed up its efforts for further integration

towards federalization in its social or cohesion policy that has created a counterbalancing effect against this authoritarian populism. Stiglitz (2001, p.XIV) in the early 2000s had already indicated the first signs of the positive model, in which “governments took an unabashedly central role, and explicitly and implicitly recognized the value of preserving social cohesion, and not only protected social and human capital but enhanced it.” At the member-state level, this developmental state—striving for socio-economic and political sustainability in the emerging innovation driven economy— has been called a “smart state” (Aghion and Roulet, 2014).

After the global crisis, the EU suffered its own transformation crisis, but the incoming New World Order has necessitated the next step of federalization that will be outlined, discussed, and legislated in the late 2010s. The first documents in this direction —like the draft version of the Multiannual Financial Framework (2 May 2018)—have shown that the EU has reached a turning point, since it has to rearrange the whole European architecture after the EP elections in 2019. Accordingly, the ECE countries are facing the choice of either drifting away from the EU mainstream with a false rhetoric on national sovereignty by actually defending their authoritarian populism, or joining mainstream EU developments by starting a redemocratization process and human investment strategy with a new model of “smart state” in ECE. The majority of the ECE population is still supporting EU membership and at mass demonstrations against the authoritarian governments across East-Central Europe, ECE citizens are waving the EU flag and young people are shouting: “Europa-Europa”.

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