Distribution Agreement

Cameron Hall March 25, 2020

Why Power Corrupts Some More Than Others: Explaining Variation in State Capture in the Post-Communist World

by

Cameron Hall

Hubert Tworzecki
Adviser

Political Science

Hubert Tworzecki

Adviser

Eric Reinhardt

Committee Member

Matthew Payne

Committee Member

2020

Why Power Corrupts Some More Than Others: Explaining Variation in State Capture in the Post-Communist World

By

Cameron Hall

Hubert Tworzecki

Adviser

An abstract of
a thesis submitted to the Faculty of Emory College of Arts and Sciences
of Emory University in partial fulfillment
of the requirements of the degree of
Bachelor of Arts with Honors

Political Science

2020

Abstract

Why Power Corrupts Some More Than Others: Explaining Variation in State Capture in the Post-Communist World
By Cameron Hall

State capture is a problem that has become increasingly prevalent in the case of the post-communist world. It has created endemic corruption, stalling development and economic growth and in many cases contributing to democratic breakdown. However, while previous research has done an excellent job characterizing certain paradigmatic cases like Hungary and Poland, there has been comparatively less work seeking to explain why state capture is so much worse in some countries than in others. This is especially true when it comes to the role of economic factors. Therefore, this paper focuses on economic variables and attempts to explain variation in the degree of state capture in post-communist countries. It begins with a regression analysis, which is followed by a comparative case study of the Czech Republic and Hungary. Independent variables of interest include how democratic a country's trade partners are, the complexity of a country's economy, the amount of regulation in an economy, the size of a country's public sector, and the amount of money a country receives from EU structural funds.

Why Power Corrupts Some More Than Others: Explaining Variation in State Capture in the Post-Communist World

By

Cameron Hall

Hubert Tworzecki

Adviser

A thesis submitted to the Faculty of Emory College of Arts and Sciences
of Emory University in partial fulfillment
of the requirements of the degree of
Bachelor of Arts with Honors

Political Science

2020

Acknowledgements

Many thanks to my adviser, Hubert Tworzecki, for guiding me through this process. Thanks as well to the other members of my committee for helping me reach my full potential in this paper. Lastly, thank you to all of the other political science honors students for their advice and support throughout the year.

Table of Contents

Tables and Figures

The phenomenon of democratic breakdown in the post-communist states of Central and Eastern Europe and Central Asia has garnered much attention in both media and scholarly spheres of late. However, much of this attention has focused on supposedly paradigmatic cases like Poland, Hungary, and to a more limited extent, Russia. Such focus on the most salient examples of democratic breakdown often extrapolates the features of these examples to the entire region, ignoring the immense variation that exits between countries barreling toward authoritarianism and those where democracy is still alive, even if not exactly thriving.

Democratic breakdown (also known as democratic backsliding) is a broad concept that can occur for many reasons and in many ways. One dimension of this problem that is endemic in the post-communist region is that of state capture: an extreme form of grand corruption in which elites gain control of a state's decision-making processes in order to systematically advantage themselves and/or their associates. However, just like with democratic breakdown, the degree of state capture varies considerably between countries. Therefore, this paper asks the question: what explains differences in the degree of state capture?

Gaining a better understanding of this question is crucial to adequately address the crisis of liberal democracy occurring in the post-communist world and beyond. It is not enough to simply take lessons from Poland or Hungary and apply them to other countries with the expectation that they will be effective. This paper seeks to develop a more comprehensive explanation of state capture in the region by moving beyond traditional political explanations and examining economic ones. Focusing on this region is useful from an analytical standpoint due to its shared historical, cultural, and institutional past and the fact that its constituent countries began their process of democratization largely at the same time and subject to the same pressures. Nevertheless, this paper begins with a large n analysis of all countries in the world that aims to determine potential causes of state capture before delving into separate regression analyses and a case study of the post-communist region specifically.

Literature Review

The issue of state capture is grounded in elite theory. Within modern Western scholarship, Gaetano Mosca (1896/1939) and Vilfredo Pareto (1901/1968) were the earliest pioneers of elite theory. Both identified elites as a powerful and influential stratum of society that plays a critical role in governance. They also acknowledged the existence of both political and economic elites. Robert Michels (1911/1949) later built on these ideas when he developed his iron law of oligarchy, in which he asserted that all democratic organizations are inevitably elite-driven because the large size of organizations always requires power to be consolidated in the hands of certain individuals.

The actual term state capture, however, did not emerge until the late 1990s, when scholars used it to describe a phenomenon that was occurring in many states in the post-communist region. Joel Hellman, who at the time was the World Bank's Chief Institutional Economist and a specialist in Europe and Central Asia, coined the term. He defined state capture as "the efforts of firms to shape and influence the underlying rules of the game (i.e. legislation, laws, rules, and decrees) through private payments to public officials" (Hellman et al. 2000). He placed state capture under the umbrella of grand corruption, which describes all corrupt activity in the upper echelons of government (Hellman et al. 2000). Hellman and his colleagues further expanded upon this definition in subsequent papers, considering the possibility for groups like the military, a specific ethnic group, or a group of kleptocratic politicians to play the same role as firms in his first definition (Hellman et al 2003).

Other scholars have further extended this concept. Grzymala-Busse (2008) and Innes (2013) laid the groundwork for incorporating political elements into the largely economic concept of state capture developed by Hellman and his colleagues. On the economic side, scholars like Mihalyi and Szelényi (2017) have emphasized the importance of rent seeking. Rent, which is defined as income gained from closed relationships (such as monopolies, cartels, and regulatory capture), is a concept that has roots in the classical economic theory of figures like John Locke, Adam Smith, Karl Marx, and David Ricardo. Building on this concept, Mihalyi and Szelényi (2017) proposed that state capture occurs because of a phenomenon of rent seeking, which is present to some degree in all societies. They also identified three types of rent-seeking behavior that have all existed to some degree in post-communist transition: market capture by political elites, state capture by oligarchs, and capture of oligarchs by autocratic rulers through selective criminalization and the redistribution of their wealth to loyal new rich. In this framework, political elites are those who first gain political power, which they leverage to gain control of resources, while oligarchs draw on existing personal resources that they use as a vehicle to obtain political power.

When oligarchs succeed in capturing a state, they establish patronage networks that control the flow of rents, as Chipkin et al. (2017) identified in the case of South Africa. At the top of these networks are controllers or patrons, who sit atop the network and distribute rents. They then distribute rents to elites, who compete with each other for them and then funnel funds to entrepreneurs, who distribute them across vast transnational networks. This hierarchy, when functioning correctly, ensures that those who are part of the network receive a steady stream of income from rents and that those who are not part of it are essentially cut off from these resources unless they petition one of the patrons. Hale (2015) identified similar patronage networks in the post-communist world, and Magyar (2016) has extensively detailed such networks in Hungary specifically.

The emergence of these patterns of behavior in the post-communist world is largely a result of the communist legacy and the socio-political legacy it left. Mungiu-Pippidi (2006) identified the fact that the states of the post-communist world are particularistic rather than universalist as their fundamental issue. Under universalism, power is divided in a way that creates a clear distinction between the public and private spheres, but under particularism, power is more concentrated and there is significant overlap between public and private. The fact that such a public-private distinction was inherently unclear in the communist period meant that these norms carried over to the transition period, exacerbating tendencies to use public power for private gain (Klima 2020).

Many scholars have attempted to explain why state capture occurs, but the sheer number of competing theories on this phenomenon has resulted in a lot of uncertainty as to its actual root cause. Those who have looked at Central and Eastern Europe have attempted to leverage Poland and Hungary as paradigmatic examples. This is a shift from just a few years ago, when scholars largely painted Poland as the star of post-communist transition and Hungary as the anomaly (Magyar and Vasarhelyi 2017). In both of these countries, elites have begun dismantling democratic institutions like independent media and the judiciary in order to entrench their control over state resources, much to the chagrin of the European Union and the NGO community. This has led to a slew of terms being used to describe these countries, such as “mafia state” (Magyar 2016), “authoritarian clientelism” (Markowski 2018), and “kleptocratic state” (Tóth and Hajdu 2018). Other studies have focused extensively on networks of corruption in Hungary in particular (Fazekas and Tóth 2016; Jancsics and Jávor 2012). While these characterizations and their accompanying analyses of state capture are no doubt well-researched accounts of the situation in Hungary and Poland, there has been far less work aiming to establish the amount of similarity and difference between these countries and their neighbors.

This gap is the main focus of Cianetti et al. (2018), who problematize the relative lack of focus on other countries in the region, which range from being equally as corrupt as Poland and Hungary but in different ways to being well-functioning democracies showing few signs of movement toward state capture. One example these scholars discuss to illustrate their case is the Czech Republic, where private interests are deeply embedded in politics but not united behind one party, thus maintaining a form of pluralism. They cite Slovenia as a similar case to the Czech Republic and contrast these cases further with Estonia and Latvia. These two countries are both quite democratic, but elites have nevertheless empowered themselves by fostering a political system that is upheld by centrist, technocratic political parties and that more or less excludes these countries' large ethnic Russian minorities.

Implicit in this discussion is movement away from assuming that state capture must result in some form of authoritarianism in the end. Recent research has focused on the possibility for a state to be heavily captured but still ostensibly democratic. In these situations, a competitive political party system still exists, but these parties are not serving as vehicles for the representation of voters' interests. Instead, these "corporate brokerage parties" serve as vessels for certain elites to gain access to rents and ensure the steady flow of these rents into their pockets (Innes 2016). These widening conceptions of state capture point toward a concept of state capture that is a spectrum rather than a binary outcome. At one end of this spectrum lie highly corrupt authoritarian regimes like those of Cold War Africa where leaders stole directly from the state treasury, while at the other end lie countries that are fully democratic with little to no corruption. However, contemporary examples show that many possibilities between these two extremes exist. Furthermore, they show that even in situations where state capture has occurred, there is significant variety in how it manifests itself and how it subsequently affects actual government institutions.

But what explains this variation? As established already, the fundamental actors in instances of state capture are elites, whether political or economic. If we assume that humans are rational and self-interested, it stands to reason that elites who have the ability to seek rents will do so. Therefore, the most important mechanism in explaining state capture is how free or constrained elites are to seek rents. Beyond simply how constrained elites are, and therefore how prone a state is to capture, it is possible that elites who are constrained in different ways also pursue state capture in different ways. Hale (2015) attributes some of this variation to differences between largely unipolar, hierarchical patronage networks in the former USSR and more multipolar competing networks in Central Europe. However, this explanation cannot account for variation between states within those subregions.

Literature on state capture has focused primarily on political constraints, with Klima (2020), describing state capture in the post-communist context as "predominantly a political phenomenon." Variables of interest here, as identified by Slinko et al. (2004), include interest group cohesiveness (Grossman and Helpman 1994), electoral competition, electoral uncertainty (Bardhan and Mookherjee 1999), and political centralization (Blanchard and Shleifer 2000). In these cases, elites are less constrained when their interests are aligned, they face less competition and uncertainty, and the political system is more centralized. Klima (2020) identifies voter apathy as another important factor since parties can more easily engage in clientelism and vote buying when voters are disengaged from politics. Another possible explanation has to do with whether a state operates under a presidential or parliamentary system (Persson et al. 2000). Under parliamentary systems, rents are more diffuse, making it harder to control and manage them than in presidential systems where they are more concentrated with one person who can then dole them out. Therefore, state capture is more likely in countries with a presidential system. Lastly, larger voting districts and non-plurality voting systems are associated with more corruption and thus more state capture because they reduce accountability (Persson et al. 2003).

Economic explanations of state capture have been comparatively less common. Despite Hellman et al (2000) first conceptualizing state capture as an economic phenomenon, many scholars such as Klima (2020) have characterized this conceptualization as narrow because it ignores political influences on state capture. However, this movement away from economic explanations does not account for the ways in which economic factors can influence political elites as well as business elites, therefore affecting state capture even when it is not driven by overtly economic elites. Indeed Innes (2013) distinguishes between corporate state capture (originating from economic elites), which has occurred in the Czech Republic, Slovakia, Romania, Bulgaria, and Latvia, and party state capture (originating from political elites), which has occurred in Poland, Hungary, Estonia, Slovenia, and Lithuania (she focuses on EU member states). However, this distinction cannot explain why state capture is so much more pervasive in some countries than others, since both of these groups contain countries where state capture is a relatively minor problem and countries where it is a severe one. The picture is less black and white than whether state capture originates in the political or economic sphere, and Klima (2020) correctly identifies that both of these types of state capture can occur in tandem.

Therefore, the economic explanations that do exist are often not explicitly connected to the state capture literature. The most famous of these is the resource curse, a term which Richard

Auty (1993) first formally coined to explain why countries rich in mineral resources have struggled so much in terms of economic development. Auty hypothesized that economic dependence on valuable natural resources, especially in a non-diversified way, drains competitiveness from the economy and prevents the growth of other sectors (Auty 1993). This work spawned a slew of literature on the resource curse, including studies of its political effects (Karl 1997; Torvik 2009). The more profitable and more concentrated rents provided by natural resource wealth make it both more desirable and easier for elites to engage in rent seeking, and once they gain access to these rents it can distort their incumbency advantage as they buy off their competition and block institutional development (Acemoglu et al. 2004; Acemoglu and Robinson 2006).

Similarly, the complexity of an economy, as measured by diversification of the products it produces, affects inequality in a country because it is easier for the wealthy to sit on their wealth if it is coming from a few easily targetable sources (Hartmann et al. 2016). In turn, this affects state capture because it is easier for elites to defend and expand their wealth in situations where no one else has the resources to fight them (Glaeser et al. 2003). In this vein, scholars have shown that while inequality has a dubious effect on the emergence of democracy, it has serious implications for the consolidation of democracy (Houle 2009), which has been the primary issue in Central Europe (Tomini and Wagemann 2018).

However, the resource curse can even apply to non-commodity resources. Each year, the European Union allocates hundreds of millions of euros in cohesion funds, which are used to finance development projects in less developed regions of the EU. In practice this mostly means Central Europe. By essentially creating an endless pipeline of funds that are funneled directly to the governments of these countries through public companies, EU cohesion funds dramatically increase the gains from rent seeking. Additionally, because funds must first be collected from member states to then be distributed, the EU is effectively taking money from small firms via taxation and redistributing it to large, more easily capturable firms. The role of these funds as a source of corruption is well-documented (Fazekas et al. 2013). Thus, in a way, cohesion funds have created a resource curse in countries where one previously did not exist. Much like with natural resources, cohesion funds create an enormous pool of concentrated wealth just waiting to be seized by elites.

Beyond the resources present in an economy, the business environment in a country can play an important role in constraining elites. A large body of literature focuses on the link between economic freedom and political freedom, with perhaps the most seminal work on this subject being that of Milton Friedman. He argued that the more control of the economy the government has, the more difficult it is for free expression and dissent to exist (Friedman 1962). This has obvious connections to the idea of state capture, because implicit in Friedman's argument is the idea that it is easier for elites to engage in state capture when more of the economy is controlled by the state. However, while some contemporaries have agreed with Friedman's assessment of elites having more power in economies with a larger public sector (Iversen and Soskice 2019), others have argued the opposite: that freer markets constrain economic elites less, allowing them to turn market share into power that increases inequality and in some cases allows for state capture (Piketty 2013). Thus, while many have hypothesized a relationship between economic freedom and political freedom, with state capture often acting as a crucial mechanism, it is unclear what the direction of this relationship actually is.

On a similar note, there is also a proposed link between the amount of regulation in an economy and state capture. The shift away from interventionist welfare states in many Western countries in the 1980s marked a decline in what one scholar has argued was the mediating force between capitalism and democracy. Since the 1980s, deregulation and globalization have exacerbated inequality and allowed for the rise of oligarchs that have engaged in state capture in many instances (Merkel 2014). Coincidentally, this shift in economic policy occurred just as the states of Central and Eastern Europe were throwing off the yoke of communism, so the deregulated capitalism of the day, as outlined by the Washington Consensus, became the norm in most of these countries.

Beyond simply the nature of economic transition, there are arguments that the speed of transition impacted outcomes of state capture. While most countries in the post-communist world created similar political and economic systems in the 1990s, they did not all do so at the same rate. In countries that underwent slower transitions, it has been argued, old elites had an easier time simply adapting to new conditions and remaining in power. Meanwhile, in countries with quicker transitions, old power structures were disrupted, making it harder for this continuity to occur (Ganev 2007). However, this argument primarily deals with just one type of rent-seeking behavior: market capture by political elites. It does not account for other types of state capture originating outside the original state apparatus.

Other theories of state capture have looked more at states' international economic relationships. Some older explanations focused on a country's openness to trade, arguing that trade openness reduced the ability of elites to engage in state capture because it increased the complexity of the economy and brought Western democratic, presumably non-corrupt business norms. However, many have since pointed out that myriad corrupt authoritarian governments have been able to successfully manage increases in trade openness that have actually strengthened their regimes. This fact largely disproves the aforementioned arguments about trade openness (Wu 2012).

However, some scholars have argued that how corrupt and authoritarian a country's specific trade partners are can create a contagion effect that helps encourage or inhibit state capture. This specific contagion effect is referred to as authoritarian trade exposure. If trade partners do not make trade contingent upon non-corrupt behavior, as most authoritarian countries do not, elites are much less constrained from engaging in corruption because they do not risk adverse effects for the economy at large. Likewise, if trade partners engage in corruption, it can encourage domestic elites to do so as well. This argument fits into the broader observation that Western liberal democratic norms are more powerful in countries more closely linked to the West. This linkage can be economic, as described above, as well as diplomatic or social (Levitsky and Way 2010). However, there is mixed evidence as to whether the normative side of this argument holds up. At least in regard to the post-communist world, the largely democratic states of the EU trade heavily with some highly corrupt captured states.

Theory and Hypotheses

There are clearly myriad theories on the links between aspects of countries' political and economic systems and corruption and state capture in those countries. However, none of these theories alone sufficiently explains the variation in state capture outcomes across the post-communist region. Beyond this, there have been few empirical studies of state capture due to difficulties observing it (Slinko et al. 2004), and those that do exist have largely ignored economic explanations. Therefore, it is necessary to develop an explanation that incorporates these economic explanations in an empirical fashion, which is what I attempt to do in this paper. It is also important to note that throughout this paper I use state capture as a catch-all term to refer to all three types of rent-seeking behavior identified by Mihalyi and Szelényi. This is simply more concise than consistently using all three terms every time I attempt to describe this phenomenon.

For purposes of this paper, the countries considered part of the post-communist world are the following: Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, the Czech Republic, Estonia, Georgia, Hungary, Kazakhstan, Kosovo, Kyrgyzstan, Latvia, Lithuania, Moldova, Montenegro, North Macedonia, Poland, Romania, Russia, Serbia, Slovakia, Slovenia, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan. These countries all either established communist authoritarian regimes in the 1920s (in the case of those part of the Soviet Union) or the late 1940s (in the rest of the cases) and attempted to transition to democratic, capitalist systems in the 1990s, even if some of these attempts were half-hearted and quite short-lived.

It is also important to clarify the relationship between state capture and three related variables: rents, corruption, and democracy. Based on the previously discussed literature, this paper assumes that the pursuit of rents is what incentivizes elites to engage in state capture, and all elites will do so if they are able because they are rational and self-interested. Corruption is the primary manifestation of state capture because it is the way in which elites distribute rents across their own networks, thus requiring the subversion of normal rules for the allocation of state resources (Chipkin et al. 2017). The need to control the flow of state resources requires dismantling institutions intended to prevent this from happening, such as the judiciary and the independent media, which often act as whistleblowers. Therefore, state capture reduces the quality of democracy, even if it does not always do away with it altogether.

This paper focuses on economic explanations of state capture, as these are often neglected, particularly in empirical studies. The first such explanation included in this model is that countries with less complex economies (i.e. greater reliance on one very large sector) have more captured states (H1). The next hypothesis deals with the issue of authoritarian trade exposure: countries that import a greater percentage of goods from authoritarian countries display more thoroughly captured states (H2). On a national economic policy level, this paper acknowledges competing theories about the size of the public sector, but for my purposes I will test the more traditional hypothesis that countries with a larger public sector exhibit more captured states (H3). Adding to these two is a hypothesis about deregulation: less highly regulated states see a higher degree of state capture (H4). Lastly, in regard to EU member states specifically, I test the following hypothesis: the greater percentage of a state's income made up by EU structural funds, the more captured the state will be (H5).

These hypotheses are tested against the null hypothesis (H0) that none of these factors affect the degree of state capture in a country. The speed of economic transition is not explored heavily in this paper, because this mechanism is largely covered by looking at the size of the public sector. Countries in the region that still have a large public sector have presumably undergone a slower transition out of communism, an economic system which is defined by its large public sector. Political explanations are also not explored in much detail in an effort to construct a model and theory based primarily on economic variables.

It is also necessary to control for several variables. As established above, inequality is a variable that affects many different pieces of state capture in different ways. For example, it is possible that inequality causes both less regulation and state capture. Another important variable that must be controlled for is geographic location, which is largely wrapped up with institutional history. It is possible that a country's location largely dictates its trading partners in a way that is unavoidable, and countries that are close together often share similar institutional pasts since much of the post-communist region consists of fragmented former empires. Therefore, geographic location covers several possible confounders including proximity to the EU, development, and presence of democratic tradition (Klima 2020) that all largely vary by location.

Data and Methods

This paper begins with a large n analysis so as to evaluate the effects of the relevant variables in general and independently of post-communist idiosyncrasies. In this case, the data points are countries present in the Varieties of Democracy (V-Dem) dataset (Coppedge et al. 2018). I selected this dataset because of its comprehensive measurement of many different aspects of countries' governments and economies. It also includes similar measurements of variables from other institutions, which is useful in determining the validity of their measurements vis a vis other similar ones. Taking the available countries in the dataset since 1989, the year in which the communist bloc began to collapse, resulted in 5289 datapoints. These cover 182 countries in every year from 1989-2018. Therefore, the units of analysis for this portion of the study are countries in given years, allowing for analysis both between countries and across time.

I measured the dependent variable, state capture, using the political corruption (v2x_corr) metric in the V-Dem dataset. Measuring state capture in this way relies on corruption as the primary manifestation of state capture. The more captured a state is, the less likely it is to fight corruption, because corruption is the fundamental mechanism for extracting rents from a captured state. Therefore, the more corrupt a state is, the more likely it is heavily captured, and vice versa. While this is not the most direct way to measure state capture, it is still an effective one. Corruption is already a difficult phenomenon to observe and quantify, and these tasks are even more difficult if not impossible when it comes to state capture. By relying on the semi-observable phenomenon of corruption, we can obtain more valid and reliable measures than if we tried to construct measures of state capture based on even less information. Furthermore, focusing on political corruption specifically ensures that we are measuring corruption that is relevant to state capture and not petty corruption that occurs on a more bureaucratic level.

Much of the data on my independent variables comes from the Observatory of Economic Complexity (Observatory of Economic Complexity 2018), which publishes in-depth information about the structure of most countries' economies and their trade partners. Using their bilateral trade data that comes from CEPII, I measured authoritarian trade exposure by multiplying a given country's percentage of trade with another country by that other country's democracy score according to V-Dem (v2x_polyarchy) and adding up the total for all trade partners in that year. I also used OEC data in the form of their Economic Complexity Index (ECI) to measure the complexity of a country's economy. This metric is essentially a combination of the diversity of sectors in an economy and the amount of knowledge, actors, and steps needed to make products (which is greater in the production of manufactured goods and other products with multi-step production).

Data for other independent variables came from other respected economic institutions. I measured the size of a country's public sector in terms of the amount of government revenue as a percentage of GDP with data from the World Institute for Development Economics Research's Government Revenue Dataset (ICTD/UNU-WIDER 2019). I chose to measure the size of the public sector this way because it most directly examines the amount of rent available to corrupt elites engaging in state capture. I measured the amount of regulation in a country using the business freedom metric in the Heritage Foundation's Index of Economic Freedom (Heritage Foundation 2019). Lastly, for countries in the European Union, data on cohesion funds came from the organization that provides them: the European Commission (2019). I averaged this data across its allocation periods in order to account for artificial yearly fluctuations and divided these numbers by the countries' gross national incomes in order to account for varying economic sizes. In the end, I merged all of this data into one dataset using the VLOOKUP function in Excel based on the countries and years available for the dependent variable, so as to properly run analysis. In most cases, data was available for all countries and years present in the V-Dem dataset.

In terms of control variables, I measured inequality using the index on equal distribution of resources in the V-Dem dataset. I selected this measure over the most common measure of inequality, the Gini index, because all commonly used Gini indices are missing data in many years for many countries to the point that it would render my analysis impossible. For geographic region, I used the following groupings for the analysis of all countries in the world: Western Europe and Others (as defined by the UN), Post-Communist, Latin America, the Middle East and North Africa, Sub-Saharan Africa, South Asia, East Asia, and Oceania. For my regression of just the post-communist region, I coded the regions as follows: Non-Soviet and Non-Yugoslav EU members (1): Bulgaria, Czech Republic, Hungary, Poland, Romania, and Slovakia, Former Yugoslav (2): Albania, Bosnia and Herzegovina, Croatia Kosovo, Montenegro, North Macedonia, Serbia, and Slovenia, Post-Soviet Europe (3): Belarus, Estonia, Latvia, Lithuania, Moldova, Russia, and Ukraine, and the Caucasus and Central Asia (4): Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan.

I divided countries this way so as to get as close as possible to groups with shared institutional and social histories. The first group were all members of the Warsaw Pact and shared more or less similar histories of being the fragments of former Central European empires, having communism imposed upon them, serving as Soviet puppet states, and ultimately pursuing EU membership following the fall of their communist regime. The second group were all (with the exception of Albania), states that emerged from Yugoslavia, which had its own distinct brand of communism that arose more organically. Albania similarly was a communist state largely outside the orbit of the Soviet Union, although its brand of communism domestically was quite different. The third group consists of the European portion of the former Soviet Union, which was influenced primarily by European pressures before the communist period and which formed the core of the Russian and subsequently Soviet empires. The last group consists of former Soviet states in Asia, which the USSR treated more as frontier regions, and which were influenced more by Asian cultures and pressures prior to their conquest by the Russian Empire.

Breaking up the regions in this way also controls for the number of years since countries began their transition out of communism, even though these differences are not likely to be large since all countries began their transition around the same general time. The former Soviet satellite states of Central Europe all saw the fall of their communist regimes in 1989, while similar events did not occur in Albania, the former Yugoslavia, and the former Soviet Union until 1991.

I used dummy variables to appropriately include these categorical regional controls in my analysis. This meant that each region became its own variable in the analysis. The Western Europe and Others group and the Central Europe group served as reference groups. This means that the coefficient estimates for all of the other groups are in comparison to these, which are represented by the intercept term rather than as their own variables. In both cases, these groups experienced the least state capture on average in comparison to the other groupings, which is the reason that I chose them as references. In the end, I did not include the Oceania region in the analysis, because no countries in this region had data for all of the variables and were therefore removed before running the regression.

Once I had collected my data, I ran three ordinary least squares regressions to examine the significance of my independent variables. The first included all countries of the world, the second included the states of the post-communist region, and the third included member states of the EU. I included this last regression in order to study the effect of structural funds, and in all three cases I removed data points with missing values for any relevant variables. I also standardized all of the quantitative variables (all besides the regional controls) in order to account for the fact that the data came from several different sources and therefore existed on several different scales, which would have distorted the coefficient estimates.

I chose OLS regression because both the independent variables and the dependent variable are continuous. Furthermore, while the possibility of nonlinear relationships exists, there is little indication from the literature as to whether the relationship between any of these independent variables and the dependent variable is linear or nonlinear. I chose to start with assessing linear relationships and allow future work to examine the possibility of nonlinear relationships if the results were significant.

However, while the variables that are significant provide a good starting point for evaluating causes of state capture, statistical significance cannot definitively assess causality. Therefore, additional analysis was needed to address potential issues stemming from unforeseen confounding variables and reverse causality. In the case of nearly all of these relationships there is a possibility for reverse causality, as it is possible that elites engaged in state capture and then shifted their trade relationships or reduced regulations on businesses, for example. Therefore, it was necessary to determine the direction of causality through further research. Furthermore, differences between some countries in regard to the independent variables are quite subtle, requiring more nuanced analysis of their differences. In order to engage in causal process tracing and explore unexpected results from the regression analysis, the second portion of this paper consists of a comparative case study.

This case study analyzes state capture in the Czech Republic and Hungary from the fall of communism to the present day. I selected these two countries in an effort to employ a most similar systems design. These countries have similar histories and cultures, having both been part of the Austro-Hungarian Empire, followed by a brief period of interwar independence, incorporation into the Soviet Union's communist bloc, resistance to said incorporation, democratization upon the collapse of communism across the region, and finally, accession to the EU and NATO. Economically both countries were considered early success stories of privatization and have generally remained so. The major difference between them is that Hungary has devolved into a cripplingly corrupt, quasi-authoritarian state under the control of Viktor Orbán and his Fidesz Party, while the Czech Republic has remained largely democratic and comparatively less corrupt. Essentially, state capture is a problem in both cases but much worse in the former. The numbers in the V-Dem dataset corroborate this story.

Comparing two countries that are similar in so many ways but are moving in opposite directions when it comes to state capture mitigates the influence of possible confounding variables that were not included as controls in the regression analysis. This comparison is also a useful mechanism for causal process tracing. By going in depth into these two countries, it is possible to evaluate whether the significant variables from the regression analysis actually exhibited change before change in state capture occurred. If this was what transpired, the case for causality becomes much stronger.

Data for this comparative case study came from a variety of sources. I leveraged several books on corruption in state capture in the Czech Republic and Hungary to assess the evolution of the problem over time in these countries. I then supplemented this information with investigative journalism from a variety of sources. In the case of these latter types of sources, I relied on specific anecdotes to attempt to evaluate my independent variables on an individual basis.

Results and Discussion – Regression Analysis

Starting with H1, I looked at the effect of economic complexity on state capture (see Table 1). This variable was significant in all three models (all countries, post-communist countries, and EU countries) and behaved as expected in each case, with more complex economies being associated with less state capture. This variable was also able to explain a reasonably large amount of the variation in state capture on its own, especially in comparison with the other variables discussed below.

Table 1. The Effect of Economic Complexity on State Capture

	Model 1		Model 2		Model 3	
Predictors	*Estimates*	*CI*	*Estimates*	*CI*	*Estimates*	*CI*
Intercept	-0.00	-0.03 – 0.03	0.00	-0.08 – 0.08	0.00	-0.08 – 0.08
Economic Complexity	-0.70 ***	-0.73 – -0.66	-0.57 ***	-0.65 – -0.49	-0.47 ***	-0.56 – -0.39
Observations	2007		445		431	
R^2 / R^2 adjusted	0.484 / 0.484		0.323 / 0.321		0.223 / 0.221	

* *p<0.05* ** *p<0.01* *** *p<0.001*

Table 2 (below) displays the effect of a country's trading partners on state capture. While this variable was also significant in all three cases, the sign was also the opposite of what was expected in all three cases. Trade with more democratic countries was associated with more state capture rather than less. However, further investigation into the data helps shed light on this problem. The CEPII bilateral trade data that the OEC uses relies on countries' self-reporting of their trade partners to the UN. On top of this, they attempt to account for unreliable reporting by weighting trade flows with large discrepencies between the exporting country and importing country less heavily. This means that data is much sparser for more corrupt and reclusive countries, which tend to mostly have data only for trade with the world's largest economies (most of which are democracies). For example, the Republic of the Congo reports trade almost exclusively with European countries and reports little to no trade with any neighboring African countries. Such a picture seems very unlikely to be reality.

Table 2. The Effect of Democratic Trade Partners on State Capture

	Model 1		**Model 2**		**Model 3**	
Predictors	*Estimates*	*CI*	*Estimates*	*CI*	*Estimates*	*CI*
Intercept	-0.00	-0.04 – 0.04	0.00	-0.09 – 0.09	0.00	-0.09 – 0.09
Democratic Trade Score	0.56 ***	0.53 – 0.60	0.37 ***	0.28 – 0.45	0.44 ***	0.36 – 0.53
Observations	2007		445		431	
R^2 / R^2 adjusted	0.318 / 0.317		0.134 / 0.132		0.196 / 0.194	

* *p<0.05* ** *p<0.01* *** *p<0.001*

Another issue is the fact that the most advanced economies, which are mostly democracies like France, Germany, the United Kingdom, and the United States, trade with so many countries. Even if they do employ trade conditionality with certain countries, their economies are simply too massive to do this with every country, and their democratic trade scores are lower as a result. Since these countries are mostly free from corruption, this reverses the direction of the trend. However, controlling by region comes close to fixing this problem in the full model 1 (see Table 6), although the data reporting issues keep the coefficient barely positive. In the full model 3, which does not include problematic reporters in Africa and elsewhere, regional controls actually resolve the issue, although the variable is not significant.

In the case of the post-communist region in model 2, regional controls also solve the problem. In this instance, the problem is on the other end of the spectrum, with the highly corrupt countries of the former Yugoslavia that trade almost solely with the countries of the EU. However, these countries appear to be annomalies of their own that suffer from the recent wars in the region and other unrelated issues. The fact that this regional control is significant in the full model 2, combined with the fact that the democratic trade score variable behaves as expected, provides evidence of this fact.

The variable that behaved the most unexpectedly was regulation (see Table 3). In all three models, this variable was significant, but increasing the amount of regulation was associated with more rather than less state capture. As my case study will later discuss, this suggests that regulation could be more of a tool used by elites to tie the hands of oligarchs and other economic elites who are not on their side. When corruption is involved, those in power can easily apply regulations discriminately. This would allow them to weaken non-allied businesses while they give preferential treatment to allied ones as they move toward their goal of state capture. If this is indeed the case, it would suggest that the amount of regulation is an intermediate step in the process of state capture rather than a precursor that controls the behavior of elites. It is instead the behavior of elites that is controlling the amount of regulation, although it still leads to more state capture in the end.

Table 3. The Effect of Regulation on State Capture

	Model 1		Model 2		Model 3	
Predictors	*Estimates*	*CI*	*Estimates*	*CI*	*Estimates*	*CI*
Intercept	-0.00	-0.03 – 0.03	0.00	-0.08 – 0.08	0.00	-0.08 – 0.08
Regulation	-0.70 ***	-0.73 – -0.67	-0.56 ***	-0.64 – -0.48	-0.49 ***	-0.57 – -0.40
Observations	2007		445		431	
R^2 / R^2 adjusted	0.487 / 0.487		0.311 / 0.309		0.235 / 0.234	

* *p<0.05* ** *p<0.01* *** *p<0.001*

This is also an interesting result when combined with the public sector size variable (see Table 4). Oftentimes we think of countries with larger public sectors as also having more highly regulated economies, and yet large amounts of regulation were associated with more state capture, while a large public sector was associated with less (again the variable was significant in all three models). By combing through the data, it becomes apparent that the countries with the largest public sectors actually tend to be Western countries, which also have the least state capture on average. This suggests a possible evolution in state capture tactics since the days of the highly corrupt communist regimes. Elites seeking to engage in state capture are still seeking to control the economy, but they have decided to build and maintain their sources of wealth in the private sector, likely because this makes it easier to obscure. This explains the centrality of public procurement contracts in the captured states of the post-communist world. The government issues these contracts, but private companies compete for them in a process that is heavily rigged. The modus operandi of the latest generation of corrupt elites therefore appears to be to destroy competition in the private sector and then distribute rents from the state through a controlled public procurement process rather than directly through large public companies.

Table 4. The Effect of Public Sector Size on State Capture

	Model 1		Model 2		Model 3	
Predictors	*Estimates*	*CI*	*Estimates*	*CI*	*Estimates*	*CI*
Intercept	-0.00	-0.04 – 0.04	-0.00	-0.09 – 0.09	0.00	-0.08 – 0.08
Public Sector Size	-0.54 ***	-0.58 – -0.51	-0.39 ***	-0.47 – -0.30	-0.52 ***	-0.61 – -0.44
Observations	2007		445		431	
R^2 / R^2 adjusted	0.296 / 0.296		0.149 / 0.147		0.275 / 0.274	

* *p<0.05* ** *p<0.01* *** *p<0.001*

Lastly, when it comes to EU structural funds, there is ample evidence that they do in fact contribute to state capture. This variable was significant in model 3, the only model that includes it, and it was associated with more state capture as expected (with quite a large coefficient as well). In the final model, this coefficient becomes smaller, likely because the countries that receive the most money from structural funds are all in the post-communist region, which is also prone to state capture from several other variables. However, structural funds remain a significant variable even when the other variables are included.

Table 5. The Effect of EU Structural Funds on State Capture

	Model 3	
Predictors	*Estimates*	*CI*
Intercept	0.00	-0.08 – 0.08
Structural Funds	0.52 ***	0.43 – 0.60
Observations	431	
R^2 / R^2 adjusted	0.265 / 0.264	

* *p<0.05* ** *p<0.01* *** *p<0.001*

Table 6 (below) displays the results of my regression analysis. The table presents three models, which make inferences about all countries in the world, post-communist countries, and EU member states, respectively. In all three cases, I removed countries that were missing data in order to run the regressions. Due to the nature of the data, which came from expert-coded indices and which I subsequently standardized, the coefficient values are arbitrary, but one can still draw conclusions based on their sign and relative size.

Table 6. Combined Regression Results

	Model 1		Model 2		Model 3	
Predictors	*Estimates*	*CI*	*Estimates*	*CI*	*Estimates*	*CI*
Intercept	-0.18 ***	-0.24 – -0.11	-0.09	-0.20 – 0.03	-0.14 **	-0.24 – -0.04
Economic Complexity	-0.22 ***	-0.26 – -0.18	-0.13 **	-0.23 – -0.04	-0.20 ***	-0.30 – -0.10
Democratic Trade Score	0.03 *	0.00 – 0.07	-0.09 **	-0.16 – -0.03	-0.03	-0.13 – 0.06
Regulation	-0.29 ***	-0.32 – -0.26	-0.36 ***	-0.41 – -0.30	-0.21 ***	-0.28 – -0.14
Public Sector Size	-0.06 **	-0.09 – -0.02	-0.19 ***	-0.25 – -0.12	0.00	-0.10 – 0.11
Inequality	-0.46 ***	-0.50 – -0.42	-0.54 ***	-0.62 – -0.47	-0.38 ***	-0.46 – -0.30
Post Communist	0.62 ***	0.54 – 0.70			0.35 ***	0.14 – 0.55
Latin America	-0.08	-0.19 – 0.03				
MENA	0.37 ***	0.26 – 0.47				
Africa	-0.18 **	-0.29 – -0.07				
South Asia	-0.08	-0.23 – 0.08				
East Asia	0.36 ***	0.27 – 0.46				
Ex Yugoslavia			0.33 ***	0.17 – 0.49		
European Ex USSR			0.13	-0.03 – 0.28		
Central Asia			-0.19	-0.43 – 0.05		
Structural Funds					0.12 **	0.04 – 0.20
Observations	2007		445		431	
R^2 / R^2 adjusted	0.761 / 0.759		0.688 / 0.683		0.579 / 0.572	

* *p<0.05*   ** *p<0.01*   *** *p<0.001*

In my first regression of all countries in the world, economic complexity and regulation both returned p-values less than .001, meaning that they were statistically significant at the highest possible level. Public sector size was significant at the .01 level, and democratic trade score was significant at the .05 level. As far as control variables, inequality and the regional variables for the post-communist region, the Middle East and North Africa, and East Asia were all significant at the .001 level. Additionally, the variable for Africa was significant at the .01 level. The only non-significant variables in this regression were the regional controls for Latin America and South Asia. In terms of the signs for the coefficients, lower economic complexity, trade with more democratic countries, more regulation, and a smaller public sector were all associated with more state capture. More inequality (a lower score in that index) was also associated with more state capture, as was simply being in the post-communist region, the MENA region, or East Asia, while being in Africa was actually associated with less state capture (assuming all other variables are held constant).

One can also glean interesting insights from the magnitude of the regression coefficients in Model 1. The control for the post-communist region was by far the biggest predictor of state capture. Holding all variables constant, being in the post-communist region increased a country's amount of state capture by .62 on average. This is an arbitrary value, but it is noteworthy when considering that the next largest coefficient (absolute value) is inequality with .42, and the other coefficients are smaller still. With little missing data in this region, this indicates that there is something unique to this region that makes state capture especially endemic.

In the second regression of post-communist countries, public sector size and regulation were both significant at the level of .001, as was the control variable inequality and being in the former Yugoslavia. Economic complexity and democratic trade score were both significant at the .01 level, and the other regional controls were not significant at all. As far as coefficients are concerned, less economic complexity, trade with more authoritarian countries, more regulation, and a smaller public sector were all associated with more state capture. This was also true for more inequality, as well as being in the former Yugoslavia.

Within the post-communist region, the cultural and historical factors represented by regional controls appeared to give way to other forces, as demonstrated by Model 2. Being an ex-Yugoslav country had a significant effect, but none of the other controls for subregions were significant. In the meantime, most of the coefficients for the independent variables took on larger values, with the exception of economic complexity. This suggests that these economic variables may play a larger role in state capture in the post-communist region compared with other parts of the world. The fact that all of these variables were significant and returned coefficients with the expected sign provides substantial support for my hypotheses and overarching theories when it comes to this region.

Finally, in my third regression of EU member states, economic complexity and regulation were both significant at the .001 level, as were the control variable inequality and the variable for the post-communist region. EU structural funds were significant at the .01 level, while the public sector size and democratic trade exposure variables were not significant in this instance. For the coefficient signs, less economic complexity, more regulation, receiving more money in structural funds, more inequality, and being in the post-communist region were all associated with more state capture.

In this model, the fact that nearly half of the countries in the analysis are in Western Europe likely influenced the results. These countries are somewhat unique when it comes to state capture because they seem mostly immune to it, be it for normative reasons or something else. Many of these countries have quite large public sectors, for example, and yet display almost no state capture, which is likely the reason that this variable was no longer significant in this model. Unseen variables that deter state capture in Western Europe are likely the reason for the lower r2 value in this model. Nevertheless, the significance of the structural funds variable demonstrates that these funds can indeed be thought of as a resource that is available for elites to capture. The fact that these funds are so disproportionately allocated to former communist member states due to developmental disparities means that this variable is likely not influenced by the anomaly Western European countries in the same way that other variables are.

In terms of the strength of the models, the adjusted r^2 values indicate that the variables in Model 1 were able to explain about 76 percent of the variation in state capture, as compared to 68 percent for Model 2 and 57 percent for Model 3. In all three of these cases, these values are indicative of models that are quite strong, although perhaps missing some pieces of the puzzle, especially in the third model. Nevertheless, the number of statistically significant variables in all three models provide strong evidence of at least a partial explanation of state capture and suggest that these economic factors are worth considering alongside traditional political ones.

Visualizing the confidence intervals for each model also provides helpful insights (see Figure 1). Here one can see that the discrepancies between coefficient estimates for democratic trade score in the three models are actually not that large, even though the sign of one is positive and the signs of the other two are negative. This provides further evidence that this variable is simply being influenced by the unique nature of the American and Western European economies and issues with data reporting. This visualization also shows that certain regional controls are quite close to being significant, such as Latin America in Model 1 and the European former USSR and Central Asia in Model 2. This suggests that these regions may be just barely pulled away from significance by certain anomaly countries, such as the Southern Cone in Latin America and the Baltic States in the former Soviet Union.

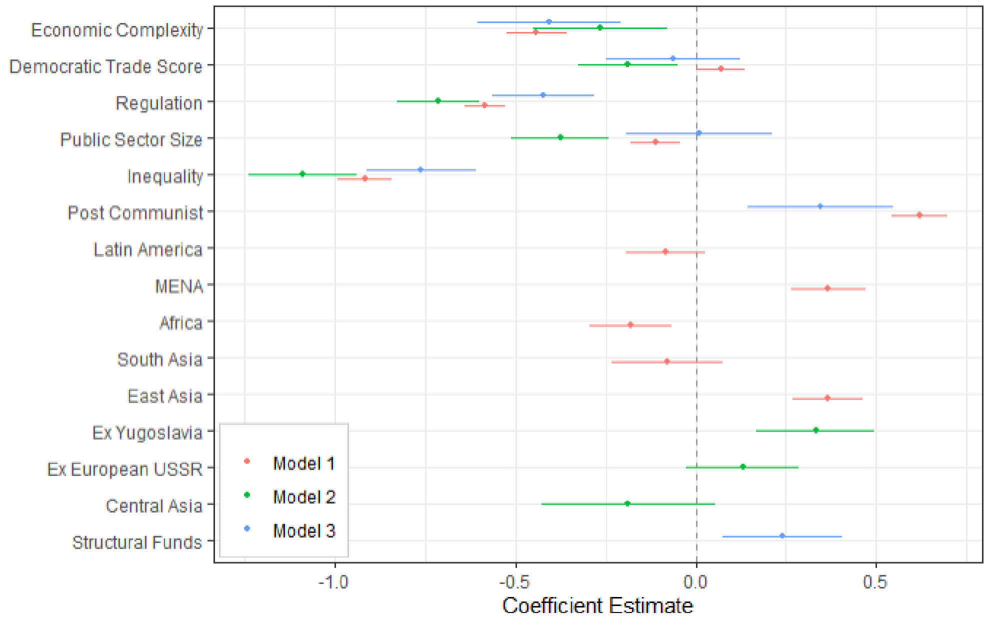

Figure 1. Confidence Intervals for Coefficient Estimates

I also examined the collinearity of the independent variables to ensure that each one was actually a distinct phenomenon. Associations between independent variables are displayed in Figure 1-3 below. Only in one case was there a correlation between two independent variables greater than .64, and that was the correlation between economic complexity and inequality in the first model. However, since inequality is a control variable this is not a major issue, as the reason for including it in the first place is that it can influence the independent variables. More generally, nearly all of the variables with correlations above .6 involved at least one control variable, which is unproblematic for the same reason. The independent variables themselves did not display excessive amounts of collinearity, so I am confident that each of the phenomena represented by the independent variables are distinct from each other in all three models.

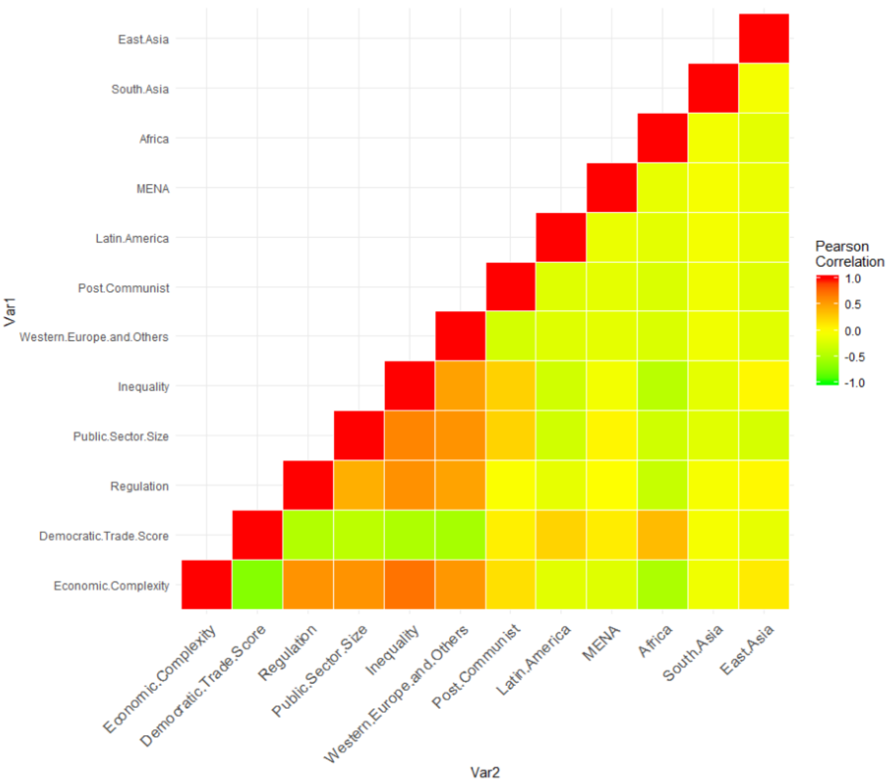

Figure 2. Collinearity Test: Model 1

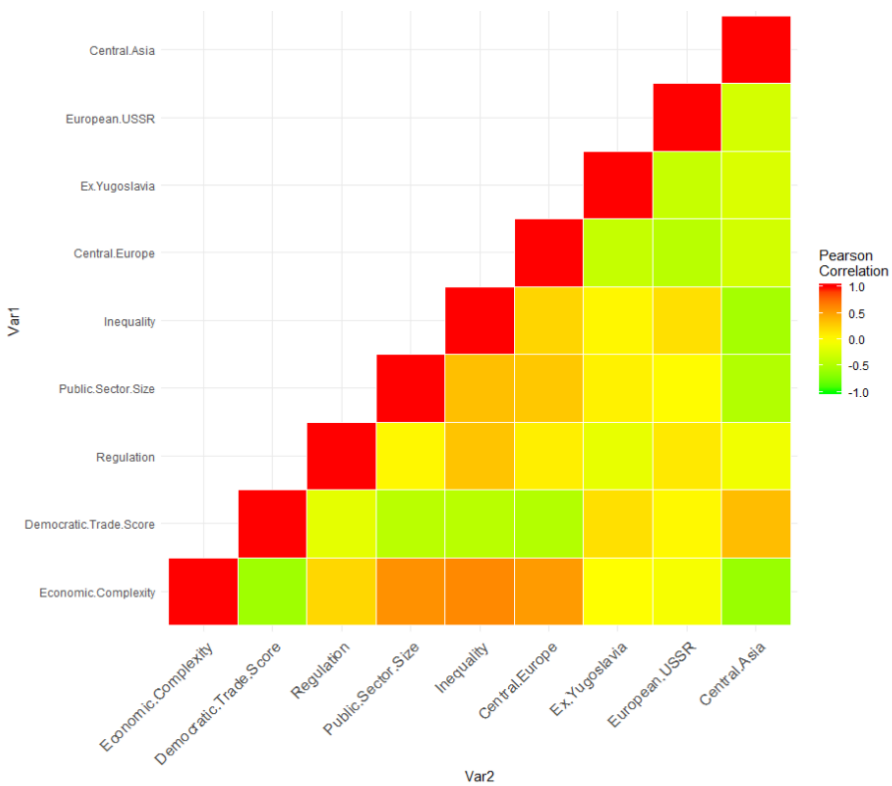

Figure 3. Collinearity Test: Model 2

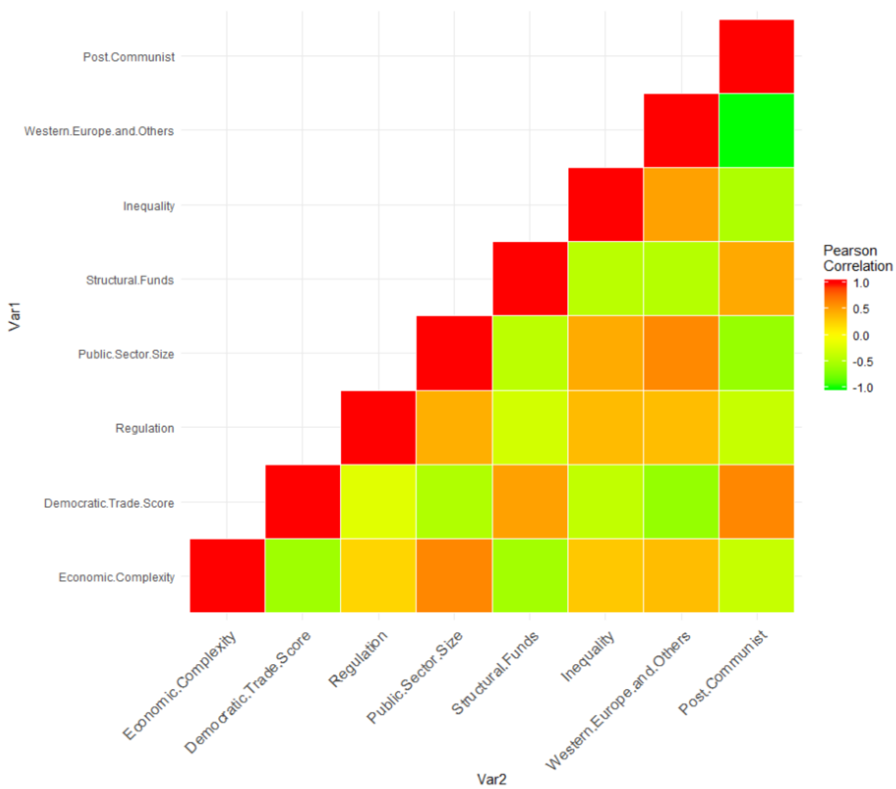

Figure 4. Collinearity Test: Model 3

Results and Discussion—Comparative Case Study

Having established the statistical significance of my independent variables, I then examined their practical significance. As stated previously, my primary motivation for including this case study was to engage in causal process tracing and ensure these regression results were not a result of reverse cause. The Czech Republic and Hungary are two countries that are similar in many regards, but which differ in the amount of state capture they have experienced. While this phenomenon is present in both countries, it is much more endemic in Hungary. The question is why, especially since the two countries are similar in so many respects.

Due to the nature of my particular research design, differences in the variables I have identified as possible causes of state capture were not large between these two countries. Both countries trade extensively with highly developed democracies like Germany and both have economies that are quite complex. The two countries also have similarly sized public sectors, while Hungary has marginally more regulation and receives marginally more money from the EU. Therefore, while my variables can explain differences in state capture between the Czech Republic and, say, Ukraine or Kazakhstan in a relatively intuitive fashion, it is harder to parse out differences between the Czech Republic and Hungary. For this reason, I chose to expand my investigation of the authoritarian trade exposure and economic complexity variables to include related phenomena. Beyond just trade, I investigated some of the other forms of linkage that Levitsky and Way (2010) discuss. On the economic side this included factors like foreign company ownership, but beyond this I also examined cultural and social linkages. In terms of economic complexity, I built upon Auty's (1993) discussion of how the resource curse can inhibit and destroy competition in an economy. While neither the Czech Republic nor Hungary can be considered resource cursed, I decided to look at issues with competition resulting from other sources. Beyond just the diversity of sectors in these countries' economies, I examined the makeup of certain sectors themselves, including dimensions like the distribution of firm sizes and diversity of firm ownership. Through this work I was able to examine similar theoretical phenomena that display more variation between the two countries and better identify possible reasons for their different state capture outcomes.

In Hungary, as in nearly all post-communist countries, corruption was an issue from the very beginning of the post-1989 transition process, and oftentimes its roots went back much farther to the days of the communist regime. Initially, competing groups of oligarchs and enterprising politicians succeeded in siphoning off wealth from the state but never in a systematic or sustained way. This changed drastically, however, with the triumph of Viktor Orbán and his Fidesz Party in the 2010 elections. By winning a two-thirds supermajority of seats in parliament, Fidesz was able to launch an unprecedented attack on the Hungarian state that elevated state capture from a constantly evolving oligarchic mating dance to a carefully managed and meticulously organized process.

State capture in Hungary essentially happened in three stages, only two of which have thus far manifested themselves in the Czech Republic. First, a mismanaged economic transition that spawned a corporation-heavy economy and high levels of inequality allowed elites to engage in one-off instances of corruption in which they could plunder money from the state on an incidental basis. Over time, these elites formed a cartel, within which competition still occurred but which as a whole had a complete monopoly on control of state resources. This cartel had achieved a preliminary level of state capture as a collective. Finally, one group from within the cartel managed to take advantage of the arrangement and subjugate all of its other constituent groups, resulting in near total state capture.

When Hungary first began its transition to a market economy, and simultaneously its transition to a democratic political system, the West labeled the country an early success story. The first democratically elected government of József Antall and his Hungarian Democratic Forum (MDF) wholeheartedly embraced market reforms. However, existing elites capitalized on opportunities to use public resources for private gain from the beginning. Bidding at auctions for state assets was often rigged, and money from the state budget was often funneled into various foundations where wealth piled up and was then sometimes used in turn to fund political parties and campaigns (Tökés 1996). Partially as a result of limited market reforms in the 1980s before the fall of the regime, existing elites were able to create tight ownership webs that crisscrossed the public and private sectors. This experimentation with market reforms ultimately gave existing elites a leg up in the transition process (Sutela 1998; Balík et al. 2017). Even as the country moved rapidly toward a market economy, those at the top of the economic food chain remained largely the same. Magyar (2016) has characterized the issues that arose in Hungary as a conflict between a Western political establishment and an Eastern pattern of wealth and property accumulation, in which the latter ultimately came out on top. In the beginning, corruption was largely unorganized, with elites taking advantage of opportunities to syphon off money on an individual basis. Left unaddressed, however, this would slowly change over time.

It is therefore unsurprising that from the start one of the Hungarian economy's key deficiencies was the weakness of its small and medium-sized businesses. In nearly all instances, the privatization process was conducted through auctions that favored foreign multinationals with large amounts of capital or simply turned over control of state companies to the existing managements of said companies, which were already steeped in the corrupt practices of the communist regimes. The voucher system that was used to mixed results in the Czech Republic, the Baltic States, and Russia was not used in Hungary, nor was any large-scale restitution policy (Sutela 1998). This resulted in very little change in the country's ownership structures. Similarly, the composition of the groups of political and economic elites remained largely the same, as former dissidents cooperated with former communist party authorities behind the scenes to ensure their shared longevity (Tökés 1996). Beyond this, light industry in the country practically disappeared, and the agricultural sector shrunk considerably, both of which ravaged the large rural portions of the country outside of Budapest (Magyar 2016). Along with other facets of the Antall government's listless economic policy, these changes led to increases in unemployment, and along with it, inequality.

All this is not to say that entrepreneurship did not exist. The 1990s did see a boom in the number of small and medium-sized businesses in Hungary, but these were often founded either via “forced entrepreneurship” resulting from unemployment or as a means for tax evasion or moving money around. With these problems compounded by a uniquely dominant position for foreign multinationals and a slower transition vis a vis other countries in Central Europe, the Hungarian business landscape spawned a collection of small and medium-sized businesses that were incredibly inefficient and unsuccessful in terms of both production output and profits. With little innovation or competitive edge, these firms were therefore driven out of business quite easily (Major 2008). While complex in terms of the goods and services it produced, the Hungarian economy was notably less complex in terms of the makeup of these sectors, which were dominated overwhelmingly by foreign multinationals and domestic corporations with a track record of corruption.

Prior to Hungary’s EU accession, democratic trade exposure appears to have helped keep state capture at bay. In this period, the country underwent a massive pivot away from trade with the countries of the former Soviet Union and toward trade with the countries of the newly formed EU in Western Europe. Hungary, like the Czech Republic, become a vital cog in German industry’s supply chain (Rexrodt 1994). Much of this shift in trading partners was tied up in Hungary’s desire to join the EU, an organization that at its most fundamental core is a free trade body. The process of EU accession contains many explicit instances of conditionality enumerated in the Copenhagen Criteria, including provisions on rule of law and market competitiveness that ostensibly inhibit state capture. Schimmelfennig and Sedelmeier (2011) have identified Hungary’s willingness to adopt many reforms in order to reap the economic benefits of EU membership, even when they were costly in the short term (although the same cannot necessarily be said for rules in other unrelated areas like minority protections). However, once Hungary had joined the EU, much of this conditionality disappeared. On an economic level, Germany and other countries in Western Europe were now in a common market with Hungary, making it virtually impossible to make any credible threat to reduce trade. On a political level the EU proved incapable of sanctioning countries for violating its rules. Even as early as 2010, scholars began to identify the collapse of conditionality in Hungary (Batory 2010; Cirtautas and Schimmelfennig 2010). This revelation suggests that in the unique context of the EU, trade with other democratic countries may not contain the same conditionality mechanisms as it normally does and therefore explains how the Czech Republic and Hungary could experience different state capture outcomes despite having the same trading partners.

During the same period in which Hungary was pursuing EU membership, however, economic linkages of another kind began to form in the shadow economy. During the 1990s, Russian and Ukrainian organized crime groups became active in Hungary (as well as the rest of Central Europe), and they often sought influence in politics in order to avoid scrutiny of their various schemes, such as the illegal oil trade, protection rackets, and their ownership of many nightclubs and security companies. While these groups were eventually brought under control, their activities helped inspire the "mafia state" that Orbán would eventually create. In that case, Orbán and his allies constructed a system that still protected and nurtured their own business interests, only this time they did so from inside rather than outside as the organized crime groups had (Magyar 2016).

In the political arena, Antall died before finishing his term, and the Socialist Party (MSZP) trounced the MDF in the 1994 parliamentary elections. From this point until 2010, the two main political parties became the MSZP and Fidesz, a centre-right party formed by a group of friends who had been student activists in the communist era. Throughout the 1990s, Fidesz crept ever rightwards on the ideological scale. This prompted many of its initial founders to abandon the party but also helped them secure victory in the parliamentary elections of 1998. Already during this first stint in power, Orbán began accumulating wealth by syphoning money from the state into his pockets. By 2007, before Orbán had even attained the near total control of the state he would have after the 2010 elections, he and his wife had already somehow acquired 200 million Hungarian forints worth of property assets (Magyar and Vásárhelyi 2017). At this point, however, Fidesz did not have the amount of power necessary to capture the state fully and returned to the opposition in the parliamentary elections of 2002.

Once Fidesz lost in 2002, they quietly set about plotting not only their return to power but also a permanent seizure of the state. A key figure in this endeavor was Lajos Simicksa, a longtime friend of Orbán's, who had spent many years building Fidesz's business empire. Key holdings of this empire included the construction company Közgép and media companies such as the former state-owned advertising company Mahir and the publishing company Hirlapkiado (Rényi 2019). It is worth noting here that Orbán and Simicksa chose to focus on the comparatively less complex sectors of the Hungarian economy that were easier to control. Even though they are not natural resources in the traditional sense of the resource curse idea, construction and media are both much less complex and much more easily controllable sectors than, say, high tech manufacturing with its extensive web of involved actors and cash flows. Simicksa and Orbán then built on their existing assets by taking advantage of a series of strategic blunders by the other main party, the MSZP, which between 2002 and 2010 ruled in coalition with the Liberal Party (SZDSZ).

Having established themselves as the main Hungarian parties by the 2000s, Fidesz and the MSZP created a corrupt cartel that ensured their mutual control of the state. Simicksa and his socialist counterpart, László Puch, made a pact to always divide public procurements 70-30 percent, with 70 percent going to the governing party and 30 percent going to the opposition party (Magyar 2016). This arrangement was mutually beneficial to both parties, as it ensured that they would always receive at least some amount of rent from the state and collectively they could prevent anyone from challenging their power. The problem was that this arrangement centralized and consolidated key sectors of the economy even further.

Furthermore, once this arrangement was made, EU structural funds made the problem even worse. These funds come from the EU budget, which member states pay into, largely using tax revenue as the main source of government income. In the Hungarian case, this money was then doled out through EU contracts (Magyar 2016) in bidding processes that the cartel controlled, only making them stronger as there were now more available contracts that only they could win. Thus, the initial taxes to raise the funds did not hurt them at all because they offset them by winning the contracts, while everyone else in the economy saw their fortunes dry up and stood no chance of ever seeing their money again. These funds essentially acted as a mechanism that redistributed money and market share to the most corrupt elites.

In the end, the two coalitions of elites behind the two parties essentially divvied up sectors like media and construction (Rényi 2019), an arrangement that would have continued to be fruitful if the balance of power between the two sides remained relatively equal. The problem, of course, was that this did not happen, and all of the work the socialists had done in centralizing control of the economy made it all too easy for Fidesz to seize control. All they needed to do was seize or destroy one other web of companies.

It is worth noting that the near total state capture Fidesz achieved was not the inevitable outcome. The arrangement between Fidesz and the MSZP certainly made it easier to achieve this outcome, but it would still not have been possible without a boneheaded series of blunders on the part of the MSZP and its coalition. Listless policy and legislation, resulting partially from the obvious ideological differences in a coalition between former communists and the liberals that overthrew them, did the coalition no favors. Their resulting inability to address the 2008 economic crisis in any substantive way further exacerbated these issues. However, the true nail in the coffin was the 2006 Őszöd speech (Magyar 2016). During this speech to a party conference, Socialist Prime Minister Ferenc Gyurcsány essentially admitted to lying to the Hungarian people throughout the 2006 electoral campaign and even to faking the budget. When this speech was leaked to the public, it prompted massive protests and riots throughout Budapest and other major cities, which Fidesz's media empire was all too happy to fuel (Rényi 2019). The MSZP's popular support evaporated.

With the MSZP embroiled in controversy, Fidesz waltzed to victory in the 2010 elections. Not only did Fidesz win, but crucially it also won a two-thirds supermajority, allowing amendment or replacement of the constitution at will without the support of any other parties. This supermajority also gave them complete control over appointments to many public-sector positions, such as seats on the Media Council (Magyar 2016). With this critical supermajority in hand, Fidesz reneged on their arrangement with the MSZP and easily steamrolled its supporting coalition of economic elites by seizing control of their businesses, pushing them out of the market, or destroying them in the courts. Companies that fell victim to these tactics included advertising company ESMA, the Hungarian Aluminum Production and Trade Company, a horse racing event called the National Gallop, the daily newspaper *The Metropol*, and the construction company Market Epito Zrt. It was no longer a matter of external forces reducing constraints on the elites; the elites had now gained the power to remove their own constraints.

Even though the road to a new level of state capture was completely clear after 2010, Orbán and Fidesz still needed to enact their plans to take control of the Hungarian state before it could become fully captured. One of their key tactics in this regard was a laundry list of special taxes and other regulations meant to destroy the ability of any coalition likely to oppose them to muster the resources needed to do so. On a country-wide level, Fidesz sought to cut taxes in order to fulfill its election promises and allow its own firms to operate unimpeded (Magyar 2016). Given the way I measured the size of the public sector in the previous section of this paper, this fact helps explain the association between a smaller public sector and more state capture. With the rent distributing mechanisms now outside of the state, Orbán and his allies only needed the state to profit from assets that they did not already control, explaining why at the same time that they cut taxes overall, they implemented myriad special taxes explicitly targeting certain groups of companies and sometimes even individual companies (although in the notable exception of the media, these taxes were meant to destroy private media in favor of state broadcasting).

They used this tactic so much that by 2016 special taxes accounted for 63 percent of state revenues. These taxes included an advertisement tax that targeted media outlets not controlled by Fidesz, a food chain tax that targeted foreign supermarkets, and an energy tax that targeted the largely hostile renewable energy industry while leaving the largely Russian-controlled nuclear power industry alone. Despite their promise to simplify the tax code, Fidesz increased the number of forms of tax from 52 to 73 between 2010 and 2014 (Magyar 2016). The overarching aim of this draconian, discriminatory system of regulations was clearly to eviscerate any obstacles to total state capture, which Orbán and his cronies have for all intents and purposes achieved.

Returning to the idea of linkage, a clear target of the many new taxes and regulations was foreign business, specifically foreign business originating in Western Europe. Orbán and Fidesz were rightfully worried about the questions these companies might raise and the role they might play in attempting to support a challenge to his control of the state. The advertisement tax most directly targeted a large German-owned television station called RTL Klub, which Fidesz needed to remove from the picture in order to grow state media outlets. While the tax was eventually repealed due to the involvement the European Court of Justice and German Chancellor Angela Merkel herself, it demonstrates Fidesz's wariness of foreign influence. Other taxes like the food chain tax and the bank tax similarly hoped to diminish the influence of non-Hungarians. However, it is worth noting that Russian business interests, which are happy to overlook the endemic corruption in Hungary, have been left largely undisturbed (Magyar 2016).

Fidesz also launched a concerted effort to destroy other linkages to Western Europe in order to pull the wool over the eyes of its citizens and prevent Western norms from inspiring any sort of popular resistance. One of the most important of these cultural and social linkages, on both a substantive and a symbolic level, was Budapest's Central European University. An American-accredited university founded by George Soros, the university had long been a source of opinions critical to Fidesz, and it attracted students and academics from across Europe. It was therefore a threat to Fidesz's control of the state and its rents. Through an intricately crafted piece of legislation that did not mention the university by name but yet in actuality only applied to it, Orbán forced the closure of the university, which eventually moved to Vienna. This action accompanied other changes affecting academia, such as the consolidation of all research funding under the watchful eyes of a Fidesz loyalist (Foer 2019).

On a similar note, in 2019, the Hungarian public broadcaster, MTVA, announced its withdrawal from the 2020 edition of the Eurovision Song Contest. The broadcaster has frequently refused to give a reason for this decision beyond a desire to support “Hungarian artists” and many sources have speculated that it is because of the broadcaster’s anti-LGBTQ stance (*The Guardian* 2019). However, it is clear that this is just the Hungarian leadership’s latest step in its efforts to destroy any link between Hungarian civil society and that of the rest of Europe. The fact that the contest often serves as a platform for progressive messages makes this all the more likely. If Orbán can cut off his population from the rest of Europe, it is much easier to prevent norms related to anti-corruption (not to mention democracy) from taking hold, as well as to discredit them when they do appear. Controlling the national narrative is an essential piece of his plan to tighten his grip on state resources, and in order to control the narrative he must shut out critical voices from outside the country.

Overall, in the case of Hungary, we observe a vicious cycle in which elites were weakly constrained from the start, and these elites capitalized upon these weak constraints to weaken them even further, ultimately allowing them to capture the state on a level unprecedented in Central Europe. In the 1990s, it was an economy dominated by a few large companies coupled with high levels of inequality and some influence from Russian and Ukrainian organized crime that allowed existing elites to begin capturing the state. EU accession conditionality helped keep the problem under control at first. Over time, strategic planning on the part of these elites allowed them to establish a two-headed cartel, which collapsed when one half gained the opportunity to bury the other. The winners, the coalition of elites around Fidesz, then set about removing the remaining constraints on elites by increasing the amount of regulation in the country and severing linkages of all kinds with Western Europe. The increasingly corrupt business community and underdeveloped civil society, which was hampered by inequality and stunted economic prospects, were unwilling (in the case of the former) and unable (in the case of the latter) to stop them, resulting in an outcome of near complete state capture.

In the Czech Republic, trends of corruption and state capture actually look remarkably similar to Hungary. Unorganized corruption in the transition process eventually developed into a corrupt cartel that achieved a preliminary level of state capture (Balík et al. 2017; Naxera 2018). However, unlike in Hungary, no one group has been able to seize complete control, and various coalitions of elites continue to topple previous ones in a never-ending cycle, often ironically through anti-corruption rhetoric. No coalition seems able to last long enough to build up power like the elites around Fidesz did. Frič et al. (2010) have ruled out the possibility that this is due to some sort of elite self-restraint, which elite theory has established from its very inception does not exist. Thus, it stands to reason that a winner-take-all coalition of elites has not emerged to fully capture the state because they have not been able to. This is largely thanks to the Czech economy, which is more egalitarian and more complex than its Hungarian counterpart in many ways. The importance of business interests in Western Europe for key oligarchs also cannot be understated.

The Czech transition process was similar to the Hungarian one in many ways but with some key differences. First, the Czech Republic had by far the most extensive restitution program in Central Europe (Sutela 1998; Balík et al. 2017). Though it had notable gaps due to incomplete records, this resulted in the return of assets seized by the communist regime after its emergence in 1948. This served two important ends in the context of state capture: it was a system that existing elites largely could not hijack, and because the value of many of these assets was rather small, it helped nurture the small and medium-sized business sector in the country.

Similarly limiting the control of existing elites was the near complete lack of the management buyouts that were so prevalent in Hungary. As Balík et al. (2017) point out, this would likely have resulted in advantages for the informal upper class, which is exactly what happened in Hungary. However, this is not what happened in the Czech case. Many enterprises were sold directly to foreign buyers (Balík et al. 2017). However, the most overwhelmingly used method for privatization was mass voucher privatizations, in which vouchers were distributed to all citizens, who could then use them to purchase shares. Like in other countries in the region, this often resulted in vouchers accumulating in the hands of a few enterprising individuals, who then became quite wealthy and emerged as a new class of elites. Such figures included Petr Kellner, Karel Komárek, Andrej Babiš (the eventual prime minister), Pavel Tykač, Radovan Vítek, and Zdeněk Bakala (Balík et al. 2017). While this voucher privatization system resulted in several macroeconomic issues that plagued the country in the later part of the decade (Balík et al. 2017), the Czech privatization structure nevertheless resulted in much more turnover in ownership than in the Hungarian case. This in turn created a much more dispersed ownership structure (Sutela 1998) and a much more complex web of elites, in which some were holdovers from the communist era and others were completely new (Gallina 2008).

The fact that Czechoslovakia did not experiment with market reforms at all during the 1980s, unlike Hungary, also contributed to this outcome. When the communist regime fell in 1989 and the transition process began, the Czech Republic had one of the most egalitarian societies in all of the post-communist region if not in all of Europe, partially due to historical and cultural factors long predating communism. This continued through the 1990s as inequality remained quite low (Balík et al. 2017), making it more difficult for elites to exploit their compatriots. Overall, the Czech society and economy that emerged from the transition process were simply much more intricate than their counterparts in Hungary.

On the other hand, the political landscape that emerged by the mid-1990s in the Czech Republic was quite similar to that of Hungary. Once Czechoslovakia split in half in 1993 (a remarkably unimpactful event when it came to Czech political or economic development), the two main parties were the centre-right Civic Democratic Party (ODS) and the centre-left Social Democratic Party (CSSD). By the mid-2000s, they too had succeeded in establishing a corrupt cartel that had captured the state. The two parties largely tolerated each other's governments, even when they were minority governments, as in the case of the CSSD government after 1998. Meanwhile, a steady stream of corruption scandals continued to plague the country. In 1997, the ODS government collapsed with the revelation of secret party finances in Swiss bank accounts. Stanislav Gross, the CSSD prime minister from 2004-2005 was forced to resign over corruption involved in the privatization of the chemical company Unipetrol, as well as his wife's business ties to organized crime. In 2006, the existence of a cartel consisting of elites surrounding CSSD and ODS became even more apparent when two CSSD MPs defected to help the ODS form a government despite the two parties theoretically being on opposite ends of the ideological spectrum. ODS then returned to power under Prime Minister Mirek Topolanek. One of the most high-profile incidents involving corruption in this government occurred when a lobbyist with ties to Topolanek, Marek Dalik, committed several acts of fraud and was eventually sentenced to five years in prison (Naxera 2018).

The period of ODS government was also marked by a decrease in regulation (Balík et al. 2017), likely because these elites prioritized helping their own businesses over subjugating their rivals'. Since these elites did not have enough control to reasonably assume they could capture the state, the potential costs of increasing regulation would have been higher than the benefits. Overall, in fact, the Czech Republic has a relatively simple tax system, with the central government being the only authority able to impose taxes and with all existing taxes being quite broad in their scope (Balík et al. 2017).

Amidst this steady drumbeat of corruption, the Czech Republic's international ties played an important role, illustrating the importance of democratic trade exposure. Like in Hungary, conditional financial assistance helped hamper corruption to some extent in the Czech Republic prior to its accession to the EU. Petrovic and Solingen (2005) point out that Vaclav Klaus, the ODS politician who served as prime minister from 1993-1998, was Eurosceptic in many areas, but the attractiveness of the EU from a trade perspective ultimately led him to begrudgingly adopt the necessary reforms for accession, which include anti-corruption measures. In fact, it was the accession negotiations that finally resulted in key economic reforms that limited the maneuverability of elites, such as the privatization of many banks (Balík et al. 2017).

The Czech Republic developed a close economic relationship with Germany in particular, becoming a key trading partner and piece of the supply chain for German manufacturing. The country also attracted substantial investment from Germany, and Germany became the Czech Republic's most important trading partner, surpassing even recently separated Slovakia. (Balík et al. 2017). However, the same was true in Hungary, and a fair amount of iciness surrounding reconciliation treaties in the 1990s ensured that Germany's relationship with the Czech Republic was no more favorable than its relationship with the other members of the V4—Hungary, Poland, and Slovakia (Kunstat 1998).

Just as in Hungary, 2010 was a watershed year in Czech politics. However, instead of one coalition of elites finally succeeding in their goal of complete state capture, the corrupt cartel of elites around ODS and CSSD began to grow more complex. The elections resulted in the emergence of a new party in Czech politics: Public Affairs (VV), which campaigned largely on an anti-corruption platform. Despite this, they ultimately joined a coalition with ODS and nearly immediately began attracting corruption allegations of their own. Not one year later, Transportation Minister Vít Bárta, the de-facto leader of VV, was forced to resign over allegations of bribery, as well as links between the leadership of his security agency ABL and the leadership of VV, which included ABL's illegal wiretapping of political opponents. Later documents showed that it had been Bárta's explicit goal to connect political and economic power to his own benefit (Naxera 2018). Soon after these incidents, the entire government collapsed because of corruption. Several ODS politicians and Prime Minister Petr Nečas were implicated in a massive scandal that had allowed certain Czech businessmen to make substantial profits off corrupt public procurement contracts. A caretaker government followed, and new elections occurred in late 2013 (Naxera 2018).

These elections returned another government led by CSSD, but more importantly another anti-corruption party emerged to fill the void that VV had left: ANO 2011. ANO 2011 did quite well in this round of elections, finishing with just two percent less of the vote than the victorious CSSD. However, just like with VV, the message of this new party and its leadership's actions were quite incongruous. The leader of ANO 2011, Anrej Babiš, was a billionaire and one of the richest men in the country. He made his fortune through his ownership of Agrofert, a large conglomerate with involvement in the agriculture, chemical, construction, energy, and media sectors (Naxera 2018). Like many elites in the post-communist world, his contacts from his time as a trade official during the communist period helped ensure his success following the fall of the regime. Indeed, Babiš gained control of Agrofert with financing from still undisclosed foreign sources (Drda 2014). Like Fidesz in Hungary, much of ANO 2011's rise came from Babiš's control of many media outlets, which constantly blasted his message to the public throughout the campaign. The most noteworthy of these was the media group Mafra, which he acquired in 2013 and which owns two high circulation newspapers (Pedziwol 2019). However, behind the scenes, Babiš had many important connections with both ODS and CSSD that had allowed him to grow ever wealthier during the 2000s, and these connections helped him ultimately enter the coalition with CSSD (Naxera 2018).

Babiš and ANO 2011 present the most direct parallel to Orbán and Fidesz in Hungary. Unlike other parties in the Czech Republic, which were surrounded by a shadowy cabal of business interests, ANO 2011 clearly served the interests of one man and one man only: Babiš. Throughout his time in the coalition from 2013-2017, Babiš managed to more than double his net worth, with much of this coming as a result of tax relief, subsidies, and other incentives from the Ministry of Finance, which Babiš ran, and other government offices. At the same time, he pushed for more regulation, particularly regarding tax inspection, for small businesses, which ultimately led to a split with Prime Minister Bohuslav Sobotka and CSSD. After Babiš's departure from government, he too became embroiled in a corruption scandal regarding Agrofert and its holdings. Babiš was eventually charged with grant fraud and damaging the financial interests of the EU, and the Chamber of Deputies voted to pursue prosecution. Despite this, ANO 2011 won a massive victory in the 2017 elections, and Babiš became prime minister. The election also saw the near collapse of ODS and CSSD and the rise of other parties with an anti-corruption platform similar to ANO's, which ANO ironically and unashamedly continued to use (Naxera 2018).

Babiš eventually put Agrofert into trust in 2017, relinquishing formal ownership amid mounting pressure over violations of Czech conflict of interest law. However, it is worth noting that this occurred after he had already served as Finance Minister where he was responsible for distributing EU funds, among other responsibilities. Not so coincidentally, much of this money flowed to Agrofert and its subsidiaries. Coupled with persistent claims that Babiš had ties to the Slovak secret police during the communist period, popular opposition to Babiš has continued to be a thorn in his side. Indeed, protests in Prague in 2019 over his conflicts of interest were the largest in the country since those in 1989 that toppled the communist regime (Pedziwol 2019).

Given this resounding victory and the parallels between Babiš and Orbán, a central question is why Babiš has not been able to transform his political victory into total state capture like his Hungarian counterpart. Certainly, part of the reason is that Babiš only won 30 percent of the vote (still by far the largest share) and is governing in coalition with CSSD, but a man of Babiš's means could likely overcome many of these barriers if he tried hard enough. Perhaps one of the most important factors, again pointing to the importance of linkage, is his business interests in Europe (Rosenbluth and Shapiro 2018). Agrofert has operations across the European Union (as well as in the United States) (Klima 2020), meaning that Babiš relies on being in the good graces of Western Europe, unlike Orbán who largely profited from expelling foreign businesses from Hungary and nurturing domestic corporations in their place, sometimes with help from Russia.

A good example of this dichotomy is relations between staunch Europhile Emanuel Macron's France and the V4 countries. French relations with Poland and Hungary have practically reached rock bottom, but relations between France and the Czech Republic are quite warm, despite Babiš's corrupt use of EU funds (*The Economist* 2017). This demonstrates that

Western European countries like France are willing to tolerate a certain degree of corruption and indeed even surface levels of state capture, but there is a limit to this tolerance. Babiš likely understands this and in order to preserve his business empire toes the line between rent seeking and appeasing Western Europe. For him, unlike Orbán, total state capture could actually incur more costs than benefits because it would destroy everything he has built thus far.

Beyond Babiš's own business interests, foreign ownership trends in the Czech Republic have likely contributed to its resistance to total state capture. Foreign ownership has been exceptionally high in the Czech Republic for quite a while. By 2000, just over 30 percent of medium-sized and large firms in the Czech Republic were foreign owned (Sabarianova Peter et al. 2012). Data from the World Economic Forum Global Competitiveness Index (World Economic Forum 2018) shows that foreign ownership has largely continued to grow. Following a decline from 2007-2011, foreign ownership in the Czech Republic experienced a meteoric rise. This index now consistently rates foreign ownership in the country at a six out of seven (with seven meaning highly prevalent). Hungary, meanwhile, saw foreign ownership begin to decline from these levels in 2008, and it has continued to do so, most recently achieving a rating of 4.5. This is certainly due at least in part to Orbán's actions. Foreign owners from Western Europe (of which there are bound to be many given the Czech Republic's geographic location and EU membership) have likely helped keep corruption in the Czech Republic in check to some degree.

On a broader level, the Global Competitiveness Index illustrates that the Czech economy is simply much more robust and sophisticated than the Hungarian economy. When it comes to competition, the Czech Republic ranks 26th while Hungary ranks 57th, illustrating a larger and more varied field of business actors. The gap is even wider on business sophistication, where the Czech Republic ranks 30th and Hungary ranks 96th – just behind Nigeria and just ahead of Iran.

The difference in these rankings has largely stayed the same over time (World Economic Forum 2018). As discussed previously, it is much harder to capture an economy with more moving parts, and these data demonstrate that the Czech economy simply has many more moving parts. At least some of this is bound to be rooted in the transition process, which produced more varied ownership in the Czech Republic. Additionally, the Czech Republic has a much longer tradition as an industrial economy. Modernization of the Czech economy largely occurred in the Austro-Hungarian period in the late 19th and early 20th centuries as opposed to under communism like in the other three V4 countries (Balík et al. 2017). Even with the havoc that communism wrecked on the economy, the fact that Czech society experienced a modern industrial economy independent of the corrupt communist version that later emerged must count for something.

Though state capture has certainly occurred in the Czech Republic, it has not evolved past the cartel stage and has not crippled the country in the same way that it has in Hungary. A more complex economy rooted partially in the transition process, lower levels of inequality, and stronger linkages with Western Europe especially in regard to Andrej Babiš's own business interests have prevented the Czech Republic from following the path of fellow V4 country Hungary, at least so far. While these factors are certainly not an exhaustive list of reasons for the variation in outcomes and one cannot ignore the fortuitous political circumstances that assisted Orbán in his rise, they appear to have played some part. Their importance also reiterates the importance of the variables from my regression analysis, even if it is necessary to conceptualize these variables more broadly in order to isolate the fine-grained differences between more similar countries. In terms of the direction of causality, these results point more toward a vicious cycle in which economic deficiencies and corruption continue to perpetuate each other in a never-ending downward spiral. However, this still means that working to address the variables discussed here would help limit the ability of elites to engage in state capture.

Conclusion

Viewed as a whole, my regression analysis and case study provide evidence that economic factors like a country's trade partners, the complexity of its economy, the size of its public sector, the amount of regulation, and the amount of inequality play an important role in the process of state capture. Though the case study points toward a vicious cycle or some other more complicated process of causation, these are nevertheless important considerations for those hoping to impede elites from engaging in state capture. Indeed, my findings invite scrutiny of a wider array of factors from actors involved in anti-corruption. So much of this work currently focuses on reforming political institutions, but even though state capture often manifests itself through politics, it is at the end of the day an economic phenomenon. It seems likely that combating it requires change beyond just politics.

Of course, these results suffer from several limitations. First, they are really only generalizable to the post-communist world, due to the lack of more in-depth analysis of other regions and missing data from Africa in particular. I chose to focus on one specific region of the world in order to control for unforeseen cultural or historical factors that could bias my results. The countries studied in this paper have shared such a similar trajectory since the early 20th Century largely due to circumstantial reasons, which helps overcome these issues at the expense of a more globally generalizable result. However, the results of the regression analysis hopefully provide some insights to be expanded upon in future research.

Additionally, more research on the direction of causality in this instance is needed to make definitive claims about the role of these variables in state capture or draft policy seeking to address them. Since elite behavior is often quite difficult to observe, especially with the ever-growing arsenal of shadowy financial tools at elites' disposal, it is hard to get to the root of when exactly the process of state capture begins. Corruption is an omnipresent phenomenon in the society of all states and indeed all organizations, even if it is much more prevalent in some instances than others. This presents a classic chicken or egg dilemma in which it is difficult to determine whether economic deficiencies breed corruption or the other way around, as they seem to continuously beget each other. However, at the end of the day, this distinction may not be substantively important. If we accept that corruption at some level is a fact of life, attempting to identify some wellspring of corruption is not productive. The focus should instead be on mitigating it to the best of our ability, and if the variables identified here clearly play some part in the crippling corruption that results from state capture, it is worth addressing them.

That being said, I do not mean to give the impression that state capture is inevitable if the outcome based on these variables looks bleak. These results simply point to a higher probability of state capture in certain places than in others, and individual events and actors can still play a substantial role. By all accounts, Hungary had a lot going for it in contrast to some of the debilitated economies of Central Asia that were essentially Soviet colonies prior to 1991. However, the series of blunders that the MSZP committed and Orbán's indisputable political cunning played a key role in Hungary defying the odds. Sometimes the right mix of circumstances occurs at the right time and elites manage to take advantage. It is simply much easier in some places than others.

This illustrates one of the most important lessons that experts would benefit from bearing in mind: every country in the post-communist region, and indeed in the world, is unique at some level. While we can observe common trends, overgeneralization has proved to be the undoing of scholars, analysts, and policymakers time and time again. During the process of transition in the region, for example, experts attempted to shove the same policy prescriptions down the throat of every country. In the cases of the Czech Republic and Hungary, some relatively subtle differences between the two countries appear to have made all the difference. When solving any problem, it must be tailored to the specific situation, and this is the only way to effectively combat state capture.

References

Acemoglu, Daron, Thierry Verdier and James A. Robinson. 2004. "Kleptocracy and Divide-and-Rule: A Model of Personal Rule." *Journal of the European Economic Association* 2, no. 2-3:162–192

Acemoglu, Daron and James A. Robinson. 2006. "Economic Backwardness in Political Perspective." *American Political Science Review*. 100, no. 1: 115-131.

Auty, R. M. 1993. *Sustaining Development in Mineral Economies: The Resource Curse Thesis*. Abingdon, UK: Routledge.

Balík, Stanislav et al. 2017. *Czech Politics: From West to East and Back Again*. Opladen, Germany: Barbara Budrich Publishers.

Bardhan, Pranab and Dilip Mookherjee. 1999. *Relative Capture of Local and Central Governments.An Essay in the Political Economy of Decentralization*. CIDER Working Paper C99–109. University of California, Berkeley, CA.

Batory, Agnes. 2010. "Post Accession Malaise? EU Conditionality, Domestic Politics, and Anti-Corruption Policy in Hungary." *Global Crime* 11 (2): 164-177.

Blanchard, Olivier and Andrei Shleifer. 2000. *Federalism With and Without Political Centralization. China versus Russia*. NBER Working Paper No.w7616. Cambridge, MA.

Chipkin, Ivor et al. 2018. *Shadow State: The Politics of State Capture*. Johannesburg: Wits University Press.

Cianetti, Licia, James Dawson and Seán Hanley. 2018. "Rethinking 'Democratic Backsliding' in Central and Eastern Europe – Looking Beyond Hungary and Poland." *East European Politics* 34, no. 3: 243-256.

Cirtautas, Arista Maria and Frank Schimmelfennig. 2010. "Europeanization Before and After

Accession: Conditionality, Legacies and Compliance.” *Europe-Asia Studies* 62 (3): 421-441.

Coppedge, Michael et al. 2019. "V-Dem Dataset v9.” Gothenburg: University of Gothenburg.

Drda, Adam. “Andrej Babiš – Czech Oligarch.” *Politico* 11 September 2014.

European Commission. 2019. “European Structural and Investment Funds.” Brussels: European Commission.

Fazekas, Mihály et al. 2013. *Are EU Funds a Corruption Risk? The Impact of EU Funds on Grand Corruption in Central and Eastern Europe*. Budapest: Corruption Research Center Budapest.

Fazekas, Mihály and István János Tóth. 2016. “From Corruption to State Capture: A New Analytical Framework with Empirical Applications from Hungary.” *Political Research Quarterly* 69, no. 2: 320-334.

Foer, Franklin. “Viktor Orbán’s War on Intellect.” *The Atlantic*, June 2019.

Frič, Pavol et al. 2010. *Czech Relites and General Public: Leadership, Cohesion, and Democracy*. Prague: Karolinum Press.

Gallina, Nicole. 2008. *Political Elites in East Central Europe: Paving the Way for “Negative Europeanisation?”* Opladen, Germany: Budrich UniPress.

Ganev, Venelin I. 2013. *Preying on the State: The Transformation of Bulgaria after 1989*. Ithaca, NY: Cornell University Press.

Glaeser, Edward, Jose Scheinkman, and Andrei Shleifer. 2003. “The Injustice of Inequality.” *Journal of Monetary Economics: Carnegie-Rochester Series on Public Policy* 50: 199–222.

Grossman, Gene and Elhanan Helpman. 1994. “Protection for Sale.” *American Economic*

Review 84: 833–50

Hale, Henry E. 2015. *Patronal Politics: Eurasian Regime Dynamics in Comparative Perspective*. Cambridge: Cambridge University Press.

Hartmann, Dominik et al. 2017. "Linking Economic Complexity, Institutions, and Income Inequality." *World Development* 93: 75-93.

Hellman, Joel S., Geraint Jones, Daniel Kaufmann and Mark Schenkerman. 2000. *Measuring Governance, Corruption and State Capture: How Firms and Bureaucrats Shape the Business Environment in Transition Economies*. "Policy Research Working Paper" 2312, Washington: World Bank.

Hellman, Joel S., Geraint Jones and Daniel Kaufmann. 2003. "Seize the State, Seize the Day: State Capture and Influence in Transition Economies." *Journal of Comparative Economics* 31: 751-773.

Heritage Foundation. 2019. "Index of Economic Freedom 2019." Washington: Heritage Foundation.

Houle, Christian. 2009. "Inequality and Democracy: Why Inequality Harms Consolidation but Does Not Affect Democratization." *World Politics* 61, no. 4: 589-622

"Hungary Pulls out of Eurovision Amid Rise in Anti-LGBTQ+ Rhetoric." *The Guardian*, 27 November 2019.

ICTD/UNU-WIDER. 2019. "Government Revenue Dataset 2019." Helsinki: United Nations University World Institute for Development Economics Research.

Innes, Abby. 2013. "The Political Economy of State Capture in Central Europe." *JCMS: Journal of Common Market Studies* 52 (1): 88-104.

Innes, Abby. 2016. "Corporate State Capture in Open Societies." *East European Politics and*

Societies and Cultures 30, no. 3: 594-620.

Iversen, Torben and David Soskice. 2019. *Democracy and Prosperity: Reinventing Capitalism through a Turbulent Century*. Princeton, NJ: Princeton University Press

Jancsics, David and István Jávor. 2012. “Corrupt Governmental Networks.” International Public *Management Journal* 15, no. 1: 62-99.

Karl, Terry Lynn. 1997. *The Paradox of Plenty: Oil Booms and Petro-States*. Berkeley, CA: University of California Press.

Klima, Michal. 2020. *Informal Politics in Post-Communist Europe: Political Parties, Clientelism and State Capture*. Abingdon, UK: Routledge.

Kunstat, Miroslav. 1998. “Czech-German Relations After the Fall of the Iron Curtain.” *Czech Sociological Review* 6 (2): 149-172.

Levitsky, Steven and Lucan A. Way. 2010. *Competitive Authoritarianism: Hybrid Regimes After the Cold War.* Cambridge: Cambridge University Press.

Magyar, Bálint. 2016. *Post-Communist Mafia State: The Case of Hungary*. Budapest: Central European University Press.

Magyar, Bálint and Julia Vásárhelyi. 2017. *Twenty-Five Sides of a Post-Communist Mafia State*. Budapest: Central European University Press.

Major, Ivan. 2008. “Technical Efficiency, Allocative Efficiency and Profitability in Hungarian Small and Medium-Sized Enterprises: A Model with Frontier Functions.” *Europe-Asia Studies* 60 (8): 1371-1396.

Markowski, Radoslaw. 2018. “Creating Authoritarian Clientelism: Poland After 2015.” *Hague Journal on the Rule of Law*.

Merkel, Wolfgang. 2014. “Is Capitalism Compatible with Democracy?” *Comparative*

Governance and Politics 8, no. 2: 109-130.

Michels, Robert. 1949. *Political Parties: A Sociological Study of the Oligarchical Tendencies of Modern Democracy*. Glencoe, IL: Free Press. (Original work published 1911).

Mihalyi, Peter and Ivan Szelenyi. 2017. "The Role of Rents in the Transition from Socialist Redistributive Economies to Market Capitalism." *Comparative Sociology* 16, no. 1: 13-38.

Mosca, Gaetano. 1939. *The Ruling Class*. New York: McGraw Hill. (Original work published 1896).

Mungiu-Pippidi, Alina. 2006. "Corruption: Diagnosis and Treatment." *Journal of Democracy* 17 (3): 86-99.

Naxera, Vladimir. 2018. "The Never-Ending Story: Czech Governments, Corruption and Populist Anti-Corruption Rhetoric." *Politics in Central Europe* 14 (3): 31-54.

Observatory of Economic Complexity. 2018. "Economic Complexity Index 2018." Cambridge, MA: Massachusetts Institute of Technology.

Pareto, Vilfredo. 1968. *The Rise and Fall of Elites: An Application of Theoretical Sociology*. Totowa, NJ: Bedminster Press. (Original work published 1901).

Pedziwol, Aureliusz M. "Billionaire Czech Prime Minister's Business Ties Fuel Corruption Scandal." *Deutsche Welle*, 25 June 2019.

Persson, Torsten et al. 2000. "Comparative Politics and Public Finance." *Journal of Political Economy* 108 (6): 1121-1161.

Persson, Torsten et al. 2003. "Electoral Rules and Corruption." *Journal of the European Economic Association* 1 (4): 958-989.

Petrovic, Bojan and Etel Solingen. 2005. “Europeanisation and Internationalisation: The Case of the Czech Republic.” *New Political Economy* 10 (3): 281-303.

Piketty, Thomas. *Capital in the Twenty-First Century*. Cambridge, MA: Belknap Press.

Rényi, Pal Daniel. “The Rise and Fall of the Man Who Created Viktor Orbán’s System.” *444*, 22 April 2019.

Rexrodt, Gunter. 1994. “German-Hungarian Economic Relations.” *GeoJournal* 32 (4): 329-331.

Sabarianova Peter, Klara et al. 2012. “Foreign Investment, Corporate Ownership and Development: Are Firms in Emerging Markets Catching up to the World Standard? *The Review of Economics and Statistics* 94 (4): 981-999.

Schimmelfennig, Frank and Ulrich Sedelmeier. 2004. “Governance by Conditionality: EU Rule Transfer to the Candidate Countries of Central and Eastern Europe.” *Journal of European Public Policy* 4: 661-679.

Slinko, Irina et al. 2004. “Effects of State Capture: Evidence from Russian Regions.” In *Building a Trustworthy State in Post-Socialist Transition*, eds. Janos Kornai and Susan Rose-Ackerman. New York: Palgrave Macmillan.

Sutela, Pekka. 1998. *Privatization in the Countries of Eastern and Central Europe and of the Former Soviet Union*. Helsinki: World Institute for Development Economics Research.

“The New Czech Leader is not Leading an Anti-Europe Uprising.” *The Economist* 26 October 2017.

Tökés, Rudolf L. 1996. *Hungary’s Negotiated Revolution: Economic Reform, Social Change and Political Succession*. Cambridge: Cambridge University Press.

Tomini, Luca and Claudius Wagemann. 2018. “Varieties of Contemporary Democratic

Breakdown and Regression: A Comparative Analysis." *European Journal of Political Research* 57 (3): 687-716.

Torvik, Ragnar. 2009. "Why Do Some Resource-Abundant Countries Succeed While Others Do Not?" *Oxford Review of Economic Policy* 25, no. 2: 241–256.

Tóth, István János and Miklós Hajdu. 2018. *How Does the Kleptocratic State Work in Hungary?*" Budapest: Corruption Research Center Budapest.

World Economic Forum. 2018. "The Global Competitiveness Report 2017-2018." Cologny, Switzerland: World Economic Forum.

Wu, Wen-Chin. 2012. "Essays on Trade Openness and Authoritarian Survival." Doctoral dissertation submitted to Michigan State University Department of Political Science.