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Populism and authoritarianism in the EU: what is the role of the euro?

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ABSTRACT
The article examines the impact of the euro on the political system through contrasting the experiences of eurozone countries with euro outsiders using a historical institutionalist perspective. While following the global financial crisis, many have argued that the homogeneity of rules within the Economic and Monetary Union (EMU) facilitate the rise of populist movements, authoritarian challengers have emerged only outside the eurozone. The parallel application of Rodrik's political economy trilemma and the ordoliberal tradition of the Freiburg school to the EMU provides the theoretical background for explaining this puzzle. A most-similar research design based on the comparative case study of Greece and Hungary is used to uncover the causal processes through which the EMU contributes to the resilience of liberal democracy. It is shown that while the limits on economic policy autonomy strongly hinder authoritarian tendencies within the eurozone even under a populist government, being outside the EMU is a necessary though not sufficient condition for the entrenchment of authoritarian rule.

KEYWORDS
Authoritarianism; EMU; populism; Greece; Hungary; ordoliberalism

1. Introduction

In the age of populism, when anti-establishment parties gain strength not only in the periphery of the European Union (EU), but also in the core, the impact of the euro on the political system is crucial to understand. This debate has mostly focused on the concern that the narrowing policy choices within the eurozone – especially during the management of the financial crisis – have undermined democracy and fueled the rise of populist movements (Kriesi & Pappas, 2015; Piattoni & Notermans, 2019). Despite these fears, there has been no democratic breakdown within the eurozone. Empirically we can observe authoritarian developments only in euro outsiders such as Hungary and Poland. Thus, the main question of the paper is the following: is there a causal link between eurozone membership and the resistance to the authoritarian temptation?

The paper aims to answer this question from a historical institutionalist perspective, which deals with real-world puzzles and rare events (Steinmo, 2008, p. 134). To solve the puzzle and understand the links between the EMU and the political system two theories are contrasted: Rodrik's theory of the political trilemma of the world economy and

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the ordoliberal tradition of the Freiburg school. While the former describes the narrowing choices of democratic governments under the conditions of economic integration, the latter explains the considerations behind placing limits on government discretion. Focusing on rules when analyzing democracies orients attention to the idea that it is liberal democracy that needs to be preserved rather than simply majority rule. These theoretical considerations are examined via the comparative case study of Greece and Hungary, which share very similar experiences of the financial crisis and the emergence of populism, but authoritarianism has prevailed only in the latter case. The analysis shows that without a recourse to devaluation, independent banking regulation and discretionary lending programs, Greece faced severe obstacles to creating the economic conditions, which have proven critical in the entrenchment of authoritarian tendencies in Hungary. This implies that staying out of the EMU is a necessary condition for the transformation of the populist rule to authoritarianism, while being a member contributes to the resilience of liberal democracy.

The paper proceeds as follows. The next section explains the research approach. This is followed by the elaboration of the central problem of the article – while anti-establishment parties have been on the rise in the EU, eurozone members proved to be resilient to the authoritarian temptation. The impact of the euro on the political system is theorized by contrasting the ideas of Rodrik's political economy trilemma with the ordoliberal traditions of the Freiburg school. The comparative case study of Greece and Hungary is used to show how these theoretical considerations work in practice – and through what mechanisms the euro can be interpreted as a crucial line of defence for liberal democracies. Finally, possible counterarguments, implications and limitations of the study are discussed.

2. Research approach

The emergence of populism and then the turn towards authoritarianism at the national level are historical, macrolevel events, where there are numerous potential explanatory variables and a limited number of cases (small-N problem). Within the EU we only have a single case, Hungary, which has been qualified as 'partly free' by Freedom House, while all other countries are considered 'free'.[1] Finding causal explanations under such circumstances requires a careful tracing of processes over time and using comparative analysis wherever possible. This is the research approach of historical institutionalism, which usually deals with the origins, stability, and instability of entire institutional configurations (Skocpol & Pierson, 2002). Examining the turn towards authoritarianism from this perspective allows dealing with path dependencies, slow-moving and self-reinforcing causal processes. These are usually examined in their specific temporal contexts through case studies.

Given the small-N problem for generalization, the most critical aspect of historical institutionalist research is case selection. In this article the most-similar systems research design is used, which makes use of the ceteris paribus rule – by selecting cases, which are similar in all aspects except the independent variable and the outcome, we can infer that the independent variable caused the outcome (Della Porta, 2017, p. 214). As real-world cases are always diverse, and it is extremely rare to find cases, which are similar in all aspects but one, the variables that are relevant for the selection are deduced from the research question and the theoretical framework used to approach the question. Hungary and Greece are considered as most similar cases from the perspective of experiencing a severe financial crisis, which opened the way to a populist takeover. The major difference between the two is membership in the EMU, which is hypothesized to be the cause behind the fact that unlike in Hungary, populism did not lead to an authoritarian breakthrough in Greece.

In case study research causation is more than the simple correlation between two variables (Steinmo, 2008, p. 135), where precedence is the critical requirement to qualify as a cause. Instead, the aim is to reveal the mechanisms through which causation occurs through careful process tracing, which is 'an analytic tool for drawing descriptive and causal inferences from diagnostic pieces of evidence – often understood as part of a temporal sequence of events or phenomena' (Collier, 2011, p. 824). For the case studies of Hungary and Greece pieces of evidence are drawn from a wide range of sources – official documents, secondary literature and direct observations are waved together into a theoretically informed narrative. For causal inference to be affirmed, I aim at a doubly decisive test, where evidence for the relevance of the hypothesis is presented and rival hypotheses are eliminated (Collier, 2011). Given the limitations of small-N, case study research is often supplemented with logical reasoning (Della Porta, 2017, p. 201). Where comparisons are not possible, I will use counterfactual analysis to eliminate rival hypotheses.

The presentation of the research follows an hour-glass method – it starts with the description of the problem for the larger sample (EU-27) to which any generalization might apply, then provides the theoretical and empirical solution to the problem, and finally assesses the implications for the original sample.

3. Populist parties and the state of freedom inside and outside the EMU

During the 2010s a massive rise of anti-establishment parties could be observed across the world. Within the EU this is well documented by Rooduijn et al. (2019) in their PopuList database – according to their calculations the combined vote for populist, far-left and far-right parties grew from 5 per cent in 1992 to 27 per cent in 2019. In his survey article Golder (2016) summarizes the main factors behind this trend: modernization, economic and cultural grievances contribute on the demand side, while the political opportunity structure, party organization, ideology determine the supply side. The list of relevant factors can be extended to intensifying authoritarian influence operations by Russia and China, such as social media disinformation campaigns, weaponization of corruption and the financing of anti-establishment groups (Diamond, 2019). Within this broader debate, the current paper accepts the findings that economic grievances and uncertainty matter for the rise of anti-establishment parties, and financial crisis especially provide a window of opportunity for populists (Algan et al., 2017; Colantone & Stanig, 2019; Gozgor, 2022). Instead of further examination of the causes of this trend, the present paper contributes to the understanding of its consequences for the political system, more specifically the factors that make a system more resilient than others during the potential transformation process from populist to authoritarian rule. EMU membership is hypothesized as a factor increasing resilience.

To decipher the impact of the euro on the political system, first we must differentiate among various concepts of anti-establishment phenomena: populism, illiberalism, and authoritarianism. All these concepts are highly contested since the fight over their meaning is a battle for power (Müller, 2016, p. 9). Their definitions below aim to explain how these terms are used in this article.

In their authoritative overview of populism, Mudde and Rovira Kaltwasser (2017, p. 6) define the concept as

> a thin-cantered ideology that considers society to be ultimately separated into two homogeneous and antagonistic camps, '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.

Since it is a thin-cantered ideology, populism can emerge left and right – as Guiso et al. (2017, p. 3) argue, the main aim is to cultivate people's fears and insecurities then offer short-term protection for their identities and/or material security.

A related term is illiberalism, which was first used by Zakaria (1997). It refers to a system, which stands in opposition to liberal constitutionalism: weak protection for human rights, an absence of checks and balances, weak rule of law, insecurity of property rights and repression of civil society. Populism and illiberalism are inherently related as they share anti-pluralism as a characteristic. According to Müller, 'populists claim that they, and they alone represent the people. … The populist logic claims that whoever does not support populist parties might not be a proper part of the people' (Müller, 2016, p. 3).

Illiberalism leads to authoritarianism, when it becomes increasingly difficult to defeat the ruling power during regular elections – even if elections are held, and votes are not changed, there is no level-playing field for the opposition, and the vast resources of the state usually help to defeat the opposition (Levitsky & Way, 2002, p. 53). However, whether populism and authoritarianism are necessarily linked is a subject of considerable debate – Bugaric (2019) believes that democratic populism is also possible. Thus, it is important to examine populism separately from authoritarianism.

The current situation of populism and authoritarianism in the EU is summarized by Figure 1. Populism is approximated by the results of anti-establishment parties in the latest European Parliamentary elections in May 2019. The classification of such parties is based on the PopuList database (Rooduijn et al., 2019). The database distinguishes populist, far-left, far-right and Eurosceptic parties. Euroscepticism is the most frequent attribute of these parties, but it is rarely on its own – the database has only 8 per cent of solely Eurosceptic parties[2], and there is no differentiation between hard and soft Euroscepticism, which could show whether there is a principled objection to European integration (Taggart & Szczerbiak, 2004). Thus, Figure 1 only shows the results for far-right, far-left, and populist parties – the inclusion of far left and far right seems necessary as in many cases they are the ones attracting the populist vote. The extent of authoritarianism is approximated by the latest data from the Freedom House rankings in 2022.[3] Freedom House scores classify political regimes into Free, Partly free and Not free categories based on political rights and civil liberties.[4]

As we can see in Figure 1, there is a weak negative relationship between the Freedom House score and the share of anti-establishment vote. While the cases of Hungary and

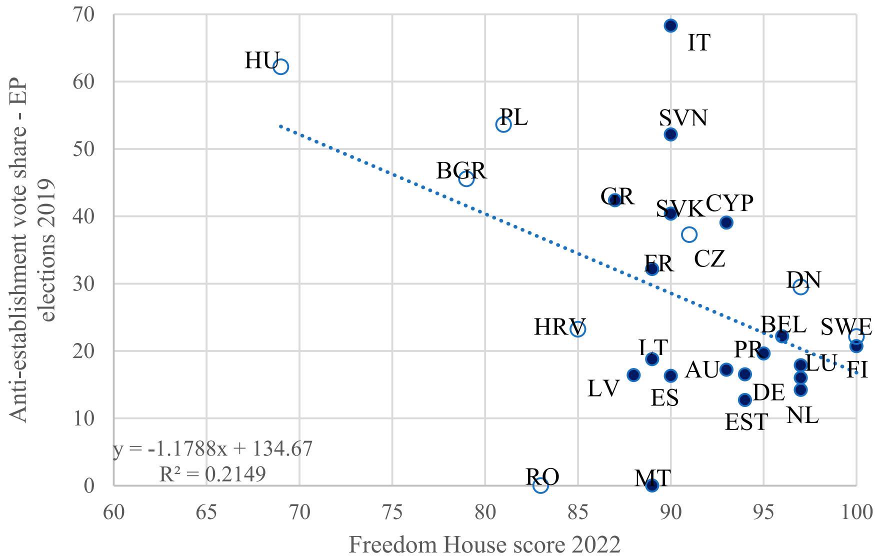

Figure 1. Anti-establishment vote in 2019 and political freedom in 2022 inside and outside the eurozone Note: EMU members are noted by • while euro outsides are noted by o.

Data: Freedom House (2022) on freedom House score, Rooduijn et al. (2019) on anti-establishment party classification, Döring and Manow (2020) on EP election results. See the Appendix on anti-establishment vote calculations.

Poland illustrate how populism can lead to a decline in freedom (Hungary has become the only partly free country in the EU), there are other countries with a similarly high share of anti-establishment vote, which did not follow the Hungarian example – Italy, Slovenia or Greece are still free countries despite the significant share of anti-establishment voting.

Anti-establishment voting does not seem to have a relationship to membership in the eurozone. We can see high shares of anti-establishment voting in Hungary and Poland, but also in Slovenia, Italy, and Greece. We see a 0 per cent vote share for anti-establishment parties in Malta, which is a member of the EMU, and in Romania, which is not. This also implies that the idea that it is the homogeneity of eurozone regulations, which fuel the populist sentiment, is not supported based on this data. In fact, the average share of anti-establishment vote in non-eurozone countries is 33,4 per cent, while it was 26 per cent in EMU countries.[5] Naturally, these shares are not necessarily stable and can vary by elections.

Eurozone membership appears to make a difference in severing the link between anti-establishment vote and authoritarianism. As we can see in Figure 1, the five countries, which have the lowest Freedom House scores are all euro outsiders. The worst-performing EMU member is Greece, where there is a relatively high anti-establishment vote, but it is still classified as a free country. At the same time, it is also true, that two eurozone outsiders, Denmark, and Sweden top-ranked according to Freedom House scores. This implies that while the euro seems to be an important obstacle for anti-establishment parties to damage democracy, it is certainly not the only possible impediment to such tendencies. What is the mechanism behind this outcome? The following section examines the impact of the euro on the political system from a theoretical perspective.

4. EMU and liberal democracy – a theoretical background

In the literature on the political impact of the euro, concerns about its negative impact on democracy – both at the EU and the national level – predominate. Since the euro was created as an elite-led project (Dyson & Featherstone, 1999), discussions about a democratic deficit have been present from the very beginning. Monetary policy was completely removed from the national political arena, and though economic policy remained in national hands, it was limited by the surveillance procedures of the Stability of Growth Pact. Following the global financial crisis, the strict conditionality of the bailout packages and the institutional reforms strengthening the economic union deepened the concerns about democracy in the EMU.

The possible trade-off between economic integration and democracy was recognized by Rodrik (2000) in his theory of a political trilemma of the world. Building on the open-economy trilemma, which underlines that states can have only two out of three desirable options – free movement of capital, fixed exchange rates and independent monetary policy – Rodrik argues that international economic integration, nation state and mass politics also present us with a similar choice. If international economic integration deepens, a choice must be made between a golden straitjacket and global federalism (p. 182). In the first case, the discretion of national governments is strongly limited because all countries compete for people and investments. As Friedman (1999, p. 87) explains, the golden straitjacket means that the economy grows, while politics shrinks, so there is less and less difference between the programs of the national government and its opposition. In contrast, global federalism implies that politics moves to the global level, the nation-state loses its significance, and decisions are made by supranational authorities. At the time, Rodrik (2000, p. 185) argued that this was the most likely scenario as it could present a compromise between the winners of the system such as multinational enterprises and the losers like labor groups or environmentalists.

Fears about the impact of integration on democracy had particular relevance in the EU. Less than two decades after Rodrik's article, Mair (2013) called attention to the hallowing out of Western democracies. In his posthumous book, he observed the disengagement of citizens from the political process, the declining participation in elections and noted the growing depoliticization of the European Union. This process was exacerbated by the response to the global financial crisis. Ruiz-Rufino and Alonso (2017) argue that the external constraints of bailouts strongly reduced national autonomy, removed real choice from democratic elections and thus undermined satisfaction with democracy. The institutional responses to the financial crisis, which include the introduction of the European Semester, the Euro Plus Pact and the Fiscal Compact, greatly increased supranational control over national economic policies (Scharpf, 2011). Based on Rodrik's theory, Crum (2013) also warned about the growing executive federalism within the EU, which hollow out member states political autonomy in financial and economic matters. Mirroring Rodrik, Nicoli (2017) similarly argues that a choice must be made between the convergence of identities and the move towards a Euro-federation and the convergence of economies, where fiscal policy decisions are essentially removed from democratic decision-making. The rise of populist and other anti-establishment parties across Europe could also be easily interpreted as a backlash to TINA (There Is No Alternative) politics (Mudde, 2016).

Almost a decade after the financial crisis concerns about the detrimental impact of EMU on national democracy have receded but they persist at the EMU level. Schraff and Schimmelfennig (2019) show that satisfaction with democracy at the national level rebounded a few years after the crisis, and it could be argued that by restoring the economy, the international financial institutions also contributed to restoring citizen satisfaction. Kratochvíl and Sychra (2019) also find a recovery of trust in the EU and call attention to two parallel trends, which impact the democratic deficit in the EMU: the growing politicization of European integration decreases the democratic deficit, while the rise of Euroscepticism indicates a growing legitimacy problem.

Even with the acknowledgement of the temporary nature of the negative impact of the EMU on national democracies, the recognition of a potentially positive contribution of EMU to democracy is mostly missing from the literature. Such an argument is possible if we recognize that it is liberal democracy, which needs to be protected, not simply majority rule. As explained by Plattner (2019, p. 7) 'democracy is an answer to the question of who rules', while liberalism prescribes the 'limits to their power are once they are in office'. The limits on power are 'designed to protect the rights of the individual, demand the rule of law and are usually set forth in a written constitution' (Ibid). Essentially these limits make it possible to change the government though a peaceful and civilized procedure (Kornai, 2016, p. 565). Thus, the constraints over majority rule ultimately sustain the democratic procedure.

The ideas of liberal constitutionalism correspond to the thinking of the ordoliberal tradition of the Freiburg school (Ordnungspolitik), which has had a lasting influence on German politics and the establishment of the EMU (Brunnermeier et al., 2016, pp. 59–67; Dullien & Guérot, 2012). In the context of the management of the global financial crisis, this line of thinking gained a poor reputation given its strong association with the politics of austerity (Blyth, 2013). However, as shown by Young (2020, p. 468) the best-known branch of ordoliberalism today is the constitutional political economy tradition, which has been elaborated by Victor Vanberg in cooperation with Nobel-prize economist James Buchanan building on the ideas of the Freiburg School. The school's original founders, such as Walter Eucken, Alexander Rüstow or Wilhelm Röpke stood against Soviet and Nazi totalitarianism as well as laissez-faire liberalism. After the breakdown of the Weimar Republic and the experiences of totalitarianism, they wanted to build a decentralized market system, which is regulated by the rule of law. By emphasizing that the market order is a constitutional order, the tradition focuses strongly on the rules, which constrain the government. While the implied limits on majority rule are sometimes described as authoritarian liberalism (Bonefeld, 2017), Vanberg (2015, p. 30) explains that the reason for rules on government power is to fend off special interest group pressures and allow the state 'to act as a guardian of the competitive economic constitution.' Stable money is an essential element of these constraints.

From the perspective of Ordnungspolitik, the 'common currency in Europe provides money that governments cannot create, i.e. money that is removed from the political influence of the individual member states' (Feld et al., 2015, p. 56). Such an arrangement seems necessary to prevent the abuse of the right to create money, which can happen in two ways: issuing currency and devaluing outstanding debt through inflation as well as by government pressure on the central bank to devalue for the sake of competitiveness (Ibid). This understanding of the euro is not contradictory to Rodrik's theory, but it emphasizes the potentially beneficial purpose of constraints on government discretion. By making it more difficult for governments to abuse the power of money creation for their own special interests, the common good can be preserved. This might even include democracy itself.

To trace the causal processes through which EMU can contribute to sustaining democracy, the next section examines the contrasting cases of Greece and Hungary.

5. Euro, populism, authoritarianism: the cases of Greece and Hungary

While it is notoriously difficult to find most similar cases, from the theoretical perspective Greece and Hungary come close: both countries have a long tradition of populist politics and they both needed international financial assistance during the global financial crisis, which strengthened Russian-friendly anti-establishment forces. There are two major differences between the two countries: (1) In Greece anti-establishment forces did not have a constitutional majority, which is considered a crucial factor in the authoritarian turn in Hungary (Rohac, 2021); and (2) While Greece is a member of the eurozone, Hungary is not, which influenced their management of the financial crisis as well as their ability to move towards authoritarianism. In the following I will analyze how eurozone membership played a role in the collapse of the populist regime in Greece and the entrenchment of an authoritarian populist regime in Hungary, then I will return to the issue of constitutional majority in the discussion.

5.1. A shared tradition of populism and financial crisis

Although it is often claimed that populism gained strength due to the financial crisis, Greece and Hungary have a long history with this phenomenon. In Greece Pappas (2014, p. 10) puts the beginning of populist politics to the late 1970s, when Andreas Papandreou, leader of PASOK, consolidated his position on the left, developed a new master narrative about the fight against the establishment, and started using emotionally charged, ideological narratives instead of rational discourse. He placed victimization into the centre of his ideology arguing that Greece's problems were due to foreign interference by the European Communities, NATO, and the US. Instead of relying on these forces the Greek state should be extended and strengthened (Chrysoloras, 2013, p. 11). Once he acceded to power in 1981, he immediately raised public sector wages by 88 per cent and pensions by 78 per cent, and then created 220 000 public sector jobs in the next eight years (Chrysoloras, 2013, p. 12). Increasing fiscal deficits, growing public debt and high levels of inflation were the results of these policies – while economic growth remained stagnant (Chrysoloras, 2013, p. 13). A very similar process was taking place in Socialist Hungary from the 1960s. Following the 1956 revolution, the Socialist regime assumed responsibility for increasing living standards and higher levels of consumption, which was financed by external debt. In the system of goulash communism citizens learnt to rely on the welfare benefits while the share of income from work declined from 80 per cent in 1960 to below 60 per cent by 1990 (Benczes, 2016, p. 151). After the transition such a heritage proved to be an enormous burden for the country.

There was a brief period of liberalization during the 1990s in both countries – as a result Greece could introduce the euro in 2001 and Hungary joined the EU in 2004. The reform period was followed by a return of statist, populist policies in the first decade of the new millennium. Between 2000 and 2008 the average level of fiscal deficit as share of GDP was 6,8 per cent in Greece and 6,2 per cent in Hungary.[6] Following the collapse of Lehman Brothers in September 2008, Hungary became the first EU victim of the crisis as it lost access to international financial markets. A little over a year later Greece also lost access to the markets due to its excessive debt and deficits.

Both countries needed international financial assistance. Hungary signed a stand-by agreement with the IMF during the Fall of 2008, which included the abolishment of the 13th-month pension, increase in VAT and the strengthening of the institutional framework for fiscal policy. The strong cooperation of the government ensured the completion of the program and the return to market financing (Győrffy, 2018, p. 160). There was much less cooperation in the case of Greece. Given the earlier practice of regularly falsifying public finance statistics, trust towards Greece was low from the beginning of the negotiations. The first program in May 2010 focused on raising expenditures and fighting tax evasion rather than structural reforms, which led to the collapse of investments, lower-than-expected growth, the regular missing of the program targets, and the failure to return to market financing (Visvizi, 2012, p. 33). A new assistance program became necessary, which was signed in February 2012. The program contained aggressive fiscal consolidation including significant expenditure cuts, far-reaching structural reforms and a €50bn privatization plan. As emphasized by Ardagna and Caselli (2014, p. 305), it was the toughest consolidation plan in OECD countries in the past 40 years.

5.2. The road towards illiberalism

The different outcomes of the initial financial assistance programs led to political change in both countries. In April 2010 Viktor Orbán won the parliamentary elections with a constitutional majority based on promises to end austerity and lower taxes. His early moves to place the burden of adjustment to multinational companies and banks through special taxes as well as de facto nationalize private pension funds rattled the international financial markets. In November 2011 Hungary had to turn to the IMF again. The negotiations lasted for over a year without a second agreement – the government thus succeeded in avoiding further speculation against the currency as well as the potentially harsh policy conditionality of a new agreement (Győrffy, 2018, p. 161). As shown by Johnson and Barnes (2015) international bond markets showed a significant level of tolerance for Orbán's policies. The situation could not be more different in Greece. While pro-European parties could still form a government in 2012, their calls to renegotiate the program hit the wall of distrust from lenders thus they had to implement extremely unpopular measures – such as shedding 150 000 public servant posts (Featherstone, 2016, p. 51). As the population grew tired of austerity, the position of far-left SYRIZA that it was possible to renegotiate the program and remain in the eurozone became widely popular (Ibid). In January 2015 SYRIZA won the elections, formed a government in coalition with the right-wing populist party ANEL, and started a game of chicken with lenders. A shown by

Tsebelis (2016, p. 27) the Greek government did not understand that 'the negotiating deck was stacked in the EU's favor' as the EU had control over liquidity. Once the ECB froze ELA (Emergency Liquidity Assistance), and Grexit became a real possibility, the Greek government had to sign a punitive agreement 'to exorcise any impression that SYRIZA's irresponsibility had produced rewards' (Featherstone, 2016, p. 55). The new agreement included extremely detailed conditionality for structural reforms with a particular focus on implementation. Institutional reforms based on international best practice were prescribed including the de-politicization of the Greek administration, fight against corruption, strengthening the judiciary and the Greek statistical office.[7] This implied a very different context for building up an illiberal state than in Hungary.

From the outset, Fidesz and SYRIZA looked for inspiration and support in Russia. Orban met Putin in November 2009, when Fidesz victory in the next general elections in April 2010 was all but certain, and afterwards Hungary became the closest ally of Russia within the NATO.[8] Alexis Tsirpas visited Putin and asked for his support right after his election victory in April 2015.[9] While Putin promised support to both leaders, he could not offer the financial assistance necessary for keeping Greece in the eurozone (Stronski, 2021, p. 10), while he was able to offer favorable private business deals to actors close to the Hungarian government (Deák et al., 2017) as financial markets provided the necessary liquidity for the country.

Although the SYRIZA-ANEL coalition was constrained by a lack of constitutional majority and financial conditionality, the disdain towards liberal democracy and the admiration of the Russian system were reflected in very similar efforts to entrench power and move towards illiberalism as in Hungary. Both parties followed the script described by Pappas (2020, p. 56): reliance on charismatic leadership, strengthening of political polarization, colonization of the state with loyalists and the use of state resources for patronage. These steps together undermine the liberal institutions, which constrain government power. SYRIZA relied strongly on the 'us versus them' rhetoric, and once it assumed power, it started governing accordingly. As recounted by Pappas (2020, pp. 61–64) steps included packing the public administration with political cronies at a scale unseen in Greece before; massive assault on political institutions and the initiation of constitutional reform; changing the electoral laws; attacks on the freedom of the press and the independence of the judiciary. In Hungary, Orbán had three electoral cycles with a constitutional majority to implement the same program. The first one to notice the systemic destruction of democratic institutions was the foremost researcher of the former Communist system, János Kornai[10], who warned early about the changes taking place under Orbán: the lack of separation of powers between the executive and legislative; the weakening of the rule of law with a new Fundamental Law, the government-controlled prosecution, and attacks on judicial independence; the repression of independent media and the colonization of the public media for propaganda purposes; as well as the centralization of public sector institutions and the limiting of market competition. He declared that these steps together with the new electoral law mean that 'it would be difficult to dismiss the government through elections' (Kornai, 2015, p. 47). He proved to be correct.

5.3. Divergent success in fighting illiberalism

Greece and Hungary attempted to reverse illiberal tendencies through similar strategy – but only Greece was successful in this effort. As Pappas (2020, pp. 58–60) argues four elements are necessary for defeating a populist regime: a liberal opposition leader, a credible political program, emphasis on consensus rather than polarization and focus on rational rather than the emotional aspects of politics. In 2019 Kyriakos Mitsotakis, a 47-year-old reformist technocrat leading New Democracy and an anti populist coalition succeeded in defeating SYRIZA at the polls with a centrist program focusing on individual freedom, education, tax cuts, simplification of the legal system and digital transformation of the state (Pappas, 2020, p. 65). A very similar effort failed completely in Hungary on 3 April 2022. There was a new leader for the unified opposition, Péter Márki-Zay, who was elected in a highly successful two-round primary vote in October 2021, and who was committed to liberal, centrist policies, rational discourse, and consensus-based decision-making (Hornok, 2021). Despite this strategy, the opposition suffered a crushing defeat at the polls and Orbán entrenched his constitutional majority. While in retrospect it is possible to argue that the coalition cohesion was weak among the six participating parties and the outsider Márki-Zay, similar undertakings have worked before in other countries.[11] The scale of the defeat was unexpected, and it was strongly influenced by a vis maior event – Russian aggression against Ukraine. After some confusion in messaging given his pro-Putin policy stance for over a decade, Orbán succeeded in presenting himself as the protector of peace – implicitly calling for the capitulation of Ukraine and the end of Western support. He threatened with Hungary joining the war against Russia in case of an opposition victory. This was a false claim, but the government's dominance of the press helped to spread this message, and many voters believed it as they were shocked by the war.[12] Still, the deeper causes of the difference between Greece and Hungary can be traced back to membership in the EMU.

5.4. Illiberalism and the euro

The desire of the Greeks to remain in the EMU implied significant bargaining power asymmetry vis-à-vis international lenders. As the European Central Bank (ECB) froze Emergency Liquidity Assistance (ELA) for Greece threatening with a bank run on the Greek financial sector, the Tsirpas government was forced to sign a punitive agreement, which focused on institutional reforms and the depoliticization of the state. The SYRIZA government could not follow its own program and fulfill its promises to voters but instead had to implement the detailed policies dictated by international lenders. As argued by Aslanidis and Rovira-Kaltwasser (2016, p. 1089), '(t)he absence of command over monetary policy and tools such as currency devaluation, bond issuance and interest rate manipulation, can function as 'hard' and efficient deterrents of populist radicalism.' The strict implementation of the bailout conditionality ultimately eroded SYRIZA's popularity and opened the door for political change.

The situation of Hungary outside the eurozone was completely different. Orbán's success in prolonging the negotiations calmed the markets without policy conditionality. Outside the eurozone Orbán had the chance to implement policies Greece was unable to do within the golden straitjacket of the euro.[13] Keeping the national currency helped entrenching Orbán's system in four ways:

1. The Hungarian currency (HUF) could be steadily devalued – while the HUF/€ exchange rate stood at 268,13 on 8 April 2010, 12 years later, after a steady decline it was 377,28

on 8 April 2022[14] – a decline of 40 per cent. The policy of devaluation helped the government to sustain price competitiveness of the economy, and claim steady increase of wages in HUF, which has been very popular with the electorate. As argued by Győrffy (2022, p. 102) in the longer run, this strategy contributed to the middle-income trap for the country as productivity compared to the EU average declined rather than increased between 2010 and 2019. Furthermore, there is a limit to the use of this tool – the forint continued its slide after the 2022 elections, and the HUF/€ exchange rate reached 432 on 12 October, resulting in an inflation rate over 20 per cent and overnight collateralized loan facility rate of 25 per cent (Dunai, 2022). These developments might eventually soften the support for the government, but between 2010 and 2022 devaluation was a valuable tool in keeping political support.

2. Independent monetary policy also allowed the government to sustain historically low interest rates – since September 2016, the official base rate was lower than the inflation rate[15] yielding a negative real interest rate, which have fuelled consumption and asset price hikes giving the illusion of an economic boom.
3. As a eurozone outsider Hungary did not have the obligation to become part of the banking union, which sustains the potential to conduct independent policies on ownership, regulation, and supervision. Mérő and Piroska (2016) document extensively how the Orbán government used these powers to reshape the ownership structure of the Hungarian banking sector, to sustain the possibility for regulatory pressure on the main independent bank, OTP, as well as allow discretionary decisions in regulatory cases, which were important for the government.
4. The National Bank of Hungary (NBH) has been able to design special credit programs to help companies first in response to the global financial crisis then in response to the COVID pandemic. While such lending operations and asset purchase programs were conducted by the ECB as well (Király et al., 2022, p. 292), the structure of these programs can differ significantly. An example for this difference is the Bond Funding for Growth Scheme (BGS) of the NBH in 2019. Although it is modeled on the ECB's Corporate Sector Purchase Program (CSPP), unlike the original, which requires investment-grade credit rating (BBB-) from applicant companies, the BGS threshold is B+ (NBH, 2019, p. 6), which is basically junk bond.[16] Based on the calculations of Brückner (2019) around 50 per cent of the 300bn HUF (around 0,9bn € in 2019) program went to companies close to the government.

Overall, the possibility of an independent monetary policy helped Hungary to manage the financial crisis without the strict conditionality faced by Greece. Through devaluation and interest rate cuts the NBH was also able to generate growth as well as finance the economic empire close to the government. These objectives were further helped by the significant (annually around 4 per cent of Hungarian GNI[17]) transfers from the EU, which were also not subject to conditionality. As shown by Kelemen (2020) the funds functioned as a special type of resource curse and became one of the main pillars of an evolving authoritarian equilibrium. However, the staggering level of corruption[18] did not prove to be a winning message during the elections, as the apparent economic boom and the uneven playing field brought victory for Orbán in 2014, 2018 and 2022. He legitimized the changing of the Hungarian institutional framework based on these victories claiming democracy and rejecting liberalism (Plattner, 2019, pp. 9–10). Ultimately, the weakening of liberal constraints undermined democracy, and made the peaceful change of government highly unlikely given the absence of level playing field.[19] This chain of events differs significantly from the Greek experience under the strict constraints of the EMU.

6. Discussion

The comparison of Greece and Hungary supports the argument that eurozone membership matters in the process of transformation from populist to authoritarian rule. While being free of the constraints represented by the common currency illiberalism could be entrenched in Hungary, the same constraints saved liberal democracy in Greece. We can conclude that being outside of the eurozone is a necessary condition for entrenching authoritarianism, while being a member is a sufficient condition for keeping liberal democracy. So far, we have not seen any counterexamples to this argument in the broader EU-27 sample. However, given the small-N problem, and the fact that only Hungary has made the transformation from populism towards authoritarianism, we also need to address potential counterarguments to infer causation. In the following I will deal with three such arguments: the presence of constitutional majority in Hungary, the possibility for reverse causality and the potential third factor of institutional quality, which might be behind both staying out of the EMU and the authoritarian turn. Afterwards I turn to the main limitation and open question of the study.

6.1. Difference in constitutional majority

A two-third majority was clearly helpful for Fidesz to write a new constitution and entrench its power. Could the SYRIZA-ANEL coalition do the same? To answer this question, we can have a counterfactual experiment imagining that they gained a two-thirds majority in 2015. However, even if they had a constitutional majority, they could not have adopted a new constitution as they were negotiating with the Troika. At the same time, they could have left the eurozone – as it was revealed in 2015, there were preparations for Grexit by the minister of finance, Yanis Varoufakis, but given the popular uproar against the idea, he had to resign (Aslanidis & Rovira-Kaltwasser, 2016, p. 1084). Thus, within the EMU a constitutional overhaul would have been probably impossible, while getting rid of the constraints could have been a reason to leave – in line with the argument of this article.

6.2. Reverse causality

It is also possible to argue that those countries, which turn authoritarian do not want the euro, and those, which plan to stay democratic introduce the euro. This is certainly correct, and it also underlines the main point of the article – policymakers are aware that the EMU represents significant constraints on their discretion in line with Rodrik's trilemma. Still, in the specific comparison between Greece and Hungary we cannot argue for reverse causality as both Tsirpas and Orban came to power with a prior relation to the EMU – Greece as a member, while Hungary as an outsider. EMU membership or the absence of it was decided prior to the political transformation they started – implying that it must be considered as a cause, and the impact on the political system as an effect.

6.3. Third factor

A possible third factor, which could lie behind EMU membership, populism, and the authoritarian turn is institutional quality. Weak institutions could drive all these factors. However, as shown by Győrffy (2018, p. 203), between 2004 and 2015 Greece and Hungary have shown remarkably similar decline in the World Governance Indicators Rule of Law dimension. In fact, the Greek decline was somewhat steeper, which would have predicted more success with an authoritarian agenda. This fact further underlines the decisive impact of the euro in a setting with weak institutions.

6.4. Limitations

Up to this point I have considered the constraints presented by the euro within the context of a financial crisis and strict policy conditionality. Would these constraints be successful with an economically powerful country? While this remains an open question for the future, two considerations remain important. First, the article started out from the premise that economic hardship breeds populism, which might be transformed into authoritarianism. With a strong economy, a different, identity-driven populism could emerge. Second, the euro would still constrain an aspiring authoritarian even in an economically strong country in managing the value of the currency, setting interest rates, and utilizing the financial system supervised by the ECB. This could lead to identity-based calls for leaving the EMU or even the EU to get rid of those constraints. These considerations imply that EMU membership implies severe constraints on policy discretion even in the absence of financial assistance conditionality. Whether these would still be sufficient against an authoritarian turn in a financially secure country is a question for the future.

7. Conclusions

Within the context of debates on the impact of the EMU on democracy, the paper considered the experiences of euro outsiders – countries that did not face the conditionality during the financial crisis, which has been widely considered detrimental to democracy. It has addressed an empirical puzzle: while populism has emerged inside and outside of the eurozone, real authoritarian tendencies have been observed only in non-EMU countries. This puzzle was analyzed from a historical institutionalist perspective by the parallel examination of Rodrik's political economy trilemma and the ordoliberal tradition of the Freiburg school. Although Rodrik's theory highlights the narrowing macroeconomic policy choice of national democracies with increasing economic integration, the ordoliberal tradition underline the indispensable function of rules in constraining the government from following special interests. The latter school's focus on limited government directs attention to the importance of considering liberal democracy when discussing the political impact of the EMU rather than simply majority rule. Within the eurozone, the constraints presented by the loss of independent monetary policy for national governments strongly hinder the deviation from prevailing institutional standards. In the empirical part of the paper, it was shown that the limits on government discretion have prevented illiberalism to prevail in Greece, while the absence of similar constraints strongly contributed to the entrenchment of authoritarian practices in Hungary. Without a recourse to the devaluation of the currency, banking regulation and discretionary financing of the preferred companies, creating the economic base for an authoritarian project proved to be much more difficult. Based on the evidence available so far, one can argue that being outside of the EMU is a necessary condition for authoritarian entrenchment, while membership is a sufficient condition to avoid a transformation from populist to authoritarian rule.

Since Hungary is the only country in the EU, which is qualified as only partly free by Freedom House, we should be careful about overgeneralizing a single case where a determined leader with a constitutional majority made far-reaching institutional change possible. It also remains an open question whether an economically strong country, which do not face the constraints of conditionality like Greece, could get further with authoritarian entrenchment. Furthermore, in affirming the relevance of ordoliberal thinking, the precise content of economic policy supervision and its impact on the quality of democracy – including policy choice – lies outside the scope of the article. Still, the findings offer the possibility for generalization. As populism threatens the political system across the EU, euro outsiders are in a greater danger of falling to authoritarian challenges than insiders – examining the cases of Italy, Slovenia and Poland could provide additional empirical illustration for the theory.

For the proponents of liberal democracy in Central and Eastern Europe these considerations could add further justification for introducing the euro in current non-EMU member states. Until accession to the EMU, policy conditionality such as the European Semester and the Rule of Law mechanism – which depends on the commitment of decision-makers in the Commission and the Council – are important, though imperfect substitutes for defending the fundamental values of the EU.

Notes

1. See the next section for references.
2. For a recent exploration of the theoretical links between Euroscepticism and populism see Csehi and Zgut (2021).
3. The Freedom House index is the eldest and most extensive measurement of freedom and democracy worldwide. While it has been subject to a wide range of criticisms including conceptualization, measurement, and aggregation, Boese (2019) show the high level of correlation (~90%) with the Polity and the V-Dem indices. For the purposes of the present paper the numerical assessment that Hungary is only 'partly free' coincides with the assessment of the European Parliament (2022), which declared the country as a hybrid regime of electoral autocracy.
4. The classification into these categories can cover a variety of combinations in political rights and civil liberties scores. A thorough discussion of methodology is offered at https://freedomhouse.org/reports/freedom-world/freedom-world-research-methodology.
5. Own calculations based on data in the Appendix.
6. Own calculation based on data is from the European Commission's AMECO database, net lending variable.
7. The Memorandum of Understanding is available at: https://ec.europa.eu/info/sites/default/files/01_mou_20150811_en1.pdf.

8. For a detailed overview about the personal relationship between Orbán and Putin see the investigative reporting by Pethő & Szabó (2018).
9. For a full-scale elaboration on the list of reasons for Greece to reorient itself towards Russia instead of the West see Efthymiopoulos (2016), who focuses on economic opportunities such as links to other BRICS countries as well as cultural ties with the Orthodox Church.
10. János Kornai declared that Hungary became an autocracy in a Hungarian-language article published in the former leading opposition daily Népszabadság on 6 January 2011. Very few believed him at the time, but his position was eventually validated by subsequent events. See: http://nol.hu/gazdasag/kornai_janos-935811.
11. Howard and Roessler (2006) show that the most significant factor in defeating the government in a competitive authoritarian regime is an opposition coalition. This was clearly present in Hungary in 2022.
12. For a thorough analysis of the causes of opposition defeat see Bojár et al. (2022).
13. The flexibility for policy-making outside the eurozone was first recognized by Johnson and Barnes (2015) noting that Orbán's management of the financial crisis 'reaffirms the decisions of Hungary and other non-euro states to delay membership' (p. 563). They also claim that these decisions do not necessarily undermine developmental goals, but this is true only in the short-term.
14. Historical data on HUF-euro exchange rate can be found at: https://arfolyam.iridium.hu.
15. The base rate was lowered to 0,90% in May 2016, while inflation surpassed 1% in October 2016. Inflation has remained over the base rate up until the time of writing (April 2022). Data on base rate: https://www.mnb.hu/en/Jegybanki_alapkamat_alakulasa; data on inflation: https://www.mnb.hu/kiadvanyok/elemzesek-tanulmanyok-statisztikak/az-mnb-inflacios-alapmutatoi.
16. I am grateful for this point to Júlia Király, former Deputy Head of the NBH.
17. Data on funding is available at: https://ec.europa.eu/info/strategy/eu-budget/long-term-eu-budget/2014-2020/spending-and-revenue_en.
18. For a book-length exposition of the problem see Transparency International Hungary (2021).
19. A thorough assessment of the uneven electoral playing field is provided by OSCE (2022).

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Appendix

Country short	Country	Vote share	Party name short	Party name in English	PopuList evaluation
AUT	Austria	17,2	FPO	Freedom Party of Austria	P-FR
BEL	Belgium	12,05	VB	Flemish Block|Flemish Interest	P-FR
BEL	Belgium	8,42	PA-PTB	Workers' Party of Belgium	FL
BEL	Belgium	1,69	Pp	People's Party	P-FR
BGR	Bulgaria	31,07	GERB	Citizens for European Development of Bulgaria	P
BGR	Bulgaria	7,36	VMRO	IMRO – Bulgarian National Movement	P-FR
BGR	Bulgaria	3,62	Volya	Will	P-FR
BGR	Bulgaria	1,07	Ataka	Attack	P-FR
BGR	Bulgaria	1,09	NDSV	National Movement Simeon II	P
CYP	Cyprus	27,49	AKEL	Progressive Party of Working People	FL
CYP	Cyprus	8,25	ELAM	National Popular Front	FR
CYP	Cyprus	3,29	SYM	Citizen's Alliance	P-FL
CZE	Czech Republic	21,18	ANO	Action of Dissatisfied Citizens	P
CZE	Czech Republic	9,14	SPD	Freedom and Direct Democracy Tomio Okamura	P-FR
CZE	Czech Republic	6,94	KSCM	Communist Party of Bohemia and Moravia	FL
DEU	Germany	11	AfD	Alternative for Germany	P-FR
DEU	Germany	5,5	PDS|Li	PDS|The Left	P-FL
DNK	Denmark	13,2	SF	Socialist Peoples Party	FL
DNK	Denmark	5,5	En-O	Red-Green Alliance	FL
DNK	Denmark	10,8	DF	Danish Peoples Party	P-FR
ESP	Spain	10,07	Podemos	Podemos	P-FL
ESP	Spain	6,21	Vox	Voice	P-FR
EST	Estonia	12,7	ERa/EKR	People's Union of Estonia/Conservative People's Party	P-FR
FIN	Finland	13,8	SP|P	Finnish Party|True Finns	P-FR
FIN	Finland	6,9	DL|VAS	Democratic Union|Left Alliance	FL
FRA	France	23,34	FN	National Front	P-FR
FRA	France	6,31	FI	Unbowed France	P-FL
FRA	France	2,49	PCF	French Communist Party	P-FL
GRC	Greece	23,75	SYRIZA	Coalition of the Radical Left	P-FL
GRC	Greece	5,35	KKE	Communist Party of Greece	FL
GRC	Greece	4,87	LS-CA	Peoples Association – Golden Dawn	FR
GRC	Greece	4,18	EL	Greek Solution	P-FR
GRC	Greece	2,99	MeRA25	European Realistic Disobedience Front	P-FL
GRC	Greece	1,23	LAOS	Popular Orthodox Rally	P-FR
HRV	Croatia	5,66	ZiZi	Human Shield	P
HRV	Croatia	8,52	Hrast	Croatian Growth	FR
HRV	Croatia	4,67	Most	Bridge of Independent Lists	P
HRV	Croatia	4,37	NHR-HSP	Independents for Croatia-Croatian Party of Rights	FR
HUN	Hungary	6,34	Jobbik	Jobbik Movement for a Better Hungary	P-FR

(*Continued*)

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Country short	Country	Vote share	Party name short	Party name in English	PopuList evaluation
HUN	Hungary	3,29	MHM	Our Homeland Movement	P-FR
HUN	Hungary	52,56	FIDESZ-KDNP	Fidesz – Hungarian Civic Party/Christian Democratic People's Party	P-FR
IRL	Ireland	11,68	SF	Sinn Fein	P-FL
IRL	Ireland	2,53	D-PRB	Solidarity – People Before Profit	FL
ITA	Italy	34,26	LN	North League	P-FR
ITA	Italy	17,06	M5S	Five Star Movement	P
ITA	Italy	8,78	FI-PdL	Go Italy – The People of Freedom	P
ITA	Italy	6,44	FdI	Brothers of Italy	P-FR
ITA	Italy	1,75	S	Left	FL
LTU	Lithuania	8,99	DP	Labour Party	P
LTU	Lithuania	5,13	LCP	Lithuanian Centre Party	P
LTU	Lithuania	2,73	TT-LDP	Order and Justice – Liberal Democratic Party	P
LTU	Lithuania	1,92	LLS	Lithuanian Freedom Union (Liberals)	P-FL
LUX	Luxembourg	4,83	DL	The Left	FL
LUX	Luxembourg	10,04	AR|ADR	Action Committee Pensions|Alternative Democratic Reform Party	P
LUX	Luxembourg	1,14	KPL	Communist Party of Luxembourg	FL
LVA	Latvia	16,4	NA/TB/LNNK	National Alliance/For Fatherland and Freedom/LNNK	FR
NLD	Netherlands	10,96	FvD	Forum for Democracy	P-FR
NLD	Netherlands	3,37	SP	Socialist Party	P-FL
NLD	Netherlands	3,53	PVV	Party for Freedom	P-FR
POL	Poland	45,38	PiS	Law and Justice	P-FR
POL	Poland	3,69	K	Kukiz'15	P-FR
POL	Poland	4,55	KORWIN	Coalition for the Renewal of the Republic – Liberty and Hope	FR
PRT	Portugal	10,6	BE	Bloc of the Left	FL
PRT	Portugal	7,41	CDU	Unified Democratic Coalition	FL
PRT	Portugal	1,6	CH	Enough	P-FR
SVK	Slovakia	15,72	Smer	Direction – Social Democracy	P
SVK	Slovakia	12,07	LsNS	People's Party Our Slovakia	FR
SVK	Slovakia	5,25	OLaNO	Ordinary People and Independent	P
SVK	Slovakia	4,09	SNS	Slovak National Party	P-FR
SVK	Slovakia	3,23	SR	We are family – Boris Kollar	P-FR
SVN	Slovenia	26,25	SDS	Slovenian Democratic Party	P-FR
SVN	Slovenia	15,44	LMS	List of Marjan Sarec	P
SVN	Slovenia	4,01	SNS	Slovenian National Party	P-FR
SVN	Slovenia	6,43	L	The Left	FL
SWE	Sweden	15,34	SD	Sweden Democrats	P-FR
SWE	Sweden	6,8	V	Left Party (Communists)	FL

Notes: Classification is based on PopuList by Rooduijn et al. (2019). Definitions available: https://popu-list.org/about/. P stands for populist, 'parties that endorse the set of ideas that society is 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. FR stands for far right, „parties that are nativist (which is an ideology that holds that states should be inhabited exclusively by members of the native group and that nonnative elements are fundamentally threatening to the homogenous nation-state) and authoritarian (which is the belief in a strictly ordered society, in which infringements of authority are to be punished severely).' FL stands for far left: „parties that reject the underlying socio-economic structure of contemporary capitalism and advocate alternative economic and power structures. They see economic inequality as the basis of existing political and social arrangements and call for a major redistribution of resources from existing political elites.' European Parliamentary election results from May 26, 2019 are available in Döring and Manow (2020).