

## Re-feudalizing democracy

An approach to authoritarian populism taken from institutional economics<sup>1</sup>

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### Abstract

Research on populism has gained importance in the light of the recent global populist surge. Political scientists have become concerned with the problem of authoritarian populism, examining how illiberal, anti-pluralist populist parties have degraded liberal democracies. Economic research on recent forms of populism, although also growing, lack a comprehensive conceptual approach. This paper reduces this gap by conceptualizing authoritarian populism in terms of political transaction costs, arguing that its primary function is to vertically integrate political exchange under conditions of general franchise. If successful, authoritarian populist regimes internalize a large part of political transaction costs inherent in decentralized democratic political exchange. This entails a degraded version of democracy, eliminating a significant part of substantial electoral choice. Through weakening impersonal collective political contracting, authoritarian populists bring back private political contracting as a dominant political coordination mechanism, effectively re-feudalizing democracy.

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### 1. Introduction

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Research on populism has gained increasing importance in the light of the global populist surge in past years. Social scientists have become particularly concerned with authoritarian populism in Europe and other parts of the world, examining how illiberal, anti-pluralist populist regimes have degraded liberal democracies (Brubaker, 2017; Mudde and Kaltwasser, 2017; Müller, 2016; Kriesi and Pappas, 2015; Pirro, 2015; Finchelstein, 2014; Mudde, 2004). This paper focuses on such regimes, and disregards other, 'democratic' or 'progressive' forms of populism (cf. Laclau, 2005).

The economic literature on authoritarian populism is primarily concerned with the sources of electoral demand for such policies. Rodrik (2018a; 2018b) as well as Guriev (2018) consider the negative effects of globalization and technological change on low skilled labor to be the most important economic mechanism behind populist mobilization. Whether or not it is transformed into actual populist votes depends on the level of trust in political institutions, argue Boeri et al. (2018) and Algan et al. (2017). Hence, Guriev (2018) claims, governments should not only focus on promoting economic growth and efficiency, but also on providing economic justice, labor market integration of the low skilled and, particularly, skill formation.

This paper looks at authoritarian populism from a different angle. My ambition is to provide an economic account of institutional changes authoritarian populist regimes entail. I am specifically interested in why and how contractual relations between the electorate and the political elite are transformed, and what are the underlying conditions under which this transformation takes place. By discussing this, I hope to provide a better understanding of authoritarian populism as a form of governance exerting growing global presence.

My approach is informed by institutional economics, in particular by the scholarship on transaction costs. I argue that the rise of authoritarian populism has to do with intrinsic characteristics of democracy that become particularly problematic under certain social and economic conditions. Authoritarian populist regimes, I will explain, emerge when political transaction costs of horizontal political exchange of democracy becomes too high to be internalized by autonomous political agents (such as voters and their associations) in a decentralized fashion. If such a situation becomes prevalent, political exchange is re-

organized, and becomes increasingly government-controlled. Authoritarian populism represents one form of creating such government controls without eliminating general franchise-based elections as a mechanism of generating political legitimacy.

Whether or not in government, authoritarian populists seek to create and systematically exploit political rents by constraining political rivals. Authoritarian populism in this approach is not an ideology but a political technique, used by illiberal parties and politicians, who seek direct popular legitimation through regular elections.<sup>2</sup>

The paper sets out a theoretical framework and argues in defense of it, occasionally referring to empirical examples. This is an interpretative method often used by institutional economists, such as Douglass North, Mancur Olson or Oliver Williamson, to whom I will make references. In what follows, I will first present an economic argument on the differentiation between democracy, autocracy and dictatorship in Section 2. The concept of political transaction costs – a primary theoretical tool of the paper – is introduced in Section 3. Underlying institutional mechanisms of authoritarian populism are presented in Section 4. Section 5 concludes.

## **2. Democracy, autocracy, dictatorship**

This paper, as many others on democracy, has a three-way classification of political regimes: democracy, autocracy and dictatorship. Here autocracy is an in-between case: a political system partially characterized by both democratic and dictatorial features. Other authors call this in-between case ‘partial democracy’ (Acemoglu and Robinson, 2006; Epstein et al., 2006), ‘hybrid regimes’ (Diamond, 2002; Bozóki and Hegedűs, 2018), ‘competitive authoritarianism’ (Levitsky and Way, 2010), ‘illiberal democracy’ (Zakaria, 2003) or simply authoritarianism. The term ‘autocracy’ here is derived from Kornai (2016), who considers it

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<sup>2</sup> Hence, my approach is different from the dominant view of political science that regards populism “an ideology that considers society to be ultimately separated into two homogeneous and antagonistic groups, >>the pure people<< versus >>the corrupt elite<<, and which argues that politics should be an expression of the *volonté générale* (general will) of the people” (Mudde 2004, p. 543).

in a similar way to Levitsky and Way's competitive authoritarianism, but rather uses it in a European than in a post-Soviet context. My intention in the forthcoming subsections is to analyze the respective institutional dynamics of democracy, autocracy and dictatorship, interpreted in an institutional economics framework primarily informed by Acemoglu and Robinson (2012) and North et al. (2009).

## 2.1. *Democracy*

Democracy in this paper is understood as a political system in which access to political power is open to most people. Political markets are inclusive and contestable (Acemoglu and Robinson 2012),<sup>3</sup> and are governed by a decentralized coordination mechanism in which private agents, including voters, candidates and political parties, engage in autonomous (or horizontal) exchange based on impersonal political contracting. The latter implies that bargaining over political power is impersonalized, and exchanging political power for personally allocated goods and services is illegal and considered a political bribe.<sup>4</sup>

In terms of North *et al.* (2009), democracy is associated with open access order, implying that the contestability of political and economic markets are related, and without one the other one cannot be sustained. This is because political and economic rents, generated by limited access orders, reinforce each other, whereas open access to economic and political markets are also mutually supportive. Hence, democracy can be conceptualized as a political market in which power is gained in competition for votes and other forms of political support, while granting support to office-seeking candidates is an autonomous decision by private political agents. Democratic political exchange is unique in the sense that office-seeking candidates cannot lawfully provide discretionarily allocated goods and services in exchange for political support. This is in sharp contrast with dictatorship and autocracy, in

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<sup>3</sup> There is a long history of considering political competition in democracy in terms of competitive markets. This is an approach founded by Downs (1957) and pursued, in particular, by the public choice school (cf. Becker, 1958; Buchanan and Tullock 1962; Stigler, 1972; Crain, 1977; Buchanan, 1986). For a rival approach, refusing the conceptualization of democratic politics as a competitive market, see Hodgson (2019).

<sup>4</sup> The contractual basis of political exchange in democracy is further discussed in section 4.1.

which political power is typically exchanged for some form of personal remuneration, often taking place within vertically organized, government controlled clienteles.<sup>5</sup>

However, democracy is not only about voting but also about responsible government and civil liberties (Collier, 1999). Political markets are democratically contestable as long as the government is directly or indirectly responsible to the public. If voting rights exist but the government is appointed by an unelected monarch, such as for instance in imperial Germany (Ziblatt, 2006), democracy does not actually exist.

Another criteria for democratic governance is the provision of civil rights, without which majority rule can grow unlimited, hence political markets are monopolized by a cartel of private political agents. In other words, so that political markets continue to be contestable – hence today’s political minorities can be turned into tomorrow’s majorities through a peaceful electoral process – minority political rights must be protected, and the majority will be curtailed. If this is so, executive power is limited, the system of checks and balances prevails, and the rule of law is maintained (Kis, 2003).

In this sense, democracy is always ‘liberal’. If it is not, minority political rights are abused and the takeover of government through a peaceful process remains unlikely. This is precisely what autocracies typically seek in the era of the general franchise: abusing minority political rights while maintaining a democratic façade, legitimizing authoritarian governance through elections. This is the essence of authoritarian populism – the focus of interest for this paper. Before I turn to discussing it in detail, however, let’s have a look at the polar opposite of democracy: dictatorship.

## 2.2. *Dictatorship*

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<sup>5</sup> In contrast to dictatorships and autocracies, clienteles in democracies are typically not government but private agent controlled. This is neither normatively, nor (in most cases) legally accepted, and often constitute a form of state capture: private agent-driven institutionalized corruption.

Dictatorship is the opposite of democracy in terms of organizing principles of the political system. Power is exclusively held by a limited segment of society and cannot be peacefully contested. Political exchange is vertically organized, not autonomous for ordinary members of society, and often personalized. Allocation of politically relevant resources is discretionary, and in exchange, unconditional political support is expected. Failure to concede to superiors is both a political and a criminal act.

In terms of North *et al.* (2009), dictatorship is associated with limited access order, in which institutionalized mechanisms of popular participation in power rarely exist. In consequence, redistributive costs of dictatorships can be – although not necessarily are – comparatively low to those of democracies (Acemoglu and Robinson 2000). As a large part of the population is excluded from political rights, their interests are institutionally not represented in the political process. Possessing political rights, on the other hand, is conditional on social status and the acknowledgement of government-endorsed political norms, making political exchange simpler, more predictable and much more centrally controlled than in democracy.

Why then for political elites to democratize at all, instead of maintaining non-democratic rule? This is one of the most important questions in social sciences, to which the literature has come up with two broad responses.<sup>6</sup> One emphasizes the role of social conflict that either in the form of class conflict (Przeworski, 2009) or through the threat of violence (Acemoglu and Robinson (2006) enforce democratization on elites. The alternative approach conceptualizes democratization as an elite project, in which competing social, political and economic elites incorporate various non-enfranchised groups so that making them allies in outcompeting (or in an electoral sense outvoting) their opponents (Himmelfarb, 1966).

Democratization of feudal societies, as Collier (1999) argues, requires three major institutional thresholds to be attained: universal male suffrage, an autonomous legislature that controls the government, and civil liberties. As Ziblatt (2006) emphasizes, their attainment was typically not simultaneous, and different countries followed different sequences. For instance, Britain first institutionalized civil liberties, secondly an executive

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<sup>6</sup> In the forthcoming discussion on the literature of democratization, I extensively rely on the review article by Ziblatt (2006).

responsible to an elected legislature, and only thirdly universal male suffrage. In contrast, the US had a sequence of (1) responsible government, (2) universal male suffrage, and (3) civil liberties. In Germany, the sequence was (1) universal male suffrage, (2) responsible government, and (3) civil liberties (p. 336). Hence, democratizing feudal societies was a gradual process in all 19<sup>th</sup> and early 20<sup>th</sup> century European and American cases, leading to the historical emergence of autocracies.

### 2.3. *Autocracy and authoritarian populism*

Between feudal monarchies and liberal democracies, typical West European and North American societies spent at least a century in some form of partial democracy. Such a regime, called autocracy in this paper, was in most cases characterized by limited (male) franchise, partially controlled executives, and restricted civil liberties. Contestability of government power was constrained, and autonomous private political exchange remained a prerogative of an enfranchised minority. The political system was more inclusive than in most feudal societies but oppression of the excluded prevailed, often in a brutal way. Civil rights of the non-enfranchised population were practically nonexistent.

Democracy as a dominant form of governance, including the general franchise of both men and women, responsible government and civil liberties for the entire society is a relatively recent phenomenon even in advanced countries (Huntington, 1991). With no predetermined monotonous historical development from dictatorship to democracy, autocracy (or partial democracy) remains a widely existing form of governance, playing a major part in political regimes changes, and hence being “critical to the understanding of democratic transitions” (Epstein et al., 2006:566). Recognizing the importance of autocracy also helps understand how the Lipset (1959) hypothesis operates: richer societies typically exert more control on

the executive except for natural resource-rich countries in which “the resource curse tends to make all regime categories more autocratic” (Epstein et al., 2006:563).<sup>7</sup>

Authoritarian populist regimes represent one particular form of autocracy. The general franchise is ensured and plays an instrumental role in legitimizing the government. In this sense, the regime is ‘democratic.’ Yet, elections tend to be determined by heavy incumbent advantages, hence not fair and are unlikely to result in opposition victory for systemic reasons. As a result, the opposition of the government, although officially recognized, typically remains weak, fragmented and politically insignificant. Effective democratic control of the government is limited and civil liberties are often fragmented. Autonomous political exchange by private agents, although existing, tend to be constrained by the government.

Authoritarian populism, to quote Federico Finchelstein (2014: 467) is “a form of authoritarian democracy for the post-war world; one that could adapt the totalitarian version of politics to the post-war hegemony of democratic representation.”<sup>8</sup> In other words, in an era of electoral democracy, when excluding substantial parts of the population from the franchise undermines political legitimacy, authoritarian populism is a primary institutional vehicle for democratic backsliding. Elections are held and voters are represented, but their choice is constrained, and as a result governments are not fully responsible for the public.

In authoritarian populist regimes, the primary source of popular legitimation is horizontal political exchange: elections. This differentiates authoritarian populism from both dictatorship and other – for example, more oligarchic – forms of autocracy. So that a regime can be classified authoritarian populist, elections need to be held and the actual opposition need to be able to run so that voters have genuine political choice, even if the electoral field is not level playing. According to this criterion, Viktor Orbán’s regime in Hungary is

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<sup>7</sup> For Epstein et al. (2006) the three-way classification of political regimes is democracy—partial democracy—autocracy. Hence, “more autocratic” for them means more dictatorial in terms of this paper.

<sup>8</sup> Finchelstein talks about populism in general, but he obviously discusses the practice of authoritarian populist regimes.

authoritarian populist, whereas Vladimir Putin's rule in Russia is outright dictatorship. The redistribution of power is centrally controlled with government-controlled clienteles playing an instrumental role in both regimes. Yet, whereas Orbán's regime is popularly legitimized, Putin's rein is at best popular as elections of the past 20 years in Russia have become mere political rituals from which the actual opposition is typically barred.

Through manipulating electoral competition, authoritarian populist regimes mitigate the redistributive costs of democracy for political and business elites. Although horizontal political exchange is maintained, it becomes more predictable than in genuine democracy. This is a major reason why elites at times of crisis may well decide to support authoritarian populists – a theoretical contradiction given the fact that populists traditionally mobilize against elites in the first place. The resulting 'paternalist' (Enyedi, 2016) or 'elitist' (Antal, 2017) populism is an ideological ingredient of most currently existing right-wing authoritarian populist regimes. In the remaining parts of this paper, I will analyze these regimes, first introducing the notion of political transaction costs, secondly presenting some of the operating mechanisms of these regimes.

### **3. Political transaction costs<sup>9</sup>**

Transaction costs in the seminal treatment of Coase (1937) are the costs of using the market mechanism. They include information, monitoring and enforcement costs, as well as the costs of bargaining over the terms of contracts (Williamson, 1985). Organizations such as firms exist to mitigate these costs by internalizing them, and hence replace the market for hierarchy whenever it appears a more efficient solution to the problem of contracting (Williamson, 1973). Yet, hierarchies such as firms, bureaucracies and governments are also costly to run, as 'managerial' and 'political' transaction costs arise within organizations and polities, respectively (Furubotn and Richter, 2005). As contracting is inevitable and its costs necessarily arise both within and between firms, optimization is about differentiating among

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<sup>9</sup> This section relies on Ádám (2018).

available organizational mechanisms and corresponding institutional foundations (North, 1990).

The development of efficiency-enhancing institutions is related to the emergence of contested markets, both economically and politically. The process of democratization is linked to contested political markets and the rule of law that places restrictions on the executive, especially through securing private property rights (Acemoglu and Robinson, 2012; Acemoglu *et al.*, 2005; North, 2005; North and Weingast, 1989; North and Thomas, 1973). Hodgson (2017) adds that modern capitalism is based on capable state bureaucracies and sophisticated financial markets, whereas Chang (2011, 2002) emphasizes the role of government discretion and market protection in creating advanced capitalism.

Hence, rich societies are not only rich materially but also institutionally. Their institutional capacities, originating both from formal and informal institutions, allow for decentralized, horizontal exchange both on political and economic markets. Such societies can afford a mechanism of recurring, institutionalized redistribution of power as political exchange is likely to stay within legally and normatively approved limits, reinforcing formal and informal rules. Poor societies, in contrast, have poor institutional capacities, and keep relying on centralized, vertically organized political exchange so that mitigating uncertainties and enforcing formal and informal rules by authority instead of autonomous political action.

We do not exactly know how good institutions come into being but we do know how they work: by mitigating the costs of transactions, whether economic or political. Democracy is a system of horizontal political exchange taking place among a vast number of autonomous private political agents. As they need to solve complex collective action problems, democracy relies on institutions enabling millions of people transacting over political power.

Political systems based on vertical political exchange – dictatorships – internalize political transaction costs just as firms internalize economic transaction costs: instead of autonomous exchange by political agents, transactions are based on hierarchically applied decisions of superiors. In contrast, political systems based on horizontal political exchange – democracies – leave such costs non-internalized. To be able to do that, however, democracies need to

rely on a dense fabric of socially embedded formal and informal institutions with sufficient organizational capacity to mitigate political transaction costs.<sup>10</sup>

At times of social and economic crisis, such organizational capacities to mitigate political transaction costs weaken. Human and financial resources supporting institutional performance evaporate and constraints on decision-making rise. In emergencies, there is no time and space for bargaining over political exchange: governments receive unlimited authorization to take whatever action the situation warrants. Hence, transaction costs of horizontal political exchange are internalized through vertical government hierarchies. This is the preferred institutional mechanism of authoritarian populist regimes: they seek to control democratically decentralized political transactions while maintain the electoral process to ensure popular legitimacy.

It is surprising how little attention the concept of political transaction costs in political science has so far received. Among the rare exceptions are Zankina (2016) and Gurov and Zankina (2013), who analyze the populist turn in Bulgarian politics since the early 2000s. Prime ministers Simeon Saxcoburgotski (or Simeon the 2<sup>nd</sup>) and Boyko Borisov, along with their respective political parties, reduced political transaction costs by replacing traditional political groupings with leader-dominated parties that had no meaningful internal power structures, factions or autonomous political actors. This made party structures simpler, decision making more predictable and political communication more effective. The political discourse of the new parties was centrally controlled and simplistic: the role of political values and ideologies was replaced by the personal credentials of populist leaders. This way, external actors with political stakes in Bulgaria, such as multinational companies and the European People's Party (Europe's largest, center right cross-country political grouping to which Borisov's GERB belongs), have also faced lower transaction costs when conducting political exchange in Bulgaria.

This is not to say that leader-dominated parties, in general, are more predictable than those characterized with complex internal structures and institutionally more constrained

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<sup>10</sup> Organizational capacity essential to maintain a democratic polity is not yet sufficiently conceptualized. The closest approximation to that comes under the label of social trust (cf. Gyórfy [2018]).

leaderships. Instead, the assertion is that reduced institutional complexity helps conduct political exchange in an environment characterized by poor institutional capacities. As Bulgaria is the least developed EU member state, this appears to be in line with the Lipset (1959) hypothesis: less developed societies tend to possess less developed institutions, and hence have a lesser likelihood of operating an institutionally complex democratic regime. Or, in other words, conducting horizontal political exchange in an institutionally underdeveloped environment can be excessively costly, and the solution to this problem in a growing number of countries appears to be the establishment of authoritarian populist regimes. The question to which I turn now is how they operate.

#### **4. Operating authoritarian populism: The transformation of the political exchange<sup>11</sup>**

Based on what I have so far argued, the definition of democracy can be reformulated as a political system based on horizontal political exchange, in which transaction partners participate as autonomous political actors. Hence, a large part of major political exchange, including local and national elections, remain 'out on the market', carrying a considerable amount of non-internalized political transaction costs. This definition, however, requires further qualification and a comparison with the practice of authoritarian populist regimes, in which a large part of political transaction costs, despite the presence of formally democratic institutions, are internalized in vertically organized, government-controlled hierarchies. To attain this, I examine three aspects of political exchange.

##### *4.1. Political contracting*

Political exchange is about the allocation of power. As governments need to be legitimate (Weber, 1978[1922]), some kind of political exchange necessarily takes place among those holding power and their subordinates even in extreme totalitarianism. In democracy, the

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<sup>11</sup> This section is based on an extended email exchange with Geoffrey Hodgson that took place after the Kornai Conference. Although he certainly disagrees with my main assertions, I am grateful for his objections that were very helpful in developing my argument.

process of popular legitimation is explicit and formally institutionalized. This implies important questions about the way and methods of how power is allocated, that is to say about political contracting.

Power means controlling both material and symbolic resources, including money, social status and authority. However, for the sake of simplicity, in the forthcoming discussion I will concentrate on material goods and, more specifically, on public resources, such as budgetary transfers, public procurements and public employment opportunities only. Exchange over such resources in most societies constitutes political decisions. In modern (or liberal) democracies, such decisions are intentionally impersonalized so that private economic gains are detached from individual political actions. Private contracting over collective goods controlled by elected officials is forbidden and considered political corruption.

This was, of course, not the case in pre-democratic societies, in which monarchs and other individuals possessing political power engaged in private contracting over public resources such as taxes and powerful administrative positions. In practice, such practices persist in most democracies, resulting in some degree of political corruption. Lobbying and financing of mass electoral campaigns, involving financial interactions between politicians and private economic parties are particularly prone to political corruption. Yet, by default, democracies have collectivized public resources by legally and normatively prohibiting the private control of politically generated rents. Hence, private contracting over public resources has been replaced by a process of collective bargaining. Electoral competition is a major form of the collective bargaining process, in which competing parties and candidates propose alternative allocations of symbolic and material resources.

Elections take place at various levels in various frequencies, and constitute the solution to the problem of collective (political) action (Olson 1965), derived from the multiplicity of preferences over resource allocation. Conceptually, participation in the process of collective contracting takes place by the virtue of voting, while bargaining over the terms of collective political contracts occurs via electoral campaigns. There are organizations active in influencing this process: politically active trade unions, pressure groups, lobbying organizations and political parties themselves are all examples.

Political contracts in democracy are notoriously difficult to enforce, precisely because of their collective nature. Contracting occurs over collective goods and the contracting process is non-monetized, while political performance in most cases cannot be quantified, hence measurement is costly and third party enforcement is practically excluded. In consequence, democracies face serious credible commitment problems that are typically addressed through institutional provisions. The general franchise and the concomitant civil liberties can themselves be interpreted as such provisions (Acemoglu and Robinson, 2000). With this, however, we are back to the problem of institutional performance that typically lies behind the rise of authoritarian populism.

This is because in the absence of efficient enforcement mechanisms, incentives of elected officials to arbitrarily change the terms of collective contracts increase. As incumbents exercise a great deal of influence over conditions of forthcoming elections, they have strong incentives for contractual changes. At the margin, they can alter the underlying institutional framework of political and economic markets and get democratically endorsed through reelection despite breaching the initial contract. Authoritarian populist governments, mobilizing against the existing institutional framework of checks and balances, are particularly well-placed to perform this (Bermeo, 2016).<sup>12</sup>

Authoritarian populist regimes make political contracts increasingly personalized. Power is distributed within hierarchical relations characterized by subordination to leaders and discretionally allocated resources. Through this, social inclusion of subordinated social groups can improve whereas political inclusion is likely to deteriorate through the effective shrinkage of civil rights, such as the politicization of public services, narrowing media freedoms, politicization of law enforcement, and harassment of NGOs. Social space of autonomous political action shrinks, and horizontal political exchange, although continues to

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<sup>12</sup> Contemporary Hungary, Poland and the US provide ample example for this. Changing the electoral law (Hungary), curtailing the freedom of judges (Hungary and Poland) and press freedoms (Hungary, Poland and the US), subordinating politically independent government agencies to political oversight by government officials (Hungary, Poland and the US) are among the most salient practices authoritarian populist governments have been conducting in these countries.

exist in form of elections, is subordinated to vertical political exchange, controlled by incumbents.

A primary institutional mechanism for all this is creating government-sponsored, hierarchically organized clienteles through which incumbents distribute both political and economic resources. Collective political contracting is increasingly replaced by private contracting over public resources, and democracy becomes re-feudalized. Formal rules and informal norms on corruption tend to be relaxed and separation of individual businesses from the political contracting process no longer exists. Corruption is institutionalized as a constitutive element of the regime.<sup>13</sup>

#### *4.2. Information costs*

One of the most important reasons why democracy breaks down in the face of dysfunctional formal and informal political institutions is the problem of information costs. As political exchange in democracy is dispersed, decentralized and impersonal, information (i.e. political communication) and bargaining (i.e. persuasion) costs are high whereas contracts (as we have seen in the previous subsection) are difficult to enforce. In response, entire industries have emerged to internalize political information and bargaining costs, and to reinforce the delivery of electoral pledges. Examples include political advertisement, opinion polling, political consultancy and lobbying.

As political campaigns are about communication with voters, financing information and bargaining costs and the related industries is a major requirement for electoral efficiency. In consequence, most democratic political markets are oligopolized: because of enormous scale economies in internalizing information and bargaining costs, political markets are typically controlled by a handful of political parties.

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<sup>13</sup> For discussion on the role of institutionalized corruption in the current Hungarian authoritarian populist regime, see Tóth and Hajdu (2018), Martin (2017), and Fazekas and Tóth (2016).

As Downs (1957) classically noted, asymmetric information is by definition a constitutive element of democratic politics, and no institutional mechanisms can effectively eliminate it. Downs argued that political markets were characterized by a vast amount of information that no rational political actor would bother collecting in the presence of positive information costs. Facing limited marginal utilities derived from the electoral process and from complex, time-consuming political choices (i.e. collective contracting in my terminology), voters resort to rational ignorance. The result is an information advantage of political professionals, including lobbyists and elected officials, who can manipulate the electorate.

My argument – based on Downsian insight – is that the underlying reason for voter manipulation is not only the presence of asymmetric information, but also the very nature of impersonal collective political contracting. If democratic political exchange was based on private contracting, voters would sell their votes for the most competitive candidate, maximizing their individual utility functions (as Downs in fact assumes). However, as contracting is collective and private utility maximization is institutionally separated from the contracting process, voters have a disincentive for investing in political information.

The political choice they face is indeed complex as Downs argued. However, the very same voters do make complex market choices with no particular difficulties, maximizing their individual utilities while purchasing cars, refrigerators and real estate mortgages over decades, often on highly oligopolistic markets. In contrast to democratic politics, however, attainment of individual utilities on ‘economic’ markets is based on private contracting.

As this is not possible in democratic politics, voters have a disincentive for internalizing information costs when formulating individual political preferences.<sup>14</sup> In consequence, mass

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<sup>14</sup> Downs argued that disincentives in collecting political information derive from the limited likelihood of one casting a decisive vote with respect to the election outcome. However, in most political systems election outcomes are not only about who the winner is, but also about the relative vote of political parties and candidates. Hence, voters as possessors of political resources (i.e. votes) can be (and often actually are) interested in casting their votes irrespective of who the likely winner would be. Voters, in fact, are interested in collecting political information as long as their collective utility maximization depends on election outcomes (including relative party votes). This is in line with Downs’ insight that politically motivated voters do cast well-informed votes.

democracies are by definition prone to voter manipulation – a mechanism known since Plato and constituting the most important argument in favor of a restricted political franchise<sup>15</sup> – and authoritarian populists appear to have mastered it. Through controlling channels of political communication and often abusing media freedoms, authoritarian populist regimes seek to raise information costs, creating monopolistic political markets and reducing democratic accountability.

All this suggests the enormous importance of information costs in democratic politics. Without mitigating them through campaign finance provisions and insuring media freedoms and a substantive public discourse, democracy is likely to fall victim to authoritarian populism. This is only reinforced by recent cases of using social media platforms for controlling information flows by authoritarian populists.

#### *4.3. Democratic decline*

Autocracy is about constraining horizontal political exchange. Democratically elected authoritarian populists seek to turn oligopolistic political markets into ones dominated by effective monopolies. Institutional mechanisms of such a shift are various, but all operate along the internalization of political transaction costs and the replacement of horizontal market exchange with vertical government control.

As we have seen at Zankina (2016), leader-dominated political parties can assist turning democracy into autocracy. Other institutional mechanisms of authoritarian populism also allow for centralized control of political exchange with limited or no democratic controls. Examples include clientele building through public procurements and government-allocated market shares; market regulation benefiting government cronies; subordination of democratically elected local administration to the central government, political control of

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<sup>15</sup> The theoretical reasoning is to limit voting rights for those with either sufficient educational attainment (who should be difficult to manipulate) or substantial personal tax-payment (who have an intrinsic personal interest in monitoring office-holders).

the media, as well as political control of nominally independent branches of government such as the judiciary and the prosecution service.<sup>16</sup>

In their ambition to effectively monopolize the political space, authoritarian populist governments seek to sideline any meaningful civil society organizations and initiatives institutionalizing bottom-up political action. Direct democracy as a regular process, often advocated by authoritarian populists, makes political representation illusory and hence paradoxically increases the cost of collective political action.<sup>17</sup>

Without actual representation, democratic control of the executive becomes untenable. This is an ideal environment for authoritarian populist regimes, which can best operate in classless mass societies of advanced capitalism (cf. Horkheimer and Adorno, 2002 [1944]). As social classes traditionally internalized political transaction costs through structuring political exchange, maintaining a shared political culture and keeping office holders accountable, the waning of class as a reference point (cf. Pakulski and Waters, 1996) is good news for authoritarian populists (Csigó, 2017).

In a globalized economy capital enjoys systemic advantage over labor, and the low skilled, economically most vulnerable segments of society become particularly exposed to populist mobilization (Swank and Betz, 2018). However, economic vulnerability itself does not explain the rise of authoritarian populism as a considerable part of the authoritarian populist vote is recruited from relatively rich segments of society. Hence, a more powerful explanatory

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<sup>16</sup> Perhaps the most elaborate contemporary realization of authoritarian populist governance is Viktor Orbán's Hungary. Here extensive clientele building, cronyism and institutionalized corruption are accompanied with the curtailment of civil liberties and freedoms, while competitive (but unfair) elections are held in regular intervals (Ádám, 2018; Bozóki and Hegedűs, 2018; Krekó and Enyedi, 2018; Enyedi, 2016; Magyar, 2016). However, democratic deterioration along populist presence in government has been observed in a number of other EU member countries, including the Czech Republic (Pehe, 2018), Greece (Pappas and Aslanidis, 2015), Italy (Verbeek and Zaslove, 2016), Poland (Przybylski, 2018; Stanley, 2018), and Slovakia (Meseznikov and Gyárfásová, 2018).

<sup>17</sup> Direct democratic practices in the particular Hungarian case involve 'national consultations' in which any citizen can participate electronically or through regular mail. Every adult citizen with a postal address in Hungary receives a mail from the Prime Minister with a questionnaire, and can respond to it. Evaluation of responses by the government is nontransparent, questions are manipulative and the entire exercise is accompanied with large scale government propaganda campaigns.

factor appears to be an interaction of economic and cultural factors: a loss in subjective social status and, in particular, anxiety from status decline (Mutz, 2018; Gidron and Hall, 2017, Inglehart and Norris, 2017). This fits well my conceptual framework. Authoritarian populism, I argued, should be viewed as a response to the disintegrating institutional basis of impersonalized, horizontal political exchange of democracy. Authoritarian populists offer a political system of vertically organized, centrally controlled, discretionary political exchange while maintaining elections as a principal source of political legitimation. Many of those characterized by fears of status decline and subjective status loss prefer privileged access to public resources, growing government interference and institutionalized discrimination against rival social groups, especially when they are seen as ‘outsiders.’ Cultural factors, such as a traditional or parochial value system, can reinforce such political preferences (De Vries, 2017; Mather and Jefferson, 2016).

Finally, this interpretation of the authoritarian populist vote can be easily reconciled with Mancur Olson’s (1993) views on democracy and dictatorship. Olson argues that societies prefer stationary to roving bandits as the formers are interested in maintaining law and order, and maximizing economic output and efficiency. Hence, dictatorship is preferred over anarchy. Democracy, in turn, is preferred over dictatorship for two reasons: (1) equilibrium taxation by democratic governments tend to be lower than that of dictators as democratic governments are meant to represent the majority of people as opposed to dictators who are meant to represent themselves and their clientele; (2) democratic governments tend to respect property and contractual rights more than dictators do, while democracies – as opposed to dictatorships – have an institutional mechanism for enforcing private contracts (impartial courts).

Yet, democracies do not fall from sky and the transformation from dictatorship to democracy is seldom triggered by internal social actors. This is because of the collective action problem of large groups, Olson (1965) had long before presented. If for any reason, a group of social or political actors were still able to remove a dictator, they would be interested in becoming the new one. Hence, democracies emerge under peculiar conditions, in which no single group of social or political actors can prevail over everybody else. This typically requires a degree of fragmentation of society or an historical accident: “autocracy is

prevented and democracy permitted by the accidents of history that leave a balance of power or stalemate” (Olson, 1993: 573). When this occurs, private political agents establish power sharing mechanisms and start respecting civil liberties regardless of political affiliation.

The Olsonian interpretation of democracy, in my terminology, is based on horizontal political exchange as a dominant form of political coordination resulting from a stalemate among key social and political actors. This requires a degree of social fragmentation, but it also supposes that a diverse population can maintain a set of social and political rules. In other words, they need homogenous political institutions to preserve democracy in a heterogeneous polity. If this is not possible to attain, and people no longer expect democracy to protect property and contractual rights, they may well prefer some form of autocracy.

Post-democratic autocracies typically based on unfair elections, discretionary civil rights and limitedly responsible government. The opposition is subordinated, courts are not impartial, and the protection of civil liberties is erratic. Yet, elections as a source of popular political legitimation are maintained. In short, this is an authoritarian populist regime, whose justification typically relies on an ‘if we do not subordinate them, they will subordinate us’ logic.<sup>18</sup> The lack of mutually accepted political rules – institutions capable of mitigating political transaction costs – gradually undermines democracy as a system of decentralized horizontal political exchange. Cases in point, again, include Hungary, Poland and the US, with growing partisan polarization having taken place in all three countries before their respective authoritarian populist turns (Tworzecki, 2019; Jacobson, 2016; Körösényi, 2013).<sup>19</sup>

## **5. Conclusions**

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<sup>18</sup> Viktor Orbán explicitly uses this argument when he advocates “illiberal democracy”, but the disproportionate white male vote for Donald Trump can also be interpreted along these lines.

<sup>19</sup> For an argument on economic costs of political polarization in the post-communist context, see Frye (2002).

This paper formulated an interpretation of authoritarian populism informed by institutional economics. I argued that authoritarian populists come to power when political transaction costs of horizontal political exchange cannot be sufficiently mitigated by democratic political institutions, and impersonal collective political contracting does not any more sustain. Although horizontal political exchange is maintained in form of elections, it becomes vertically conditioned so that government-controlled hierarchical organizations can internalize political transaction costs, and part of political contracting is privatized. Although such a regime is certainly not a pleasure for all, it can exhibit considerable political stability in the face of social, political and economic crisis by making the outcome of political exchange more predictable and the social status of members of government-controlled clienteles protected.

Democracy is a costly system of political coordination, in which a large amount of political transaction costs remain non-internalized, and are dealt with by formal and informal political institutions. In line with the Lipset (1959) hypothesis, this implies that poorer societies tend to be less democratic as their institutional capacities allow for less horizontal and more vertical political exchange. Poor societies, therefore, hardly democratize in the first place, or if they do, democracy is likely to be exposed to an authoritarian challenge.

As collective political contracts of democracy are notoriously difficult to enforce, such a contracting mechanism can only be sustained in the presence of strong and capable democratic political institutions. With their decay, formally democratic societies resort to private political contracting, rendering both political and economic exchange under increasing government control. This is what I call the re-feudalization of democracy that appears an increasingly global phenomenon.

I argued that information costs of democracy, originally described by Downs (1957), play a particularly important role in this process as impersonal collective political contracting is characterized by large information asymmetries. In well-functioning democracies, formal and informal institutions, including media freedoms and campaign finance regulations, mitigate information costs. In declining democracies, however, information costs are internalized by market oligopolies, which tend to be increasingly leader-dominated

authoritarian populist parties. The decline of social class and the evaporation of class culture further weakens democracy, just as does the extreme polarization of the electorate.

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