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The role of rents in emerging market economies

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Abstract

The rents play immanent role in the economy. Many types of rents thwart economic development, few of them deliver incentives. In case of emerging market economies, the most usual forms of rents are scarcity rents (mainly natural resources and arable land), regulatory rents and geopolitical rents. The existence of these rents and the creation of rent sources may impose serious moral hazards. In case rentiers collude with politicians (who are responsible for the control of the negative effects of rents) the hazards increase. This danger is smaller if the society is more open. The negative effects can lead to growth collapses if the society and the political arena is more closed. The paper compares two very different countries from the viewpoint of the negative economic effects of rents: Iran and Hungary. Iran is treated as a classic example of rentier state with closed social and political relationships. Hungary is placed historically at the crossroads of the Western competition state model (open society) and the traditional Byzantine rentier state (closed social relationships). The paper discusses the Iranian and Hungarian efforts of the introduction of competition state model elements from the angle of rent creation and rent control. The comparison showed that in Iran the strong legacy of closed society and the large-scale rent stream allowed little political space for the competition state institutions. The country suffered repeated growth collapses. In Hungary the transition process created many control institutions over rent seeking especially during the 1990s. However, the establishment of rentier state especially after 2010 could be implemented. Political, social and economic controls over rent seeking were not powerful enough to block the process. Yet, the rent streams are much more limited, and the control devices could not be eliminated entirely. Thus, rent seeking is not so much pervasive than in Iran. Nevertheless, its negative consequences are strong enough to block sustainable development, and direct Hungary towards the middle-income trap.

JEL: H82, L32, L78, P27, P51, Q32

Keywords: rent, corruption, open society, competition state, rentier state, Iran, Hungary

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Introduction

Rents have received the attention of economists with changing intensity. Classical economics was very much concerned with the problem of social inequality and saw its major source in rents, mainly land rents. The uneven level of natural endowments in agriculture and mining created major differences in production costs. Agents with better endowments and lower costs realized higher net incomes since market demand appreciated also more expensive production. The equilibrium price on the market was realized at higher levels than what the costs of more efficient producers would have explained. Following the arguments of Adam Smith, Mihályi and Szelényi (2019) emphasize that in such cases the income contains three main elements: wage, profit, and rents. In some cases, profit and rent are not separated in economic analysis. A proper understanding of the sources and impacts of rents is, therefore, necessary for a better explanation of the reasons for long-lasting inequalities at various levels of societies and the world economy.

Another topical issue, the puzzle of natural resource endowments' impact on economic and social progress also drew much attention to the problem of rents. The resource curse literature has remained ambiguous about the impact of resource abundance on economic growth and development. The selection of good and bad examples ranges from Venezuela's economic collapse to Norway's brilliant development path. The huge differences need a lot of detailed analysis of the proper management of windfall profits (rents), institutional capabilities, and political dimensions since simplistic statistical approaches to solve the puzzle by and large failed. Auty and Furlonge (2019) suggested therefore an extension of the topic's research agenda. They claimed that various types of rents and their interactions, as well as their social and political impacts, need to be analyzed in complex ways not just natural resource rents.

Thus, we can see increasing attention on rents that expanded the research agenda distinguishing many different rent sources beyond the classic Ricardian rents. A new idea of rent cycling, in other words, the reproduction of the complex social settings that create rents was also introduced (Auty 2006 and 2010). The various arenas of rent creation and extraction can also be compared. This paper is about such a comparison attempt. Two countries with largely different economies and only partially overlapping rent sources will be compared. In Iran, we can observe the impacts of natural resource rents, as well as regulatory rents (rents created by discretional regulation of markets). In Hungary, the main source of rent is geopolitical rent (EU-funding) but there is also substantial regulatory rent in the country. The likely interpretation of the money flows from the EU structural funds as rent source was first mentioned by Váradi (2006) before the full-scale transfers started to flow in 2008. The main aim of the paper is to figure out the similarities and differences between rent creation and extraction and the social and economic impacts of the rent economy in the two countries. We assume that the main logic of the moral hazard bound to rent extraction would induce similar reactions in the two albeit very different societies. This finding would also support Váradi's projections for Hungary with some factual experience of the subsequent 15 years.

1. The role of rents in the economy and economic theory

1.1 The various types of rents

Rents are present in every country. Imperfect competition always creates situations when better access to production inputs, markets, or finances will create uneven production costs. Be it sheer luck or deliberate action of creating and protecting such differences (like in the case of innovation), some economic actors earn above-average returns that also include rent elements. In the economy, the contestability of rent sources depends on the size and development level of markets as well as (corrective) market regulation. The degree of wealth and income redistribution varies largely across countries. The material rents of privileged positions or property are usually not corrected in countries with a high level of inequality. In the case of economic agents, the working conditions, and institutional frameworks can be more easily shaped in ways that put more control over rent creation. This is the most important task of competition policy, and partially also income policies. For example, the creation of rents through increasing market concentration or cartelizing has been prohibited in all advanced market economies since the late XIX century. The economic (and political) power of the American "robber barons" was spectacularly curtailed by the path-setting antitrust legislation of that country (Mihályi and Szelényi, 2019).

Governments' ability to restore or create market competition has been regarded as satisfactory until most recently. However, the globalization process and the emergence of new international competitors like the state permeated market economies (Nölke et al. 2019) fundamentally changed the playing field. Competition policies aimed at national markets could not cope with these challenges. New opportunities for rent creation emerged. Despite their membership in the World Trade Organization, the state permeated market economies have challenged the liberal principles of the international organizations in the past 30 years. In another area, multinational companies' global activity also provided extreme opportunities for cost reduction and tax evasion (Olbert and Spengel, 2017). Both practices created new sources of rent on international level. As a kind of compensation, national policies started to spread aimed curtailing competition and providing a suitable environment of rent creation for domestic companies. The new phenomenon of "economic patriotism" emerged (Clift and Woll, 2013), as a new set of policies aiming to privilege national actors very much like in the era of "economic nationalism" of the XIX century. Of course, we do not think that the heydays of the neoliberal revolution during the 1980s and 90s switched off rent creation and expropriation. We would like to stress here that this practice intensified and underwent profound changes since then. It is necessary therefore to put the new practice of rent creation and rent-seeking into the spotlight.

Classical rent theory attributed excess income-earning to unequal natural conditions of arable land and mines. The scarcity of better endowments that enables the owners of those lands and mines to produce below the equilibrium level of costs creates a source for rents. The excess income over cost (including both labor and capital, wage, and average profit) is rent. The scarcity rents are also called Ricardian rents since the first comprehensive theory of land rent was developed by him. Besides, according to Mihályi and Szelényi (2019), it was Ricardo who first pinpointed the fact that unlike wages and profits rents do not contribute to wealth creation. Rents are rather a symptom, a consequence of the inelasticity of production input supply that drives market prices high. This is an important distinction that clarifies the nature of rents. Rents are "unearned" income, therefore rentiers will maximize their income in ways other than competing market players.

Among the scarcity rents, Mihályi and Szelényi (2019) differentiate various types according to the source. Concentrating on business rents we can pick the following ones:

1. Classical Ricardian rents in agriculture and mining
2. Natural monopolies are based on increasing returns from network effects (virtual open networks, communication systems)
3. Natural monopolies based on location (hotels, real estate)
4. Innovations (with or without legal/patenting protection)
5. Market limitations through creating entry barriers (cartels, lobbying, corruption)
6. Market limitations through state-induced monopolies. (Ibid, p. 65)

These rents work in very different environments and are treated by various economic policy tools. Their common feature is that they create a closed social relationship in a given market. Since market positions are not contestable at least in the medium run there is an immanent moral hazard in these market settings. Hazard is more intense if there are only a few beneficiaries especially if they are socially linked to political circles responsible for the regulation of the given market. Yet, economic policies can be applied for the treatment of negative consequences (e. g. inflation) even in the case of least contestable markets. Price and income policies are especially important in this regard. However, owners of rent sources may wish to influence policy decisions over their businesses.

Auty and Furlong (2019) collected the existing knowledge about the "natural resource curse" research paradox. According to the basic problem setting of Sachs and Warner (1997) in the majority of cases, resource abundance does not necessarily trigger quick economic growth. On the contrary, unlike some historic examples like the USA, Germany, or Australia, most currently we can find only a handful of emerging countries that perform above-average economic growth and development. The resource curse theory explained this deficiency with two main factors. The first one was the "Dutch disease" argument. Due to the sudden increase in resource export income real exchange rate appreciation occurs. This deteriorates the competitiveness of traditional sectors and also triggers inflation. Consequently, the non-booming sectors of the economy will shrink. This process is exacerbated also by adverse resource allocation to the booming sector. Since, however, the booming sector is capital intensive, moreover, its expansion capacity is usually limited, the decline of non-booming sectors is not compensated. The process also increases inequality and affects negatively many areas of social development.

Despite the sound logical model, resource richness serving as an impediment to sustainable economic development could not be conclusively verified empirically (Auty and Furlong, pp 18-21). As an explanation of this failure, the two authors suggested an extension of the "resource curse" model to a "rent curse model". They state that the many times observed system failure of several emerging market economies is conveyed not just by existing Ricardian rents, but also by other types of rents. It is rent in general that increases growth impeding moral hazard. They described the process in the "high-rent staple trap model" which is in contrast with the "low-rent competitive diversification model" (to be discussed in the next section).

Using the examples of emerging market economies Auty and Furlong (2019) differentiate among various rent streams. The main sources of rent in these countries are:

1. Concentrated natural resource rent (minerals, oil, and gas)
2. Diffuse natural resource rent (mainly arable land suitable for the production of various commodities)
3. Regulatory rent (exclusive licenses, monopoly rights, price setting boards, etc.)
4. Labor rent (worker remittances)
5. Geopolitical rent (mainly foreign aid and other unilateral money transfers)

The authors argue that the different rent streams vary in their economic impact that could trigger Dutch disease syndrome or distort resource allocation. They are also different in their political consequences and degree of moral hazard. Some rent streams are easily captured by politicians and used for self-sustaining rent sources in the frame of "rent cycling".

One last special source of rent has to be mentioned: the quasi-rent. Quasi rent is realized when the myopic short-term vision of management (or government regulation, taxation) deprives firms of the resources for sustainable long-term business conduct. The short-sighted vision of state-owned enterprise management usually stems from politics where due to the election system political mandates are limited in time. Wherever polity has captured business, there is a high degree of moral hazard of extracting as much cash as possible to finance various political goals or even personal enrichment (Gochberg – Menaldo, 2021).

1.2. The economic impact of rents

Generally speaking, rents reduce economic growth in the long run. If we accept the classic assumption about the role of competition as a major engine of economic progress (Smith, Schumpeter, Kuznets), then the curtailment of competition would block the source of economic growth. Rents act as barriers to growth since they stem from "unearned" income. Even if rent and profit emerge simultaneously, the rent component of the income will stimulate concentration on the rent source which is in most cases either the usage of relational capital or anti-competition practices. The main question is of course if there is effective control over the exploitation of the relational capital and the conduct of competition limiting practice.

The level of control on rents is influenced by the socio-political features of the various societies and countries. Whether they incorporate a high level of tolerance for social inequality and develop institutions of "closed social relations" or they rather create "open social relations" (using the Weberian terms, but also very similar to the concept of Limited- and Open Access Order Societies' concept by North, et al., 2009). Mihályi and Szelényi (2019) interpreted this Weberian concept as a systemic feature. Pre-historic but also feudal societies built upon closed social relations and expropriated sources of income (mainly land) which resulted in a relatively low rate of economic growth. The advent of capitalism in the Western world opened up many social relations and unfolded dynamic entrepreneurship when wealth became accessible to wider social strata under conditions of social mobility. But the Weberian concept is also applicable to recent comparisons by stating that more open, dynamic societies can achieve higher economic and social progress. Also, policies that reduce social mobility or market competition run against the risk of less progress. Rentiers are not likely to invest their income surplus in competitive and productive activity.

The Weberian concept also provides an opportunity to expand the potential sources of rent from land and mines (natural monopolies) to other businesses where closed social relationships prevail. This is the case with the pre-capitalist artisan industry in its guild organization form. Similar working conditions can be created also today with the extension of monopoly rights over the widest range of economic activity that will necessarily create rents for the beneficiaries. The same can happen as a result of multinational companies' policies that create cartels or oligopolies. The embeddedness of many types of rent supports self-reinforcing mechanisms in the society that provides substantial stability by recreating the institutional frames of closed social relationships.

Even more concrete and detailed description of self-sustaining rent generation are included in the rent cycling theory of developing countries (Auty, 2010; Auty and Furlonge, 2019). The theory distinguishes between two basic development trajectories: the low-rent competitive diversification model and the high-rent staple trap model. The theory is based on the interaction between rents (through their scale, volatility, and concentration) and elite incentives, economic structure, social capital accumulation, social institutions, and political maturation. The theory hypothesizes that low rent incentivizes elites to create wealth efficiently under competitive conditions. Low rents promote elites to apply policies that accelerate economic growth. Rapid economic growth increases all incomes in the society, but that of elite owners the most. This model has been applied successfully catching up with newly industrialized countries and China more recently. It also resembles the classic developmental state concept (Ricz, 2019).

In contrast, high rents encourage elites' competition to extract rent for immediate enrichment at the expense of long-term economic growth. The high-rent staple trap model helps to explain why so few resource-rich countries managed to enter a sustainable economic development path. It also sheds light on other, less resource-rich emerging market economies' failures in this regard. The model states that all kinds of rents not just natural resource rents endanger growth impeding the moral hazard of elites. In this paper, we investigate under what circumstances and limits we can use the "high rent staple trap model" in a resource rich country (Iran) and an East-Central Europe's transition economy.

As far as the negative consequences of the staple trap model are concerned Auty and Furlonge (2019, pp. 29-31) emphasize that a high level of rent fuels political pressure for the rapid expropriation of the rent that the government cannot resist. In many cases, patrimonial relationships put governments and politicians personally even at the highest levels into the rentier position. A further problem is that without sterilization, rent deployment exceeds the absorption capacity of the economy and fuels inflation. This and the appreciation of the real exchange rate strengthen Dutch disease effects. This distorts economic structure and reinforces protectionist measures and the application of soft budget constraints in the non-boom tradeable sector. Due to inflation service sector prices will also increase. There is a resource movement effect from the struggling tradeable sector mainly to the service sector. In developing countries struggling manufacturing industry which is concentrated in politically important cities will successfully lobby for protectionist trade measures. Protective barriers reduce incentives to compete since increased costs are passed on to the captive domestic markets. As a consequence, there will be a deterioration of the internal terms of trade against more competitive agriculture and manufacturing thus taking away resources from this sector. Agriculture in this model generates most employment at low incomes and serves as a reservoir of cheap labor and food supplier and not as an engine of economic growth (unlike in the low-rent model). "The policy quickly degenerates into a vehicle of rent-seeking and government corruption, which makes increasing demands for subsidies from the rent that eventually outstrip the capacity of the economy to sustain them" (ibid, p.30). The economy features an increasing dependence on rent that is not sustainable and leads to a protracted growth collapse due to rent recipients' successful opposition to systemic reforms. Dependence is also regarded as a suitable lever of political stability of the ruling elite.

The intensity of the negatively perceived social economic and political processes and eventually also the likelihood of the protracted growth collapse depends on the type and size of the rents realized in the economy (Auty and Furlonge, 2019, p. 23). Most vulnerable are those economies that feature large-scale concentrated rents which are easily captured by elite governments. Such rents stem from natural resources (mainly oil and gas), international money transfers (geopolitical rent), and regulatory rents (also including quasi-rents that can be realized e. g. through excessive taxation). Dutch disease effects are of course most severe in the case of rents that boost capital and income inflows from abroad and thus exercise pressure on the real exchange rate. In this regard concentrated natural resource rents and geopolitical rents are the riskiest. Due to all these, it is mainly the concentrated natural resource rent and the regulatory rent that exhibit the highest risk of retarding social development and strengthening informal, corrupt policies and practices. From this aspect, geopolitical rents' impact is equivocal and depends on the conditions of the transfers and the control capacity and efficiency of the donors.

Auty's rent cycling theory can be amended by an analytically better-structured approach explaining the interaction of rent sources, political structure, and economic growth (Sen and Tyce, 2017; Pritchett et al. 2018). They claim that a strong, concentrated (monopolized), authoritarian political structure possesses the necessary stability for the implementation of longer-term development concepts. These are focused on sectors with high rent potential. But in case political competition increases the rent-based economies will rather focus on quick, short-term expropriation of the rents. The system is based on closed relationships, and there is no incentive to enhance opening and increase social movement. Similarly, to Auty's low rent competitive diversification model, there can be also political environments that earn legitimation from increasing productivity, structural upgrading, and diversification. Political competition in this case supports open social relationships that provide flourishing business opportunities. Political stability will depend on steady and sustainable development: a future-oriented scenario.

The existence of rents especially natural resource rents can make it rather difficult to maintain the basic features of the competitive diversification model. After the categorization of the political environment, Sen and Tyce (2017) also describe four main economic sectors that work differently from the viewpoint of rent extraction. The role and the intensity of the use of rents (especially regulatory rents) will also depend on the structure and dynamics of the economy. The "rentiers" are mainly extractive and agricultural businesses selling much of their products abroad which gain access to Ricardian rents through the state licensing activity. "Powerbrokers" are large service providers who are working on regulated markets and are either natural monopolies or are granted monopoly licenses by the state (e.g. energy sector, rails, other types of linear infrastructure, trade, or heavy construction). These two groups of companies are most likely colliding with government politicians and bureaucrats to create and share rents in the economy.

"Magicians" are export-oriented firms in competitive markets. Many of them can be foreign-owned businesses. They may gain influence over governments, especially large multinational firms, and can get also rents in form of investment subsidies. However, they work in competitive markets, thus the impact of their rents will not necessarily divert them from long-term competitive strategies. Last but not least the bulk at least numerically is small and medium-sized firms, the "workhorses" that provide the society with goods and services necessary for subsistence. They are not expected to develop crony relationships with politics, at least not on the national level. However, they are not closely regulated either, for many of them work in the shadow economy, and the legendarily weak tax collection capability of most developing countries allows them to avoid tax obligations.

The activity and firm structure of the economy will determine the "rent space", the sectors and businesses that are likely enjoying Ricardian and/or regulatory rents. The size and weight of the sectors may change over time providing different patterns of rent creation and extraction. The interplay between changing political environment and rent space will determine the actual connections of business and politics over rents: the "deals space". Sen and Tyce claimed that changes in the deals space caused both growth acceleration periods and growth collapses in Malaysia and Thailand. A basic scenario for the high rent economy states that rent-seeking authoritarian governments cannot withstand the challenge of increasing incomes. Much of the windfall profit (rent) is spent on the enrichment of the elite thus also increasing social inequality. Social transfers are extended in case inequality triggers social unrest. Rent streams are not collected in shock-absorbing income buffers. Growth collapses occur due to the volatility of rent streams (especially natural resource prices), but sometimes also due to speculative capital flows targeting weak institutions. These cannot be warded off without sufficient monetary reserves.

Exogenous transnational factors, such as commodity price shocks or disruptive technological change, a surge in foreign aid, and others may affect the deals space and hence growth. Transnational factors work their way through the political settlement and/or the rent space. For example, a commodity price boom may strengthen rentiers, a foreign aid surge may strengthen powerbrokers, and improvements in global supply chain management, along with open trade, may strengthen magicians. In terms of the effects of transnational factors on the political settlement, a commodity price collapse or structural adjustment program may make an existing political settlement unstable or lead to shifts in the distribution of power. Rentier states, therefore, do not depend on the complicity of their citizens when making fiscal decisions. Instead, according to rentier state theory, political leaders buy support using these rents by spending it on public goods and patronage, buying off more people with larger fiscal reserves than non-rentier state counterparts (Beblawi and Luciani, 1987).

To expand the patronage umbrella, governments try to enlarge the powerbroker quadrant of the economy. The ever-expanding demand for political support requires an ever-widening patronage net; but without the source of productive economic growth other than the resource economy, this cannot be either stable or sustained, as the growth in demand for patronage exceeds the growth of fiscal sources. The basic comparison of the two models, the high-rent staple trap and low rent competitive model suggests that high growth scenarios can be achieved only occasionally in a high-rent environment. The high growth episodes are regularly ended by protracted growth collapses. The low rent competitive model is more likely to perform a more stable and sustainable development pattern with substantial structural transformation.

The political elites' rents space is mostly linked to sectors within the product space that are generally less conducive to long-term growth. This is because they have a lower level of economic complexity and source their rents from government expenditure, which depends on taxes, aid, and natural resource extraction, which in turn has limited scope for growth and import trading.

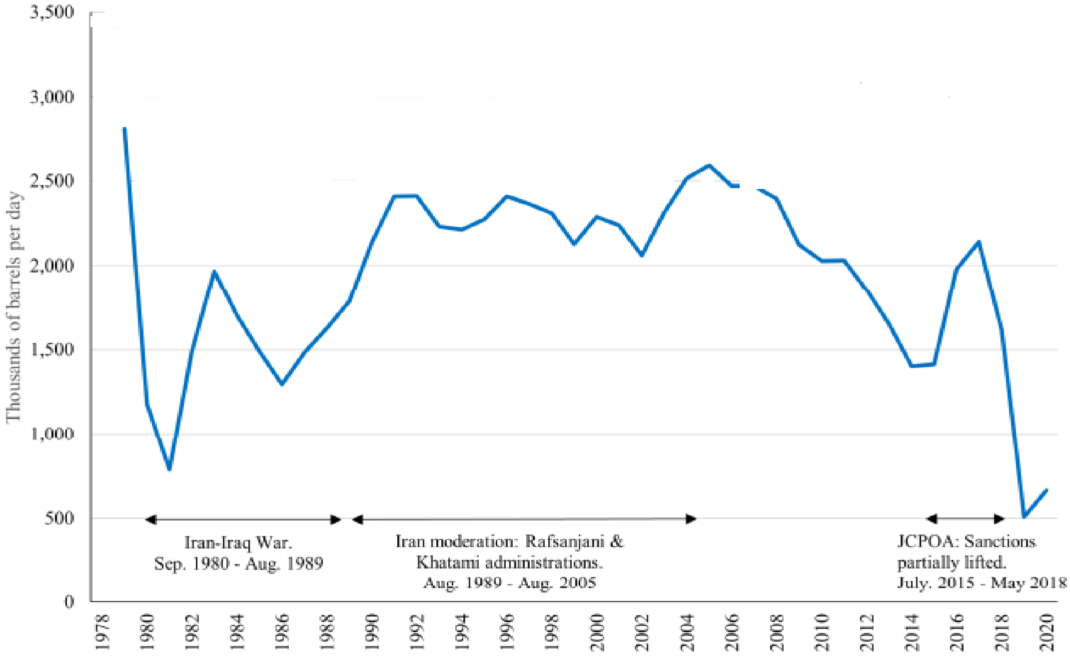
2. The Iranian case study

The Iranian case study describes the actual evolution of the high-rent staple trap model with the unsuccessful attempts of certain periods to reduce resource dependence and to increase political and economic opening leading to a more competition-based social model. The Iranian economy successfully limited its direct dependence from the British government and British oil companies during the 20th century. However, this political change did not affect the natural resource dependence of the country. Instead of the British the Iranian sovereign became the most important beneficiary of oil rents. The Islamic Revolution did not change the economic drivers either. The sovereign and his court were replaced by a wider range of theocratic institutions that have used the rent for the same political purposes. We concentrate in our analysis on this later period of the Islamic Republic.

Iran is a natural resource-abundant and dependent country. The country's estimated oil reserves amount to 163,1 billion barrels, having the largest-fourth oil reserves in the world - after Canada, Venezuela, and Saudi Arabia. Also, the volume of Irans natural gas resources is 33.5 trillion cubic meters and, in this respect, Iran ranks third in the world after Canada and Russia (Fitch Solution, 2021). Oil revenues reached 15-35 % of the GDP in the 1990-2018 period. The country also shows signs of a natural resource paradox. Its relative level of development measured by the per capita GDP did not narrow the gap to the world average. The average rate of growth of this development measure in the post-second world war period was 2,1 % in Iran, meanwhile, the world average reached 2,3 %, and the developing countries' figure was 3,1 %. The share of crude oil production and export remained very high throughout the past decades (Pamuk, 2018). The structural changes of the Iranian economy reflected the characteristics of Auty's high rent staple trap model. The shrinking agriculture was replaced by services rather than non-oil industrial sectors.

Due to institutional weaknesses modernization and industrialization efforts could not create self-sustaining and internationally competitive entities. The successive development plans of the time of the Monarchy until 1978 as well as the efforts taken by the various governments of the Islamic Republic could not change oil dependence. Fluctuations and cycles of economic development reflected two basic external factors' impact: volatile oil prices and the economic sanctions taken by the USA. These can be best illustrated by the volume of Iranian oil exports which is shown in Figure 1.

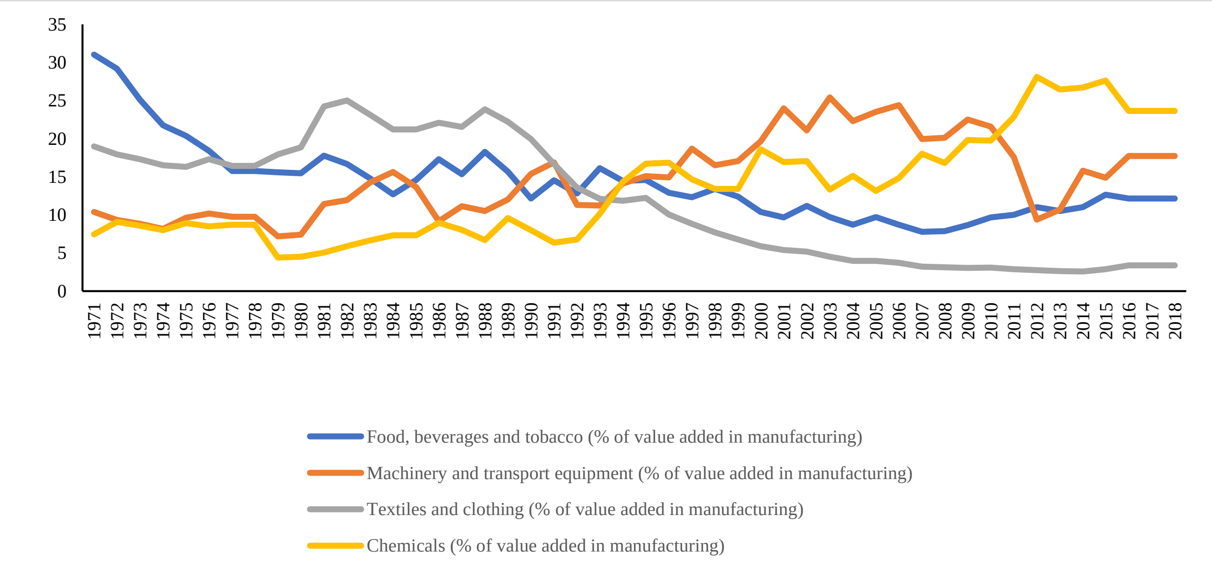
Figure 1.
Iranian oil exports



Source: Loudati and Pesaran, 2021

Figure 2 shows that traditional manufacturing branches like the food and textile industry declined together with agriculture. Total manufacturing share in GDP remained stable only because oil-related industries (chemicals) and the privileged car industry grew.

Figure 2.
Structural changes of the Iranian economy



Source: Own construction based on World Development Index

As is seen, Iran failed to structurally transform its economy and deliver broad-based inclusive growth and social equality. Iranian scholars studied various aspects of this problematic, including the political environment. Zibakalam et al., (2011) investigated the role of the political elites in the political development in Iranian Monarchy (1953-1979). Political elites in this period of time played a destructive role in the course of political development by creating hierarchical power, abusing power and corruption, preventing free elections, and suppressing press freedom and independence. Alamdari (2005) investigated the formation of the state religion and the religious state, and its effects on Iran's development path.

The negative economic consequences of the closed society were examined by Esfanhani and Pesaran (2009). They show the detrimental effects of oil revenues on the learning process in technological developments. They explain the reasons through an analysis of the relationship between the political settlement, informal institutions, and the source of regulatory rents. This paper deepens our understanding of the underlying drivers at play and provides more insight as to why the democratization of Iran has failed to deliver structural transformation and inclusive growth. A similar approach was used by Mahdavi (2015), who answered the question "why does natural resource wealth prolong incumbency?" He used five parliamentary elections in the Islamic Republic of Iran (1992-2008) to show that having natural resource revenues and providing public and private goods for voters, encourages them to reelect incumbents. The results show that according to the rentier theory, voting for the incumbent depends on patronage and public good distribution. The paper shed light on the understudied phenomenon of resource wealth and incumbency advantage at the subnational level and emphasized the mediating effects of electoral institutions on resource-incumbency relationships. Farzanegan and Habibpour (2017) examined how to direct the distribution of oil and gas rents among all citizens and a direct income tax on income inequality and poverty in Iran. The results show that resource distribution policy with its direct income tax has a negative impact on the household Gini index while targeted policies are more effective in decreasing the number of households under the poverty line.

More empirical minded exercises concentrated on less comprehensive questions of the resource curse theory. Abrishami and Hadian (2004) analyzed the relationship between rent-seeking and economic growth by introducing an endogenous growth model which includes the institutional quality. In this paper for measuring rent-seeking, they use the average tariff rate and government size as a proxy. Results showed that rent-seeking has a negative effect on economic growth during 1960-to 2002. Bjorvatn et. al., (2013), studied the link between political competition and the resource curse from 1960 to 2007. The empirical evidence confirms that an increase in rents may result in a sharp reduction in income when the distribution of power between elite groups is relatively balanced. Sayadi and Khosroshahi (2020) studied the impact of oil revenue shock on Iran's macroeconomic variables by applying a New Keynesian DSGE model. Performing the first best (Bird-in-Hand) fiscal rule led to the reduction of the government's budget dependency on oil revenues by increasing the tax base, improving the public investment efficiency, and shrinking the public sector. Shaghaghi et al., (2019) introduced a new algorithm for rent estimation in the period 1981-to 2014 by applying the fuzzy logic. The results of the research illustrate that with the assumption that „size of government" and „economic security" are the economic determinants of rents, the trend of the economic rent fuzzy index of Iran during this period has fluctuated between 0.43 and 0.72. The lowest level of fuzzy economic rent index is related to the two periods of 1983 and 1987 and the highest rate of fuzzy economic rent index is related to the year 1993.

Nevertheless, all these papers have failed to plausibly explain the main causes of creating this unproductive rent in Iran. In this paper we aim to go deeper and argue that the balance of power or political settlement and their interactions with rent space and creating open order deals are essential to effective natural resource government.

2.1. Political settlement in Iran

Within our analytical framework of Sen and Tyce (2017) and Pritchett et al (2018), first we need to evaluate the political settlement of Iran. In countries like Iran with a long history of oil extraction, the natural resource revenues have a profound influence on the political settlement. The bargaining power of resource-rich territories and socio-economic groups that have directly benefited from resource extraction can be greatly enhanced. Rentier sectors can also change the nature of 'deals' spaces and reduce a country's overall governance quality.

In the formation of the Islamic Revolution, different factions such as Liberals, Communists, Socialists, Islamists and others were present. This cooperation among factions shaped the revolution. During the initial years of the revolution from 1978 to 1981, the door was opened for further opening of the country's access system. But the eight years long (1980-1988) devastating war between Iraq and Iran eliminated this opportunity entirely. Due to internal and external events like the war, political rule tended to limit the country's social order. As a result, a special group of Islamists (the traditional and fundamentalist right) became the dominant coalition in the country while there were other fractions as well. All these different coalitions have applied various strategies and policies to access the sources of power and different rents in a centralized and exclusive way.

The political structure in Iran is complex and convoluted which combines democratic and theocratic elements to form what Iran terms an "Islamic Republic". National elections are held for the posts of President (from which a cabinet can be appointed without popular consent), Assembly of Experts, and Parliament via the pre-approved electorate; this is essentially the extent of democratic components in the Iranian political system. There is however, also an upper political level that contains the organizations of theocratic rule. This segment of the political life is absolutely closed. Unelected institutions comprise of the Supreme Leader, various bodies of armed forces, the Head of Judiciary, and the Expediency Council.

After the Revolution in 1979, the Constitution of the Islamic Republic of Iran envisaged an economy capable of „achieving the economic independence of the society, uprooting poverty and deprivation, and fulfilling human needs in the process of development while preserving human liberty". Despite the clear political declaration and five years development plans, forty years after the revolution, many of these goals like economic growth, improving purchasing power parity, and reducing income inequality remained far from achievement. We argue that this could happen because of the mismatch of partially democratized political institutions and concentration of power in hands of a special group of Islamists and a high amount of economic rent. The successive governments of Iran could not establish themselves in the long run so long-term development strategies could not take roots in the country (see also: Pesaran, 2011).

Under these exclusive institutions, the strategies of these groups are to maintain the current political system to guarantee monopoly, centralized power by creating revolutionary organization, and maximum access to the country's resources and assets. In this way, they can increase and allocate rents from oil revenues and government monopolies to cronies who are affiliated with the ruling coalition. It leads to establishing personal and private relations and organizations and restricting the participation and access of other groups: limited access order. These strategies hinder the continuation and acceleration of economic development in the country (Ranjbarki, 2022).

For example, the Khatami government (1997-2005) introduced several reforms for better economic governance by empowering the Iranian civil society and reducing the role of militants in the political economy, including the establishment of the Oil Stabilization Fund. Due to these reforms, revolutionary guards saw their economic and political rents under attack (Dizaji et al, 2016). The economy expanded in this period due to the decreasing political tension with the USA and the gradual rise of oil prices. Consequently, per capita GDP also increased substantially. When the reformists lost their majority in the Iranian Parliament in 2004, they started emptying the Oil Stabilization Fund. This happened at a time when oil prices were historically high and no urgent need for the use of the reserves was present. The different factions have strong incentives to spend the oil revenues for their political interests and personal enrichment. Factionalism in post-revolution Iranian politics and its destructive effects on economic growth under increasing oil rents has been investigated by Bjorvatn, Farzanegan, and Schneider (2013). Farzanegan and Krieger (2019) show that the income inequality (as measured by the Gini index or the decile dispersion ratio) in Iran to oil and gas revenue shocks is positive.

But the largest rentiers are institutions in the upper-level theocratic political structure which are not under any social control. Policy outcomes are shaped by the varied and shifting interactions taking place between the actors. The revolutionary foundations, known as bonyads, are major para-statal organizations with a profound influence over Iranian politics and economics. They operate under the supervision of the supreme leader and were set up in the immediate aftermath of the 1979 Revolution with funds obtained by the expropriation of the wealth and properties of those affiliated with the old regime. Their missions were to carry out „good deeds” and support Iran's poor and disadvantaged communities. Since then, these organizations have engaged in a wide range of business activities both in Iran and abroad, benefiting significantly from tax exemptions, subsidized loans, foreign currency, and freedom from governmental monitoring of their accounts. Islamic Revolutionary Guard Corps (IRGC) and Reconstruction Jihad (RJ) are among the most important revolutionary organizations. ICRG is a parallel institution to the army and RJ is a parallel institution to the Ministry of Agriculture and other ministries.

Reconstruction Jihad shows how Iran takes advantage of rural development through non-coercive tactics to consolidate power. It plays a soft-power role that helps Iran further bring provincial and rural areas into the political, economic, and sociocultural fold. RJ helps „penetrate in a regularized fashion and become central to the population's ongoing and daily 'strategies of survival" (Rob, 2020).

The implicit and important goal of RJ's projects, services, and activities was to create patronage and clientelism of the provincial and rural populations to support them. The rural population showed its loyalty and support to RJ by voting for Islamic Republican Party (IRP) candidates and against their opponents in local and national elections. Elections in Iran were often decided in the provinces and villages with significant shares of the votes, not in the capital city, Tehran. RJ attempted to extract and maximize resources and rents from the state while the villagers attempted to do the same through RJ and other revolutionary organizations (Ibid).

As a revolutionary organization, RJ had allocated a significant portion of its budget to the distribution of rural credit to gain popular support and financially support farmers, herders, and artisans. While RJ credit was supposed to promote self-sufficiency and independence, it had actually made recipients dependent on both the organization and the state. Also, this recipient was not necessarily the most qualified or in need, but rather the most loyal and well-connected to RJ and IRP.

The combination of politically and economically extractive institutions in Iran is stable because political elites holding power always have an incentive to maintain the political institutions to give them political power and the economic institutions that distribute resources to them. Acemoglu and Robinson (2008) argue that this is a stable political equilibrium that leads to protracted poor economic performance.

2.2. Rent space in Iran

As is suggested by Sen and Tyce (2017) the Iranian economy is divided into four groups of industries according to their inland- or export orientation and their likelihood to participate in a market competition or enjoy rent. The basic assumption is that powerbrokers enjoy regulatory rents and rentiers benefit from Ricardian rents that are secured also by advantageous state regulation. These rent-intensive sectors can be the primary targets of the rent-seeking political and economic elites that work in "closed social relations" (or limited access order). It is sometimes rather difficult to conceptualize rent streams. If governments redistribute incomes among economic players those who receive necessarily enjoy rent. However, the concept of structural policy, industrial policy or income policy all require such redistributive actions. They do this and build on the stimulating impact of rents to achieve longer term economic and social goals that can also serve to whole society. This exactly the main reason why the political settlement matters in the question of rent distribution. It can determine if the redistribution serves selfish personal or political interests, or the society as a whole.

The nature of Iran's rent space is influenced by two key factors: first, it is a resource-rich country; Iran is rich in point-source resources such as oil. Second, state-owned enterprises have dominated these sectors. With the March 1979 cancellation of all remaining consortium agreements, the Iranian state had already taken responsibility for the exploration, production, and marketing of Iranian oil. The new ruling elites were searching to acquire similar control over other areas of the economy. Powerbrokers are 'the high-rent firms that serve the domestic market' (Pritchett and Werker, 2012). In Iran, this sector comprises big car manufacturers, banks, and insurance companies. Car manufacturing is given a high degree of protection from foreign competition, thus enjoying high rent, and may be categorized as powerbrokers. These sectors are subsidized by state revenues originating in oil rents. Hosseinigoli and Saei (2017) compare the development trend of the automotive industry in Iran and South Korea. These two countries started this industry simultaneously but the achievement of the two countries in this industry is not comparable. Iran has a limited access system and rarely provides opportunities for the private sector to enter and improve competitiveness in the car industry. South Korea transferred from fragile access order to a mature one, now it is transiting to an open-access order in this industry.

The most important channels for distributing oil rents are development projects and subsidized loans. One way to create rents from development projects such as dams, roads, and hospitals, is for the bureaucrats running the project to make a generous estimation of the project's costs. The difference between the official cost of the project and the actual cost may then be split between the contractor and the bureaucrats. The development policies have increased the bureaucracy and state intervention in the economy. As a fragile state grew bigger, bureaucratic interventions created rents from price manipulations, taxes and subsidies, and regulatory rent. Concerning subsidized loans, these are typically administered by state development banks to promote investment projects in peripheral regions. Well-connected entrepreneurs can get access to such loans and use the money for completely other purposes than those intended. Thus, subsidized loans for raising chicken in the remote region of Baluchestan, for instance, may well end up as property investments in Tehran.

Historical evidence and statistical analysis show that the banking industry in Iran follows the features of the limited access order. Especially during the 1990s when private banking was forbidden, some elite groups from the dominant coalition established more than 19 informal financial institutions. In early 2000, the increasing tendency and competition between a dominant coalition led to reforming the rules of entry into this industry in which private banks were allowed to be established formally. These newly established private banks (6 formal financial institutions) had ties to another group of the dominant coalition. Then, numerous laws and regulations were adopted to improve the supervision of banking activities. Evidence suggests that the Iranian banking institutions still have features of limited access order.

Cheshomi, A., Habibi Nikjou, H. (2017) estimated the size of rent for three groups: government, state banks, and loan borrowers from state banks. They used tax inflation as a proxy for calculating the potential rent for the government. The maximum average of inflation was 23 percent 1990s. The potential rent for the government is considerably higher than the other two groups. After 1994, the issuance of participation bonds by Tehran Municipality and approval of the law on the issuance of participation bonds, parts of the induction of the government that finance with these bonds were forced to pay interest and it decreased the rent for the government.

Another regulatory rent is derived from trade barriers. Tariffs create a wedge between world prices and domestic prices, and thus a premium for those who can avoid the tariff. Tariffs are usually avoided through lobbying or smuggling. But in the rentier state, there are also monopolies in the imports and distribution of some basic consumer goods such as sugar, tea, rice, and tobacco. While there is no legal foundation for these monopolies, they are held by quasi-statal actors, and de facto permitted by the state, and can thus reasonably be considered as receivers of regulatory rents. Moghadasfar et al., (2017) designed a Stochastic Dynamin General Equilibrium model to investigate the effect of trade rent-seeking on labor behavior in the Iranian Economy. Empirical results of the Impulse Response Function indicate that with the positive shock of income, the rent-seeking increases, and the labor force decreased its productive activity and turns to rent-seeking activities. Welfare costs calculated by Lucas's compensation pattern state that a 10% reduction in rent, led to a 6% increase in household welfare benefits.

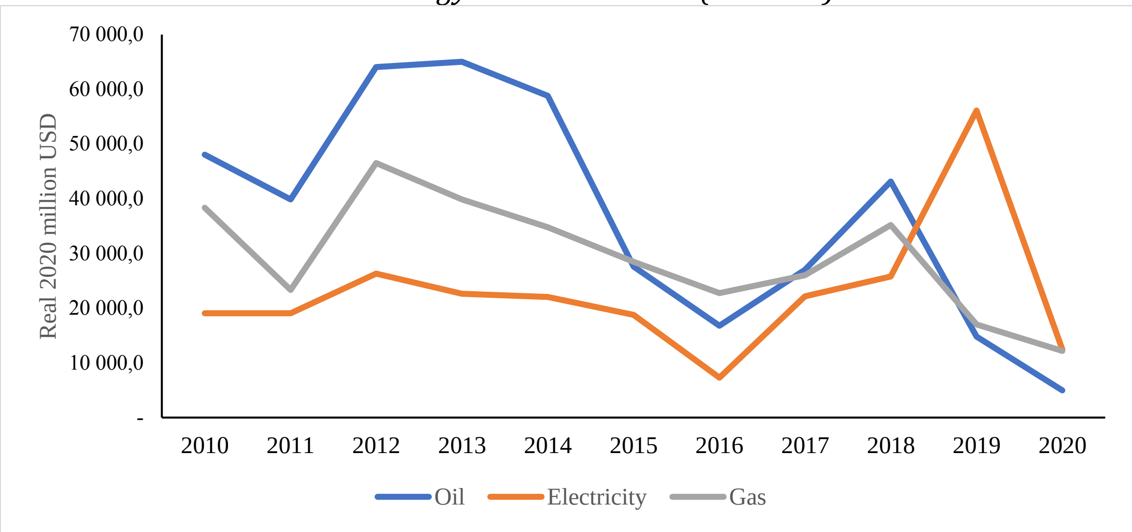
Import rent in recent years has become one of the most challenging issues, especially since introducing an official subsidized exchange rate in May 2018 for importing 25 essential commodities. The difference between the nominal exchange rate and equilibrium exchange rate is one of the sources of creating rent. Foreign currency has been sold to importers for importing essential commodities at 42,000 rials per USD, which is far below the free market and the semi-official rates in the so-called NIMA market. By decreasing the government exchange revenues, the list has gone from 25 essential commodities to only seven: wheat, corn, barley, oilseeds, edible oil, soybeans, and pharmaceutical products including selected medical devices. The government allocated 9.6 billion dollars to the importation of these 7 items while this budget was 14 billion dollars for 25 items in 2018. Other essential commodities such as rice, meat, poultry, tea, sugar, paper, and raw materials are imported using the so-called NIMA rate that currently stands at about 270,000 rials to the US dollar.

According to the economic reports by the Iranian Parliament, the distributed rent among importers of essential goods is very significant. The trade statistics by Iran Custom show that total imports decreased 4.76 percent in 2019 in value compared to the previous year, while the import of essential goods increased 15.96% in value and 12.79% in weight. In addition, household income-expenditure statistics state that essential goods consumption for all goods decreased 14 percent from 2017 to 2018. Decreasing the essential goods consumption in-country by increasing their import is a sign of distortion of this subsidy, smuggling, and distribution of rent among the importers.

Investigating the import of each essential good can be informative. The statistics illustrate the growth rate of imports of some goods as long as they were subject to receiving the official exchange and decreasing the import immediately after the exclusion. The import of tea grew 60% in 2018, the import of butter in 2017 was 45,000 tonnes which 6,000 for 5 months that it was excluded from the list and 40,000 tonnes imported in just three months when it received the official exchange rate. While Iran did not import Chicken in 2017, 2 million dollars were allocated to import chicken while Iran exported chicken in the previous years. It shows the destructive effect of the allocation of the official exchange rate for domestic production and export.

Energy subsidy as a source of rent is tricky because in reality it means redistribution of rents. Ricardian rents which are realized by the state-owned oil companies are distributed among citizens via subsidized energy prices. This can be calculated rather easily by comparing the price of fossil fuels in the domestic market and the FOB of the Persian Gulf. The energy subsidy increased from 98,488 billion rials to 195,089 billion rials (Kaviani 2010). We use the International Energy Agency (IEA) data for energy subsidies in Iran from 2010 to 2020. The subsidies are estimated for fossil fuels which are consumed directly by end-users or consumed as inputs to electricity generation. They applied the price-gap approach for quantifying consumption subsidies. Figure 3 shows the time series of subsidies for oil, gas, and electricity in Iran.

Figure 3.
Energy subsidies in Iran (2010-20)



Source: Kaviani, 2010.

The energy subsidy constitutes 4.97% of GDP in 2020 which is the highest among 25 top countries. It is very necessary to reform the energy subsidy in the economy.

All in all, we can estimate that the rent space (potential rent-seeking) can be as high as 40 % of the Iranian GDP as Esfahani and Taheripour (2002) estimated that 40% of GDP in the 1980s was regulatory rent. State-owned companies are also present in the powerbroker sectors including energy, telecommunication, construction, bank, and insurance, moreover some flagship manufacturing branches, most importantly in the automotive industry and chemicals. But it is not only the government-controlled economy that potentially serves political rent-seeking. The bonyad institutions (RJ and IRGC for example) also have very important representation in the economy. These institutions finance their political and military activities from the revenues coming from regular business. These rents can be regarded rather as quasi-rents.

2.3. Evolution of the deals space in Iran

We interpret the deals space as the changing ways and intensity of rent-seeking collaboration of business and politics. Features of the deal space will depend on changing power relations in politics (political settlement) as well as on the size and structure of the rent sources (rent space). From the viewpoint of sustainable growth open ordered deals space with limited rent-seeking opportunity is most suitable. Such an environment supports competition and has sufficiently strong institutions to legally safeguard private property enforcement (including contracted business transactions). In some cases, if accessible rents are expropriated by elites in monopolized political power positions another type of ordered deals space can evolve. In this case, it is the (sometimes coercive) political domination that reinforces order which is not so much the rule of law but rather the rule of power. Anyway, the closed-ordered environment can also provide the necessary stability of the working environment for economic development including also the not rent-based "workhorse" and "magician" sectors. In Iran mainly closed and disordered deals space has been typical. This scenario is inferior to the others as only those with political connections can make deals but even, they cannot be certain that officials will deliver as promised.

A closed and disordered environment started with governing the processes of nationalization of industries, allocation of permits and licenses, and adjudication of property rights. Immediately following the fall of the Shah, the properties of both the Pahlavi court and its affiliated, foreign-tied bourgeoisie were confiscated, endowing the new state with a considerable source of economic power. The trend towards increased nationalization was strengthened by the inclusion of Article 44 in the constitution. Subsequently, during the period of war with Iraq, the dominant view in the government of Prime Minister Mir-Hossein Musavi as well as in the majles (parliament) was that in this time of necessity, the state must take hold of the economy to survive, imports were controlled, essential goods were rationed, and much else was subsidized.

After the war with Iraq, Iran tried to change its economic policies from a state-interventionist model to a market-oriented one. Defended by its proponents as a program for stabilization and adjustment, it was a macroeconomic agenda relying on a belief in the free-market economy and was implemented by pragmatic president Ali Akbar Hashemi-Rafsanjani and the reformist Mohammad Khatami.

While Rafsanjani was President, he attempted to emulate the Asian Tigers through an emphasis on human capital, industrialization, and exports. As a result, he attempted to cultivate an obsession with rational expertise rather than revolutionary commitments. A notable effort was made as part of Rafsanjani's Thermidor to make ministries, revolutionary organizations, and educational institutions more professional, educated, knowledgeable, competent, and expert after state purges which left them with varying degrees of skills and expertise (Rob, 2020)).

In order to rectify this situation, Rafsanjani adopted neoliberal and structural adjustment policies, known as the Washington Consensus, in conjunction with the World Bank in the 1990s. So, Rafsanjani privatized several state companies that belonged to RJ and the other ministries. However, the process of privatization was unsuccessful because they involved crony capitalism and conflicted with the interest of the parastatal corporation and foundations (Saidi, 2020).

Exchange rate unification, currency devaluation, and the elimination of subsidies and price controls were also among the liberalization strategy during the Hashemi-Rafsanjani era. Foreign capital was necessary to support these „structural adjustment" policies, there was also a gradual opening-up of the Iranian economy to the outside world at this time. However, the bonyads, the ruling class of the Islamic republic, were intent on thwarting the government's privatization policies and protecting their economic dominance. In fact, they purchased many of the state enterprises put up for sale at this time themselves, diverting the privatization initiative from what it was originally intended to do and extending their influence.

A substantial and effective effort was made by the bonyads to oppose and divert Hashemi-Rafsanjani's economic opening policies. As a result of advocating bazaar interests, the mercantile elite challenged the state's control of the economy, as well as his efforts to expand ties with outside sources. As a result, the new economic approach had little chance of success in the face of so many obstacles. While the privatization had taken place, control of the government was not transferred to the private sector; rather, wealth and power were transferred to the Islamic republic's mercantile elite, as well as to the parastatal businesses owned by the bonyads. Rafsanjani's privatization efforts, however, were limited and failed, leaving a number of state-owned enterprises and parastatals with former RJ members directing agricultural, industrial, petroleum, and banking affairs. (ibid).

Other evidence of disorder deals in Iran related to the contract with the Turkish mobile telephone group. By increasing the Iranian population and growing demand for mobile phone communications, Turkcell is selected to develop a second mobile telephone network in Iran as a private sector. Finally, Turkcell had been removed from the negotiating table because it was not compatible with the proper features of some elites. It was replaced with MTN, a South African company because this partnership would not threaten their vested interests within the system of the Islamic Republic (Pesaran, 2011).

The second contract, with the Turkish-Australian group Tepe-Akfen-Vie (TAV), was foreseen for the construction and servicing of Tehran's new Imam Khomeini International Airport. After the airport's opening ceremony in May 2004, the statist revivalist IRGC only expelled TAV from the contract informally. IRGC enjoyed significant material when it expelled foreigners from work at Imam Khomeini International Airport and replaced them with domestic workers (Pesaran, 2011).

According to President Mahmud Ahmadinejad's administration in 2005, economic policies were largely formulated and implemented to benefit the interests of a small group of elected political elites. The most important evidence in this regard is related to the Foreign Exchange Reserve (FERF), which was established in 2000 as a source for accumulating surplus budget oil revenues. Although FERF's deposits stood at $10 billion in 2005 and were expected to hit $20 billion by March 2006, the IMF's 2008 Regional Economic Outlook estimates that FERF's deposits were only $9 billion in 2008, despite a huge increase in oil revenues over the previous four years. The huge deposits have been used in various populist ways by the government as an instrument for buying votes, regardless of what economic or social logic requires.

2.4. Iranian deals with space and future development opportunities

As is seen, the capacity of Iranian elected representatives to shape national economic policies is significantly limited by the existence of a host of non-elected and revolutionary organizations. In addition, the policy reform in Iran is also sensitive to fluctuations in the oil price. When the oil price is high, the government deregulates the economy, whereas a low oil price generally gives the opposite result. In the first case, the supply of foreign exchange to the economy is high, reducing the price of imports. The volume of imports can increase without the accumulation of foreign debt. In the latter case, the local currency depreciates, and the price of imports therefore increases. In addition to weakening the current account, the depreciated currency increases the cost of domestic production. The manufacturing sector in Iran is highly dependent on imported intermediates and capital equipment, and the production is largely for the local market. To protect local industry and reduce the spending on foreign exchange, the policy response to lower oil prices is typically increased tariff barriers and the introduction of currency rationing.

Rent-seeking is also affected by fluctuations in the oil price. The standard assumption is that rent-seeking increases with a rise in the oil price since the size of the oil rent go up. Inversely, a drop in the oil price should lead to less rent-seeking. Interestingly, however, in Iran, this is not necessarily so. Since the policy response to a lower oil price is more regulation, rent-seeking directed towards regulatory rents is likely to increase. When oil prices go up, rent-creating regulations are lifted, but at the same, the amount of oil rent goes up. The degree of rent-seeking in the economy may therefore be relatively unaffected by changes in oil revenues, though the type of rent-seeking changes.

Iran's lack of structural transformation is the result of two unfavorable combinations. First, Iran has a multi-dominant-party political settlement and parastatal organizations with a flawed long-term developmental vision. This system focused on rentiers and powerbrokers in the rent space, while actively undermining workhorses and magicians. Second, to date, the combination of a competitive clientelist political system – which took hold with the introduction of a multiparty democratic system and a rents space in which rentiers and powerbrokers continued to entrench Iran's patronage system, prevented a new long-term developmental vision. In turn, this has prevented the structural reforms necessary to allow both workhorses and magicians to achieve growth at scale and to drive structural transformation and inclusive growth.

Iran remained stuck with an unfavorable combination of a competitive clientelist system and a patronage system dependent on powerbrokers and rentiers. The combinations of the political settlement and the rents space have prevented structural transformation in three ways. First, rentiers, though exporting, are low in economic complexity, with a minimal economic incentive for innovation and diversification. Second, powerbrokers are largely importers or captive market businesses that combined government services to provide rents for political elites (car manufacturing, construction, finance). The combination of a rentier and powerbroker-based patronage system has kept the deals space largely closed, despite varying phases of orderliness and disorderliness in deal-making between political and business elites. So, third, political elites have had limited incentives since 1979 to develop state capacity, because rentiers and powerbrokers did not require it to accumulate rents. When asking for tax breaks and preferential licenses rather than removal of binding constraints for value addition of the improved quality of government services, the demands of the political elites require a closed orderly deals space that can be provided without much state capacity.

There are two ways of reducing rent-seeking in the economy. Firstly, if one of the competing groups gains full control over the state apparatus. In this case, there will be no room for destructive competition over rents. Such a solution would replicate the situation in Indonesia under Suharto, where an omnipotent leader monopolized corruption and generated economic growth. In the long run, however, this may not be the optimal solution, since political hegemony tends to reduce innovation.

The second way of reducing rent-seeking is by eliminating the power of rent-seeking groups and establishing an autonomous state. This can take place through a process of democratization, where greater transparency and accountability reduce the scope for rent-seeking. An important lesson from the growth literature is that sound institution are essential for economic development. By professionally managing the oil rent and creating opportunities for all, the destructive competition that has plagued the Iranian economy for decades can turn into a constructive one.

3. The Hungarian case

The Hungarian case study highlights different aspects of the rent economy. As we mentioned in the introductory part, a variety of rent streams work in different countries. Perhaps we may even state that the "regular" composition of a national economy by definition includes rent elements. The Weberian principle of the competition state may be rather the exception than the rule, a fortunate deviation from the "natural" development path. This problem is especially strongly present in the countries of the "semi-periphery" among others in East-Central Europe. The history of the region's political and economic development can be described as perpetual change of modernization efforts and backsliding (Szanyi, 2020). This Polanyian pendulum movement travelled between the "Western-type" Weberian competition state and the traditional Byzantine model (Polányi, 1944), where the role of rents, especially regulatory rents play important, systemic role. The current political and economic backsliding in several ECE countries is a new episode of the continuous shuttling.

The main lesson of the Hungarian case is the fragility of "imported" institutions of the competition state. As part of the process the rolling back of the control mechanism over rent seeking could be reinforced with relative ease. Control institutions had relatively weak social underpinning and rent seeking in general has remained socially acceptable. This comes from the Byzantine heritage of the area. The sovereign was treated as mundane governor of god who had unlimited power and control over the assets and incomes of the empire. Today's mighty politicians are treated in the eyes of the less educated mass similarly. They have the right to distribute incomes. It is an interesting exercise to trace back how the political and social institutions of the Weberian competition state developed in such an environment. The process left some doors opened for the increasing creation of regulatory rents. These included the allocation of monopoly rights to clients, excessive taxation and depression of competitive businesses, distortion and misuse of the competition principle in public procurements in favour of cronies. The other main source of rents is geopolitical rent: EU cash transfers for development purposes. The transfers serve as prey. They arrive in excess to the domestically produced part of the national income. Using the analytical framework of Sen and Tyce (2017) we first describe how the political settlement has changed in Hungary during its recent transition period (1990-2020). Second, we try to sum up the impact of various rent streams in the country. Then the rent expropriation processes are discussed.

3.1. Changes of political settlement in the Hungarian transition process

Historically, Hungary is considered as a latecomer in the club of Western democracies. During the past thousand years the country had always struggled for catching up and converge to West-European political and economic models and living standards. Due to various reasons progressive periods had always been overturned by periods of destruction, war, social and political disorder that thwarted social and economic development. As a consequence, Hungary (together with other Central European countries) found herself in an ambivalent position in the late 20th century. These countries have desired core Europe's economic, political and social achievements, nevertheless their social and political environment contained many elements of the other main European development models, the Byzantine Russian and Ottoman ones (Szanyi, 2020). The current impact of the authoritarian, rent based development models was proved empirically (Grosfeld and Zhuravskaya, 2015; Kuran, 2011; Djankov and Hauck, 2016; Grosjean, 2011).

Hungary played an eminent role in the transition process after 1990. The transformation of the political and economic institutional system from the structures of the previous communist epoch (political centralization and central planning) was generally regarded a success story (Kornai, 2006 and 2015). The complex challenges were met by the support of the international advising community (IMF, World Bank, EBRD and the European Union). These institutions suggested the introduction of the classic Weberian competition state. Their argumentation was supported by the relatively smooth political and economic development pattern of developed countries which was achieved during the period of the Great Moderation (1985-2008). There were of course losers of the structural change. Many industries were abandoned, especially those created by the reinforced industrialization of Hungary that did not prove to be competitive on open world markets. The established new industries (automotive, electronics) could only partially absorb the redundant workforce. Therefore, the systemic change produced increased uncertainty, the elimination of full employment and not just new business opportunities.

Nevertheless, the Central-European transition process led to the establishment of the institutions of Western democracies both in politics and the economy. Parallel with this process a political elite developed that supported and carried out these changes. Since there was no alternative pattern, a relatively stable social and political consensus surrounded the changes. The success of the transition process was sealed by the joining of the Central European countries to NATO, OECD and lately to the European Union. A not negligible distinction can be made based on the timing. Romania and Bulgaria were admitted to the European club only a few years later than Hungary, due to the stubborn presence of some negative elements of the Byzantine development model like systemic corruption. These countries have not become part of the Schengen area either.

The Hungarian accession to the EU occurred in 2004. But right after the signature of the treaties the European anchor started to loosen. Until 2008 the socialist governments run loose fiscal policy and did not make strong efforts to meet the Maastricht requirements of Euro introduction (which was an unconditional part of the membership treaty). Corruption also increased leading to political scandals that destroyed the reputation of the socialist and liberal party coalition in Hungary. As Mihályi rightly states, already this government passed laws that contradicted the competitive market principle and reintroduced selective state intervention in the economy (Mihályi, 2015). However, a systemic rolling back of the institutions themselves did not yet happen. This was carried out after 2010 by the right-wing populist government led by FIDESZ[3], that won elections with super majority. FIDESZ represented the interests of a second "national" elite that wanted to replace the previous "comprador" elite in business (Szanyi, 2016; 2022b).

The outstanding election victory of FIDESZ provided exceptional opportunity for the party leaders to shape the socio-economic system according to their taste. The fundamental document of this desire appeared right after the election victory. In this document FIDESZ party declared the need of the organization of a new social pact, the System of National Cooperation (NER after the Hungarian abbreviation). The one-page document passed by the Parliament stated that the party considered the election victory as an unlimited entitlement of the nation for future actions to create NER. The abrupt break with the previous period's tolerance and democratic principles was expressed also by the parliament decree that required all public institutions to display a copy of the document in the main lobby of their buildings.

The more detailed version served as a kind of action plan of the new government. It declared the preferences for the national bourgeoisie, confrontation stance with global institutions and the EU and increasing national sovereignty have been labelled as general goals. Already this document planned an abrupt change in public procurement policy that would serve as the most important rent source. Ironically, the main NER document has mentioned the same types of anomalies around the public procurement system then what is found fraudulent today by EU authorities and Hungarian NGOs. "Public opinion is irritated by the negative image of abuses, decisions made based on political considerations, and the high prices stemming from corruption received partially from the

[3] Federation of Young Democrats

media and partially from entrepreneurs based on their own experiences." (Office of the National Assembly, 2010, p.27.) It seems only the rentiers' persons had to be changed not the corrupt system.

The political arena was soon changed to a more closed/limited access environment. Using the super majority in parliament the FIDESZ government started the establishment of an "illiberal democracy" (Zakaria, 1997). This meant re-writing of the Constitution and the passing of 32 "cardinal laws" to be changed by two third majority (Bárd and Pech, 2019). Key positions like the constitutional court, the chief prosecutor, the state audit office, fiscal council or the board of the National Bank of Hungary were soon occupied by FIDESZ cronies (Ágh, 2021). The aim of the legislative work was to introduce the closed/limited access political environment until the next elections in 2014 (Schering, 2020). A political environment that maintained the coulisse of democracy but paralyzed political competition in several ways. Firstly, the election system was changed in ways that favoured the political party in power. The system of winner compensation, moreover the extension of voting rights to the Hungarian ethnic minority of neighbouring countries significantly increased FIDESZ chances in the later elections. Secondly, the social control institutions were stigmatized and harassed in various ways among others by political attacks and special taxes (see: Kornai, 2015; Kingsley, 2018). The muting of watchdog institutions fitted in the populist rhetoric of the government: the electorate cleverly had chosen the right representatives of social will. There was no need for alternative "hostile" voice.

Parallel with this, another populist anchor had been developed. Hungarian government officials continuously manufactured various images of the "public enemy" to keep society busy. The stigmatization of George Soros the social institutions that he sponsored, the radical treatment of the 2015 migration wave, continuous freedom fight against "Brussels" were the most notorious cases. Most recently the populist Hungarian government goes its separate roads in the treatment of the Russian war in the Ukraine. The populist disinformation of the society is served last but not least by the "nationalized" public media. 5 years ago, the architect of the Hungarian illiberal democracy announced a new period of "cultural fight". This meant the forced spread of the ideological elements of the illiberal democracy: nationalism, anti-elite sentiments, conspiracy theories. Through various ways many mediums were taken over by government-instructed institutions. They were either abandoned or reorganized in the frames of a government sponsored mega-monopoly in social media the "KESMA[4]". KESMA effectively controls almost 100 % of written media, two-thirds of Hungarian electronic media and almost all broadcasting activity in the country except a single major independent TV channel.

The introduction of the illiberal democracy proved to be politically successful. The closed/limited access political order worked well in the successive elections. FIDESZ won in succession the fourth parliamentary elections in 2022 with super majority. True, the election success was supported by the unexpected international events of massive migration and the Russian war more recently. But the FIDESZ government was capable to utilize these events in frames of the populist ideology and with support of the media monopoly. The combined effect of limited access, media monopoly and the war shock clearly supported FIDESZ in the 2022 election campaign. The party (government) propaganda could make believe the least educated supporter cohort of FIDESZ that the opposition wanted to enter the Russian war and send Hungarian soldiers to support the Ukraine. While this statement was an obvious lie, moreover also nonsense, the message was delivered and affected the countryside electorate where the government media monopoly effectively blocked the opposition from rejecting the statement. Political observers believed that this single fact could deliver FIDESZ supermajority in this election.

This structure of "illiberal democracy" could be achieved despite of the continuous pressure coming from the political bodies of the EU. Lately, the Hungarian government used several times the forum of EU institutions to oppose decision making that contradicted its political will. Despite of the obvious clash of political values shared by EU institutions and the Hungarian government the organization has no effective device to reinforce these values and interests. The debates with EU institutions are significant because a major rent stream comes from EU cash transfers. In closed (limited access order) societies they serve rent-based economic systems.

To sum up: institutions of competition state were introduced in Hungary in the first decade of the country's transition process. Due to the relatively little time of existence, they could not develop deep roots in the society. When after EU accession the

[4] Central European Press and Media Foundation

Europeanization anchor started to loosen policies were pursued that contradicted the principle of competition state. After the FIDESZ victory and super majority in parliament in 2010 the institutions themselves were scaled back and hollowed out. The Hungarian political settlement became more and more limited access ordered. This political settlement was suitable for the uncontrolled expropriation of various rent streams.

3.2. Rent streams and rent space in Hungary

The broad concept of rents that was introduced in the first part allows the identification of various rent sources in Hungary. Most obviously these are not the classic Ricardian rents, since the country is poor of mineral reserves and sources of energy. The main rent sources are geopolitical rent (unilateral transfers of the European Union), regulatory rents (created by selective economic policies) and quasi rents. In fact, all these rents are very much dependent on the attitude of government policies. In case of external development financing but also other cash streams of the EU (coming in frames of the CAP for example) the source of the income is not the Hungarian economy. It is rather distribution policies that are shaped in order to turn transfers sources of rent. In case of regulatory rents and quasi rents incomes generated in Hungary are redistributed by selective policies in arbitrary ways that do not respect the competition principle.

From this brief description it is obvious that the kind of sectoral differentiation used by Sen and Tyce (2017) must be amended in the Hungarian case. As for example the widespread practice of corporate raiding is not sector specific, we must treat the activity-based sectoral breakdown rather flexibly. In classic cases government activity decides mainly about the extension and intensity of rent seeking in the sectors that vary by their propensity of becoming a rent source. In Hungary, in many cases government institutions or politicians personally decide about the rent source, as in the extreme case of corporate raiding. This rather open violation of the rule of law and similar practices served as a base for the development of Magyar and Madlovics (2020) mafia state concept. Mihályi (2015) described many cases of regulatory capture when selective government policies (e.g. excessive taxation) reinforced corporate owners to discontinue loss-making activity and sell companies. Buyers were usually state companies or political cronies. Such cases are not rare, however, the usage of these tools is also not unlimited. It is mainly the Europanization anchor and EU institutions that exercised growing criticism and some control over the process. A minimum level of compliance of the coulisses had to be maintained. We aim in this section to outline the methods of rent creating and identify the actual rent expropriation as the deals space in the next section.

We assume that most typical and possibly largest by amount source of rent is public procurements. The state budget is by far the largest buyer of all kinds of goods and services. There is ample evidence that procurement tenders have been generally suspicious for fraud. Several papers published empirical survey results that used various proxies for the detection of potential fraud. They showed some evidence already at the end of the 1990s. The most recent publication of CRCB[5] indicated that 30 % of the tenders had single bidder, 20% of the value of all government procurement tenders was won by 42 firms run by 12 individuals who can be regarded as close collaborators with highest ranking FIDESZ party officials and government members. Many of the remaining 3300 firms sharing the 80% could be corrupted cronies of lower levels of the party hierarchy (Tóth, 2022).

The procurement rent machine can work since persecution is not independent in Hungary. One of the major criticisms raised in the EU is exactly the inadequate control of corruption in public procurement. As an illustration we can mention the Elios case. This firm owned by the son-in-law of the prime minister won tenders of city lighting in various towns and was filed for potential fraud at OLAF (the anti-corruption investigation body of the EU. See: Transparency International Hungary, 2019). The investigation found evidence of fraud and suggested the withdrawal of the EU funding from the project in 2015. Instead of continuing the investigation in judicially binding form by the Hungarian authorities, government simply took the project from the list of EU-financed programs and the persecution office did not start investigations. Thus, we may perhaps rightly assume that potentially all public procurement can be fraudulent and serve as a source of rent.

Public procurement affects many economic branches. Public construction is perhaps the largest single chunk that also contains much of the EU cash transfers. But all purchases of public institutions are tendered. Telling evidence of potential fraud is the centralization of governance of public branches (health care, education). Most recently

[5] Corruption Research Center Budapest

even the activity of the writing of tender documentation was limited to a few licensed companies. The desired state control over all kinds of income streams was first shown in 2012 when government effectively curtailed the activity of NGOs. The utilization of sources from the Norwegian Fund for example was rather rejected when the Fund's governing body insisted on allocating as little as 5 % of the money to non-government-controlled institutions (Politico, 2021). Similarly, the Hungarian government first declined the usage of the credit facility of EU's Recovery and Resilience Fund, because it was made conditional of some EU preferences and control. The Hungarian government did not want to allow EU to set preferences and gain more insight into the money allocation process. This stance has changed only in 2022 when due to the Russian war Hungary badly needed the EU funding (Reuters, 2022).

The sectorial spread of procurement rent seeking can be illustrated by the spread of government cronies' economic activity. Besides the obvious cases of public construction (roads, railways, public buildings, etc.) cronies' firms are also engaged in facility management, guarding/security, IT service provision and the like. An outstanding area is financial services, especially banking and financial intermediation: the distribution of government (and EU) money for development projects. Besides, of course all state-owned companies can serve rent seeking purpose either as recipient of development funds or a source of quasi rents (see: Szanyi, 2016; 2022a). Using the four boxes approach from Sen and Tyce (2017) "powerbrokers" are almost certainly part and parcel of rent seeking in Hungary. They are sources of quasi rents. The quality of their services declined steadily due to the lack of development sources. To mention only one example, the Hungarian State Railways have not been capable to provide air-conditioned carriages on many intercity trains in the summer of 2022 when outside temperature reached 35 Celsius. When I asked for the reasons the train staff explained this with the lack of technically suitable carriages. This and many other cases of government controlled public infrastructure fit well with the quasi-rent concept raised by Gochberg and Menaldo (2021). Szanyi (2016) regarded the state sector as primary source of rent in Hungary around the change of the millennium. Classic "rentiers" are relatively few. They are present in some monopoly markets like gambling, and most importantly in agriculture. Agriculture is systematically kept in rentier position by EU regulation. Certainly, Hungarian farming is very much concentrated and government cronies are controlling the majority of the sector. Workhorses are not part of the rent seeking system, simply because they are too small to become prey of cronyism.

The case of "magicians" is rather interesting in Hungary. The export sector consists mainly of affiliates of large multinational companies. They seem to be more exposed to competition: they work on global markets. Yet, in the Hungarian market most of them are affected by rent seeking. They are either beneficiaries or victims. Beneficiaries are those large factories that enjoy various kinds of state subsidies. Hungary used to be a pioneer of foreign direct investment attraction and used a variety of fiscal incentives. These were streamlined after EU accession, nevertheless Hungary continued very generous investment promotion policies also later on (Antalóczy, Sass and Szanyi, 2011). These subsidies (be it for example tax allowances, in-kind investment contributions, advantageous market regulation) are clear sources of rents. Nationalist elites blamed the disproportional sharing of subsidies in favour of foreign firms. Interestingly, after the change of power and the victory of the nationalist elite the use of FDI advantages remained in place. It seems that foreign owned "magicians" became built-in elements of the Hungarian rentier state. They serve as built-in macroeconomic stabilizers: they provide export surplus, and they are also important tax payers despite of their tax allowances. Nevertheless, not all foreign affiliates enjoy the preferential treatment (Éltető, 2022). Many of them signed a strategic cooperation agreement with the Hungarian government (Szanyi, 2019a).

The other half of the FDI-based sector is treated as enemy. They work in sectors where the nationalist elite also has some stake. Conflicts emerged in many services branches (banking/finance, retail trade, media, utility supply, energy). Foreign firms in these branches became either competitors of Hungarian cronies or provided services that the Hungarian government wanted to control. For example, an important election promise of FIDESZ was the subsidization of public utility prices. This could be achieved if the prices were capped thus providing no profits for the service providers. They were soon nationalized. In other cases, the populist anti-globalization rhetoric of the government was emphasized with the selective introduction of new taxes. Some of these were targeted on just one or a few foreign firms. The most recent 2022 case was the introduction of the "extra profit surcharge" for selected foreign companies (for example banks, retail traders, cheap arlines). The Hungarian government also declared that the tax must not be collected from customers. Among others the cheap flight providers were also included, despite the fact that in the 2019-2021 pandemic period they suffered huge losses worldwide. Ryanair increased ticket prices by the tax amount. The company CEO Michael O'Leary criticised the measure and the responsible government officials with rather rude words. Very telling was the Hungarian response. The Minister of Justice personally promised that customer protection investigations will be launched against Ryanair: obviously a retaliation for the firm's nervous reactions. The institution (here consumer protection) was used with clear political motivation (Telex, 2022).

The ambivalent treatment of multinational companies also describes the second main rent source: regulatory rent. Generally speaking, all selective policy measures serve as a source of rent because they discriminate (positively or negatively) among market players. The most obvious cases are monopolies. Gambling monopoly was given for example a crony who then was appointed Minister of Defence.[6] But in most other cases market process is just distorted to favour clients at the expense of unaffiliated competitors. Regulations are often used also for corporate raiding. In case a NER-affiliated "entrepreneur" spots a lucrative business government institutions can be used to harass the target company or regulation can be temporarily changed to eliminate the market niche to allow the NER-bound business to take over the firm and the market. Business people estimate a turnover of HUF 1 bn the threshold level to become likely target of corporate raiding target.

3.3. The deals space in Hungary

The logic of NER attributes potentially all income sources to state control. This comes from the Byzantine perception of political power: the state and its almighty head has legitimate control over the economy. The social justification of the control right comes from the super majority won by FIDESZ in successive elections. The control right also indicates that income is allocated to those citizens who support the state with useful service. NER is defined as a new social pact after Byzantine muster. It favours the role of state power against the society. The needs of the society must be fulfilled through state institutions or through the intermediation of state institutions by political cronies.

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6 https://hungary.postsen.com/world/41009/The-Minister-of-National-Defense-took-a-dividend-of-16-billion-from-the-casino-company.html

Party business capture is not a new phenomenon in Hungary (see: Sallai and Schnyder, 2015; Szanyi, 2019a). As early as the late 1990s the growing role of partisan firms had been observed in the economy. Stark and Vedres (2012) published the results of an important empirical survey that detected the spread of partisan company networks in Hungary during the 1990s. From the 1696 observed large and medium sized companies 10 % showed a board with members from political parties in 1989, the eve of the systemic change in Hungary. This share grew to 20 % by 2001. In terms of capitalization the share increased from less than 10 % to over 40 % by 2001. Partisan CEOs were differentiated and a right-wing and a left-wing group was identified. After changes in government the share of the winning coalitions' presence increased the other decreased. This result clearly showed the impact of state-owned companies. However, this impact faded out by the end of the decade with advancing privatization of state assets.

Under these circumstances the size of the deals space depends first of all on government capacities to exercise control over economic activities. Other control functions were deliberately switched off. The European Union also had some influence and control, which was regarded as hostile intervention in the matters of NER. This is very well taken: EU institutions have not been working to support outright corruption. The freedom fight of the Hungarian government against EU institutions is in fact an attempt to reinforce the Byzantine logic of NER against the Weberian EU institutional framework. Thus, the actual size of the rent space depends on NER capacities and the remaining control institutions' voice.

A different question is the share of rents in income (compared to incomes of labour, capital and state tax). As mentioned, main rent sources are regulatory rents and geopolitical rents (EU cash transfers). Of course, much of the income streams are used with the purpose of demand satisfaction. But the essential question raised by Váradi (2006) was how much of the income streams is taken away as rent? Unfortunately, we do not know. We cannot even estimate since we can only observe sporadic lawsuits of fraud which are only the tip of an iceberg. Since there is no systematic control over public spending and the public persecution is not independent from NER, no regular and systematically collected evidence is available on the matter. The very few lawsuits indicate very high levels of rents in the public procurement processes (up to 30-50 % of the contracted amount). But even if the contracts and contract fulfilments are free of fraud the distortions of the tendering process to favour selected NER clients and the curtailment of competition will surely increase the costs and prices as Váradi (2006) rightly emphasized.

Of course, much of the negative perceptions concerning the share and amount of rents in Hungarian income streams root in deep distrust. As procurement processes and much of the government decision making process is not transparent observers suspect that there is something to hide. More systematic analysis of the rent streams has been carried out by the Corruption Research Center Budapest (CRCB). A series of proxies have been developed that could indicate potential fraud in public procurement tenders. Such suspicious features are the very short time span between announcement and submission deadline of tenders or the number of tenders with single bidder. Another indicator of the level of competition in procurement tenders can be the difference between proximate tender value and the contracted tender value. Even more telling can be if the contracted value is higher than the winning offer. There is ample evidence that a very high share of the public procurement tenders suffered from these problems. Very often even from many of them.

Fazekas et al. (2013) found that curtailing competition has been widespread in public procurement especially in case partisan firms took part in the procedure (p. 76). The analysis of EU sponsored projects in Hungary between 2009-12 showed that 33,8 % of the signed contracts received only one bid. 17,7 % of the contracts were modified after being granted, offering a mode to extract rents (op.cit. p. 78). An even more comprehensive survey of public procurement tenders was conducted in CRCB for the years 2010-2016. Tóth and Hajdu (2018) created a database of 126330 contracts. The share of contracts with single bidder fluctuated between 20% and 40% with the highest values occurring in election years. The index of relative price drop (lower contract prices than the target value of the tender call) that can be expected if there is competitive bidding was marginal in at least half of all cases and showed a significant drop in 2010 (the year of FIDESZ election victory). Family members of the Hungarian MP and their trustees' companies were paid special attention. The four interest groups of this kind won 510 contracts (0,4 % of the total) worth of HUF 2,5 bn (5,1 % of the total). Corruption indices showed above average values in this interest group.

The most recent CRCB publication with public procurement analysis was published in March 2022 (Tóth, 2022). According to the supplemented data the amount of public procurement increased from HUF 888 bn in 2005 to 4047 bn already by 2007 the initial year of the first full EU planning period with Hungarian participation. The increase clearly shows the outstanding role of EU funding in public procurement. Also, in later years the amount varied between HUF 3000 and 5000 bn with some ups (8180 bn in 2015) and downs (758 bn in 2011). This is roughly 8-12 % of the Hungarian GDP. The share of EU funds varied between 50 and 80 % in the period between 2008 and 2015. The share decreased to 25-30 % between 2019 and 2021. The level of corruption indices was always higher in tenders using Hungarian funds than the cited figure related to EU-sponsored projects. Thus, the late decrease of EU funding was paralleled by increasing corruption in the public procurement process. The business group controlled by MP Orbán's and family members' clients run their businesses exceptionally successful. Their companies in construction industry have recorded 50 % higher profit rates than all other companies in the sector (G7, 2022). In 2021 this rate achieved 13 % while other companies scored less than 8 % profit rate on turnover. There is no reason to believe that the NER companies were so much more efficient. The source of the excessive, above average profit (which amounted HUF 117 bn for the period 2013-2021) is more likely pure rent.

Based on the results of the empirical surveys we can estimate the amount of geopolitical rent in Hungary. We do not differentiate between projects with Hungarian and EU funds, for the most projects mix the two sources. We calculate the lower corruption level indicated for EU projects. If we count with public procurement averaging 10 % of GDP and a "modest" 50 % share of corrupt cases, we come to 5 % of GDP as the share of corruption-related government spending. Out of this amount one third can be the share of rents.

Quasi rents also have played important role in Hungary. In fact, it is always rather difficult to exactly determine if a certain resource allocation is creating rent or is rather part of a deliberate structural policy that would pay off later in time. In this sense already the communist period's forced industrialization could be characterised as quasi rent seeker. Sectors like agriculture, consumer good production, basic public services had never received the necessary resources for their development or even the maintenance of the previously achieved service level. The lagging behind in civil infrastructure (except housing) and public services has been documented (Tomka, 2020). The lacking investments had been carried out during the 1990s mainly by the inclusion of multinational companies that had the necessary amount of capital. In the process of privatization, they purchased the ownership rights and got preferential market regulation in a kind of package deal to recover their investments. Foreign ownership dominated in energy supply, telecommunication, water and sewage and other public utility services by the early 2000s.

This has changed fundamentally after 2013 when FIDESZ government introduced the "battle over utility cost reduction" in the election campaign. In order to reduce citizens' overhead costs all kinds of public utilities got price caps. This regulation forced private (usually foreign) owners to give up and sell their assets to the Hungarian state. Of course, state ownership could not make wonders either: the depressed utility prices did not allow necessary investments and development of the infrastructure. As a consequence, the quality of services started to deteriorate. For example, water supply of villages in the Budapest agglomeration ceased to work during the hot and dry summer of 2022. This happened because the necessary development with the growing housing and population could not be carried out without the necessary revenue reserves that could not be accumulated due to the government price control (Brückner, 2022). The situation of the Hungarian railway system threatens with collapse due to the lack of revenue. There are frequent technical failures due to lacking maintenance work not only in the rolling stock, but also with the locomotives, even the linear infrastructure. The Hungarian Railway Company cannot generate enough income to finance the regular technical supervision procedure. Many carriages stand still because of the absent authorization (Halász et al. 2022).

The exact amount of rents cannot be estimated precisely. What stands clear is that electricity and gas prices have been reduced by 25 % compared to the 2012 world market prices and kept on this level until 2021. Energy bills contain at least two cost components, the price of energy and the price charged on the maintenance of supply infrastructure. It is not clear if the price of this later item has also been reduced This would indicate the real quasi rent. Since after 2015 energy prices dropped more than the Hungarian price decline, the regulated price did not contain any subsidy for several years. Instead, the state-owned supplier overcharged clients. It is not clear what happened to this extra revenue. Most likely it was paid into the central budget as profit.

Market prices started to increase after the end of COVID pandemics when world economy started to recover. World energy prices exceeded the level of fixed Hungarian prices in 2021. The Hungarian government calculated for the 2022 budges that HUF 1300 bn would be the cost of energy price subsidization. This is 3 % of the GDP. But in the summer of 2022 FIDESZ government was forced to give up fixing overhead costs when energy prices skyrocketed due to the Russian war. The government could not afford the compensation of the drastic increase of energy prices. Just few weeks earlier, when the Russian war already started to drive up prices the FIDESZ election messages still heralded the firm maintenance of the price caps.

It is rather difficult to estimate the level of quasi rent realized in Hungary. The example of the "fight on the overhead costs" campaign shows that the branch received subsidies in some years but was deprived of excess revenues in others. The difference of actual needs for maintenance and development of the service infrastructure and the sum received for this purpose is not available. What stands clear, however, is that the price regulation system continuously distorted service charges from actual costs. This is the same mistake that once another, socialist Hungarian government made in the 1970s and 1980s. If we count further branches and state-owned companies like railways or the Hungarian Post working under similar conditions, we can estimate that in the 2010-2012 period roughly 3-5 % of the Hungarian GDP was taken from firms as quasi rents and reallocated. Instead of investments and profits of the owners money was spent by other companies or the citizens on consumption including also imported goods and tourism abroad.

Regulatory rents can be also manifold. The estimation of efficiency gains due to monopoly positions is of course not an impossible task. However, the comparison of world market prices and domestic prices for example should be carried out on all the affected markets, which is out of the scope of this paper. A more or less comprehensive data gathering has been carried out for the most significant government subsidies of large-scale investments. This amount of money is net rent for the recipients. However, of course investment attraction and promotion is an important economic policy goal that can pay off over time. The amount of investment subsidies is not very large, 0,1-0,2 % of the GDP

All in all we estimate the affected rent space to be around 15 % of the GDP. The realized rent stream (deals space) could be 5 % of GDP in Hungary.

4. Conclusion and comparison of the cases

The aim of this exercise was to compare with the use of a uniform analytical tool how rents work in two very different emerging economies: Iran and Hungary. This is the comparative section. We try to focus on the most important similarities and differences as a conclusion of the study.

First conclusion relates the overall theoretical background of political systems, societies and the role of rents in them. Special attention has to be paid to the logic of these systems. The Weberian open society and competition state concept (or open access order) is confronted with the traditional closed society model (limited access order). Evidently, Iran, like many other countries of the Third World inherited the traditional, we may perhaps state ”archaic” social model that produces authoritarian political regimes and closed societies with rent based economy. Income streams in the economy can be controlled largely by the supreme leader and state bureaucracy, mostly in least transparent ways. Compared to this stands the Weberian competition state model as a kind of deviation from the mainstream. No doubt, that open societies and competition-based economies can achieve better performance in economic and social terms. Nevertheless, the Weberian institutions do not work smoothly in the “archaic” social environment.

In this regard especially interesting was the comparison of the two countries' experiments with the introduction of competition state institutions. Iran was in this regard in a big historic handicap since it received impulses only in the modern times. Hungary on the other hand has been struggling with the introduction of these institutions for at least 200 years, but the catch-up efforts to Western European models has an even longer history in the country. Consequently, the three years long intermediary period after the Islamic Revolution and the 10 years rule of reformist governments could not achieve a fundamental breakthrough in Iran. More surprising is the Hungarian development where after also a 10 years long period of reforms a return of the "archaic" authoritarian practice had begun. Iran failed to open up its society and economy and Hungary started to close its society and limit the access in its economy.

We speak here about tendencies, directions of changes. The degree of political and economic freedom is of course still a lot higher in Hungary than in Iran. This also has consequences for the role of rents in the economy. Especially the deals space is still more limited in Hungary due to the existing control devices in the economy. For example, rent seeking institutions' activity can be better followed than in Iran, due to the more advanced information service system. Especially important is the difference in effective tax collection system and information disclosure obligations that make much information available. The firms of the NER can be studied as they are by some NGOs. The real size and features of the Iranian bonyards' business actions can not be traced back so easily, especially not the IRGC. We can assume that the still existing controllability of rent seeking activity in Hungary brakes fraudulent transactions. For example, after the OLAF intervention in 2015 corruption measures of public procurement activity declined. Thus, we can conclude that the intensity of rent seeking has been more limited in Hungary.

As far as the actual rent streams are concerned, even more important role is played by the rent space, that is the potential size of different kinds of rent. Evidently, Iran's large oil and gas reserves serve as primary source of rent. These Ricardian rents are supplemented by regulatory rents in various areas (trade, subsidized industries) and potentially also by quasi rents of state-owned enterprises. Alone the sheer size of the Iranian oil industry produces rents of one magnitude higher level than for example geopolitical rents in Hungary. Therefore, while the deals space is estimated 3-5 % of the Hungarian GDP, the comparative measure in Iran is maybe even ten times higher.

When making the estimations we were confronted by an important theoretical but also methodological issue concerning the realization of rents. Despite of the rather thorough description of the various types of rents that we delivered in the first section of the paper, we were confronted with important conceptual problems when calculating the rent streams. It is much easier to provide a general description than to apply them to concrete cases. To illustrate the problem, we recall here briefly the issue of energy price subsidies. In Iran consumer prices of energy have been fixed at subsidized low levels by state authority, similarly in Hungary during the 2013-2021 period. The market distortion is evident in both cases but who realizes rents here? In case of Iran, the government is the owner of the energy supply companies including the extraction capacities. For the government the actual cost of providing energy is lower than for example for the Hungarian government, since the Iranian oil company earns Ricardian rents. Thus, we may perhaps say that the Iranian consumers realize rents if we compare to world energy prices. The government shares the Ricardian rents with consumers. But this rent is non-existent if compared to the costs. Since Iranian energy prices are government regulated and the country is self-supplying, we can do this comparison as well. In case of Hungary the "overhead cost battle" of FIDESZ government produced rents for the consumers in some years but also extraprofit for the government when import prices were below the domestic consumer prices. In fact, this was also a kind of rent enjoyed by the Hungarian government. As is evident here, price controls will create rents but it is not self-evident who will realize it. Thus, some types of regulatory rents work in more complicated ways then the textbook cases of extending monopoly trade licenses.

The redistribution of Iranian oil rents raises the further important issue. Every government redistributes a smaller or larger part of the GDP. In some countries redistribution is extremely high. The resource curse literature on the other hand, states that income inequality is growing and is not compensated in societies of resource rich countries. The situation is more complex in the case of Iran. Despite large inequality the government redistributes some rents among citizens, as it was evidenced in the case of energy price subsidies. The comparison of smaller scale compensation than income inequality is of course an important question. However, from the viewpoint of our topic, the creation of rent streams it is even more important if compensations are politically conditioned. There is ample evidence in Iran that the activity of an important boneyard, the Reconstruction Jihad carries out such activity. But we can find the parallel also in Hungary. State development sources are channelled to those regions and municipalities where FIDESZ dominated local councils ensure loyalty to the government. The Hungarian government made serious efforts to deprive "hostile" local governments their income sources using various methods. The local tax incomes were usually reallocated to loyal municipalities.

But reallocation of resources is also carried out by structural policies. For some time industrial policy was not really liked by international organizations exactly because their resource reallocation policy may be regarded as rent creation. But more recently many countries and even the European Union applies such policies with matching income reallocation systems. Also, the common agricultural policy of the EU is mainly about rent creation. Technically at least these are all questionable policies with strong market distortion effects. Nevertheless, they are widely accepted. We do not have room here to discuss the developmental state concept (see: Gerőcs – Ricz, 2021). However, it is rather clear that under the umbrella of various structural policies substantial rent creation activity can be carried out. Projects that are sold for the society as structural policy can be sheer rent creation manoeuvres. The Hungarian media regularly delivers cases of generously sponsored and later failed businesses in the country. Here again, the distinction of fraud and honesty is very difficult. So, income redistribution is not evil, yet it comprises important moral hazards.

The last important issue for the conclusion is the impact of rents on social and economic development. The theoretical agenda states that emerging market economies in the possession of large scale easily captured rent sources encounter the risk that rents will be captured by politicians and used either for personal enrichment or buying political support from the citizenry. If this happens than countries easily slip into the high rent staple trap model that reinforces the continuous collusion of business and polity in a limited access order that deprives sustainable development sources from the economy. Under these circumstances economic development becomes vulnerable, especially from resource price fluctuations. This is also because the economy concentrates on developing the sources of rent rather than diversifying and gaining more resilience. The Iranian case largely proved the existence of this model. Structural change did not happen, reliance on natural resource sales remained high throughout the past decades. However, growth collapses happened because of various reasons. Thus, we can conclude that the high rent staple trap model can describe one important reason of growth collapse, but there can be also others. Watching the very turbulent current history of Third World countries we believe that many other political events can equally trigger growth collapses. In case of Iran such event was the war with Iraq and later the repeated political and economic sanctions taken against the country. Similar events may have occurred in many other emerging market economy.

Thus, we see the high rent staple trap model as one of the components that shape development of emerging market economies. Our analysis of the Hungarian case showed that business cycles of the country did not fluctuate that much (except the serious transitional crisis of 1990-1993). Obviously, Hungary did not enter the high rent staple trap. However, the country cannot be regarded as a successfully restructuring and catching-up country. Better to say, the 1990s with growing compliance with the Weberian competition state model did produce fundamental structural change and rapidly improving economic performance in the country. With the advance of the authoritarian elements in politics and some of the reminisces of the "archaic" social structures the economy also lost its impetus. The country has not suffered growth collapses but did not enter the low-rent competitive diversification model either. Rather, the increasing rent space incorporated many of the Hungarian "magicians", mainly multinational companies. These firms are internationally competitive, nevertheless, they use their rents that they receive in Hungary to conserve their positions on international markets. Thus, they create more structural rigidity using the support of the Hungarian government. Their rents are not less distorting market processes than rents realized by NER cronies.

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