4 Are democratic backsliding and staying out of the Eurozone interconnected?¹

Krisztina Arató and István Benedek

Introduction

Accession to the European Union (EU) for all Central and Eastern European (CEE) countries meant the realization of a long-term dream: returning to Europe and belonging to the West. Membership of the EU implied the integration of post-socialist countries into European and transatlantic (North Atlantic Treaty Organization – NATO) organizations, the hope for economic convergence – for ordinary citizens, it simply meant a rise in their living standards and the prospect of a better life – and also an expected guarantee for the stabilization of democratic institutions (Arató 2009).

However, after the first years of membership, when the 2008 crisis started to affect these countries, a complex phenomenon appeared in the region. The mixture of enlargement fatigue, economic and financial challenges and democratic backsliding that characterized the region in various combinations attracted the attention of analysts to Central and Eastern Europe (Bermeo 2016; Cianetti *et al.* 2018; Dimitrova 2018). Democratic backsliding, especially in the case of Hungary and Poland has been covered extensively in the literature concerning the constitutional and political changes in the region (Greskovits 2015; Ágh 2016; Dawson and Hanley 2016; Rupnik 2018), giving definitions of the phenomenon that include populist democracy, broken democracy, illiberal autocracy, hybrid regime, etc. (see for a detailed description Bozóki and Hegedűs 2018; Stein-Zalai and Gyulai 2016), and investigating what the EU does about it (Arató and Varga 2015; Kelemen and Blauburger 2017; Sedelmeier 2017). Recent political economy scholarship explores the process of ‘institutional backsliding’ referring to the effects of democratic backsliding on the economy (Sallai and Schnyder 2017). However, this issue has rarely been tackled with reference to financial issues, by which in this case we mean membership (or non-membership) of the Eurozone.

In this chapter the research question is whether democratic backsliding and staying out of the Eurozone are interconnected. If we expected that EU membership would result in the stabilization of democratic institutions and democracy (although with ambiguous results), can we expect stronger stability as a result of belonging to the core of Europe? Two Central and Eastern

European (CEE) countries – Hungary and Poland – are in the spotlight in terms of challenged democracies – is it only by chance that these countries seem to still be far from introducing the euro? These questions will be addressed in the chapter by looking at longitudinal data obtained from Freedom House, V-Dem and the Economist Intelligence Unit on the quality of democracy in the region. We will examine and compare democracy indices, ratings and scores of the countries in the CEE region from the perspective of Eurozone membership. Ultimately, the conclusions we draw might be relevant not only for social scientists but for decision-makers as well.

How is the quality of democracy connected to Eurozone membership? A conceptual and analytical framework

System change in CEE has been a unique process in history because it involved the full transformation of the economic and political systems at the same time. The political system changed from authoritarianism to democracy, connecting the region to the famous third wave of democratization (Huntington 1991) and this was further enhanced by the process of accession to the EU. The EU's Eastern enlargement process was characterized by the principle of conditionality (Grabbe 2006) whereby accession criteria included expectations about the quality of the political system, namely the rule of law, human rights, minority protection and evidence on the stability of institutions guaranteeing democracy (Epstein and Jacoby 2014). According to Schimmelfennig and Sedelmeier (2004), in the case of the then democratic frontrunners such as Hungary, Poland or the Czech Republic (Czechia), EU governance was not actually needed to facilitate democratization or democratic consolidation. Analysts assumed that the effect of EU conditionality would not end on the date of accession – in other words, that the leverage of the EU would last beyond that point and strengthen the internal democratization desires of CEE countries. Three ideas are core to this assumption. First, around the time of the CEE countries' accession to the EU, the 'end of history' zeitgeist continued to prevail (Fukuyama 1992), and therefore it was thought very unlikely that the democratization process could be turned back in the region – the market economy with its liberal democracy paradigm seemed to be unbeatable for a nation that was inside the EU. Second, as democratization started indigenously – at least without the active involvement of the EU – and the fulfilment of the political criteria was the condition of not only membership but already the start of accession talks, it could be expected that democracy can be maintained without strong institutional involvement on the part of the EU. Third, the EU, a *sui generis* political system based on a joint exercise of parts of sovereignty, started to include the principles connected to liberal democracy in its legal system. The Treaty of Amsterdam (1999) included common principles such as the rule of law, democracy and fundamental rights and established the first version of Article 7. The current Treaty of Lisbon calls on these common values and Article 7

42 *Krisztina Arató and István Benedek*

has become a two-stage process (Arató 2016), indicating that – however problematic it is – member states who all signed the EU treaty change, agree with the EU having competence in the area of common values, and thus, to a certain extent, share their sovereignty in this area.

The issue of shared sovereignty is the concept that leads us to the matter of the Eurozone. The Economic and Monetary Union (EMU) includes the agreement that as regards common institutions the member states will share their sovereignty to the extent of adhering to a single monetary policy. We also know that theorists argued that common monetary policy should go hand in hand with strong cooperation in the fiscal area – otherwise the common currency can be rather vulnerable (Balassa 1961). As political reality at the time of the Maastricht Treaty made it difficult to establish a concise and ‘theoretically correct’ EMU (Jabko 2014), politicians decided on a lop-sided solution – monetary union without effective fiscal coordination. As one of the reasons for the 2008 global financial crisis was exactly this feature of the Eurozone (Copelovitch *et al.* 2016), it was not only a choice but a must to strengthen the Eurozone’s economic governance. The exhausting, complicated and at times dangerous process of crisis management (Laffan 2017) – apart from emergency and short-term steps – came up with two basic reform directions for seeking long-term stability: one track concentrating on ensuring prudent fiscal policies in member states, and the other on ensuring the prudent operation of the banking system. The cornerstone of the first option is the European Semester, which allows the European Commission to make an *ex ante* review of national budgets in the Eurozone (Verdun and Zeitlin 2018). As the recent example of the bitter debate about the Italian budget for 2019 shows, the European Commission has a much stronger role in the framework of the Semester towards national governments and financial decisions than previously (European Commission 2019). The European Semester also includes a Justice Scoreboard that focuses on the efficiency, quality and independence of justice, and estimates the performance of national courts by means of indicators. The rationale behind the Scoreboard is twofold: by trying to enhance the quality of the judiciary in the member states it contributes to the rule of law but also to the functioning of the European economy, especially in the Eurozone (Dori 2015; Verdun and Zeitlin 2018). The second element of the long-term management of the financial crisis focused on the banking system. The Banking Union (BU), based on a single rulebook for all the member states, has established a single supervisory mechanism operated by the European Central Bank that aims to create a level playing field for all the major banks in the EU. It also aims to loosen ties between banks and member states in order to create a more stable and secure banking system (Mérő and Piroska 2016). While it is clear that being part of the BU is compulsory for Eurozone members, non-members may opt not to join (Mérő 2020). The joint exercise of sovereignty is thus a lot tighter for Eurozone members (both in the fields of fiscal policy and bank supervision) than for non-members. National governments in the Eurozone, as a result of

the reforms enacted after the financial crisis, are under stronger financial and institutional scrutiny exercised by EU institutions than non-members.

Partly as a result of the financial crisis, the democratization process that started in 1989/90 was gradually reversed in some of the CEE countries that formerly were frontrunners. The case of Hungary and more recently of Poland has attracted the attention of analysts and theorists and has become a political issue in the EU and for its institutions and political actors (Bátory 2016; Bogaards 2018; Przybylski 2018). Political scientists are trying to understand (and theorize about) these events in at least two ways; some researchers are trying to find a name for the phenomenon and others for the process. The phenomenon has variously been called illiberal democracy (Zakaria 1997), hybrid regime (Diamond 2002), defective democracy (Merkel 2004), competitive or electoral authoritarianism (Levitsky and Way 2010; Schedler 2013), while the process has become known as de-democratization (Ágh 2015), deconsolidation (Foa and Mounk 2017), democratic backsliding (Bermeo 2016), democratic U-turn (Kornai 2015), and, recently, auto-cratization (Lührmann and Lindberg 2019). In this chapter we are not seeking to contribute to the theoretical debate: this is why we use Nancy Bermeo's (2016) term 'democratic backsliding' to refer to the direction of the process without trying to include an assumed finality.

Not only political science but political economy also started to deal with democracy backsliding; varieties of literature show that we can already identify the economic impact of these developments. Sallai and Schnyder (2018) show that in Hungary, for example, illiberal tendencies are having an adverse effect on economic governance – targeted lawmaking could force existing companies out of business while paving the way for new companies with the right political connections; the re-nationalization of firms (including utility companies and banks) have resulted in good deals for German and US businesses; and forced buyouts are being carried out by associates linked to the right-wing national conservative party Fidesz (Magyar Polgári Szövetség – Hungarian Civic Alliance) who approach business owners and offer bad buyouts, or alternatively tax office investigations. They argue that in Hungary we can see an 'institutional backsliding' from a more market-based to a more relationship-based institutional system in the economy (Sallai and Schnyder 2017).

We saw above that democratization was one of the conditions of accession and the EU has created mechanisms to contribute to its maintenance. We also saw that the structure of the Eurozone, especially after the changes resulting from the financial crisis management, led to a duality in the institutional frameworks inside and outside the Eurozone. The fact that inside the Eurozone there is significantly tighter co-operation in fiscal policy and bank supervision means that significantly more areas and institutions are managed by techniques of shared sovereignty and this trend is gaining importance when we experience democratic backsliding in certain CEE member states. It leads us to ask the question: is there less chance for

44 *Krisztina Arató and István Benedek*

democratic backsliding inside the Eurozone? Does less shared sovereignty give countries outside of the Eurozone more space for democratic and institutional backsliding?

In the next section we seek to respond to these questions by using democracy indices that depict democratic trends in the CEE countries that are members of the EU. While being aware that these indices are unable to give a comprehensive overview of the state of democracy in a country in a certain moment of time, we argue that they are helpful when used for longitudinal analysis. They show changes and trends and this is what we need to find answers to our questions.

The quality of democracy in CEE in the light of democracy indices

Conceptualizing and measuring democracy is a significant and widely researched field in international political science (Munck and Verkuilen 2002; Diamond and Morlino 2004; Collier and Levitsky 2009; Møller and Skaaning 2010, 2011, Coppedge *et al.* 2011; Högström 2013; Diamond *et al.* 2016). On a fundamental level, we can distinguish minimalist and maximalist approaches when it comes to definitions in measuring democracy. Following Schumpeter (2003), the minimalist definitions of democracy are based on contestation and participation. Dahl's (1971) concept of polyarchy demands a bit more, because in order to show responsiveness, he incorporated criteria such as the nature of public sphere, the right to political organization, etc. Based on the criticisms of narrow conceptualization, more and more factors were included in the research: socio-economic aspects, political and civic participation, civic activity, political culture, etc. As more and more institutions and criteria were added to the definition of democracy, the binary division of regimes (democracy and dictatorship) has slowly shifted to a more sophisticated approach focusing on the quality of democracy. At one end of the scale there are minimalist procedural thin definitions that are based on the institutions and narrow concepts of contestation and participation, while at the other end of the scale we find stronger, more socially focused approaches.

In this section, we examine the democratic performance of 11 CEE countries and pay special attention to the dimension of Eurozone membership. Taking into account that there is a huge debate about the definitions and concepts of democracy, we operationalize the quality of democracy using three democracy indices (Freedom House's Nations in Transit, V-Dem and the Economist Intelligence Unit) in order to avoid criticisms on bias and to achieve more valid conclusions.

Freedom House – Freedom in the World, Nations in Transit

Freedom in the World (FiW), which has existed since 1972, examines the extent of political rights (PR) and civil liberties (CL). Each rating of 1 to 7,

Democratic backsliding and the Eurozone 45

with 1 representing the smallest and 7 the greatest degree of freedom, corresponded to a specific range of total scores. The terminology indicates that the approach is based on the binary division of the Cold War narrative (the ‘free world’ and the ‘communist world’). However, over time the index has changed both its conceptualization and methodology (Diamond *et al.* 2016). Furthermore, the US-funded institution has often been accused of bias, both before the ending of the Cold War and in the present day; indeed, there is extensive scientific literature on Freedom House’s ideological-political bias (Bollen and Paxton 2000; Denk 2013; Steiner 2014). Overall, the binary division has changed over time: Freedom House tried to address the challenge of hybrid regimes by introducing an intermediate category of electoral democracy. Given that it is a very robust category based on easy-to-achieve formal procedural criteria, it can be said that Freedom House works on a fairly permissive concept of democracy, whereby a ‘free’ rating does not in fact guarantee liberal democracy, and the ‘partially free’ assessment identifies potential non-democracies as electoral democracies.²

In 2005 Freedom House launched its Nations in Transit (NiT) project for the purpose of examining the democratization process in the transition countries.³ The democracy score (generated by the sub-scores gained in seven areas) can be assigned to different types of regimes: from ‘consolidated democracies’ to ‘consolidated authoritarian regimes’. We would like to point out that this provides us with explicit evidence that we should look at the concept of electoral democracy as a rather permissive approach, as the ‘transitional and hybrid’ regimes are also described by this term. In this study we are using this index (Figure 4.1) as an introductory diagram.

The difference is striking between CEE Eurozone members and non-members: all members are considered to be ‘consolidated democracies’ (5.01–7.00), and almost all the others (with the exception of Czechia) are ‘semi-consolidated democracies’ (4.01–5.00), mostly on the way to ‘transitional or hybrid regimes’ (3.01–4.00), while Hungary is now considered to be a transitional or hybrid regime, according to the 2019 data. The most dramatic and sharp evidence of democratic backsliding can be seen in Hungary and Poland. Finally, if we only focus on the last few years, we can say that while the quality of democracy in the group of CEE Eurozone members has more or less remained stable, in the non-member countries it has noticeably deteriorated.

Varieties of Democracy (V-Dem)

V-Dem is not only the most recent democracy measurement project, but it can also be considered as the most versatile approach for measuring democracy. According to V-Dem, the different concepts behind the different democracy indices and highly aggregated approaches lead to parallel monologues. That can be best addressed by accepting the diversity of possible approaches and trying to create indicators at the lowest level possible in the

46 *Krisztina Arató and István Benedek*

Figure 4.1 Freedom House NiT scores in Central and Eastern Europe, 2003–19
 Note: Data indicate the year of the reports. Dotted lines show Eurozone countries (the year of Eurozone accession appears in brackets) and continuous lines show non-Eurozone countries. Each country is ranked on a scale of 1–7, with 7 representing the highest and 1 the lowest level of democracy.
 Source: authors' compilation based on Freedom House's research project NiT.

most transparent way; thus, these small building blocks can be matched to each other during the aggregation phase. V-Dem does not work with a single, substantive definition of democracy, instead it assimilates hundreds of indicators so that researchers can compile indices corresponding to their own definitions of democracy. At the highest level we can find the 'dimensions of democracy', which are also available in the form of separate indices. For the seven 'basic types of democracy' there are indices of *electoral* (polyarchy), *liberal*, *participatory*, *deliberative* and *egalitarian* types of democracy (and not the *majority* or *consensual* type).⁴ In this study we are using the electoral democracy index as a procedural and thinner definition of democracy.

Similarly to the Freedom House NiT data, the difference between the two main groups is significant in the V-Dem data too (Figure 4.2). CEE countries that are Eurozone members score 0.8 and 0.9 throughout the examined period, while the majority of CEE non-Eurozone members show a significant decline. However, the distinct trends are particularly significant: while the quality of democracy in the non-member countries has decreased substantially in the past decade (particularly its latter years), in contrast Eurozone members have maintained roughly the same level. Here we can see again, as in the Freedom House NiT index, that Czechia shows a democracy score like the Eurozone group despite being a non-Eurozone member state. Hungary shows the most significant backsliding, and from 2019 is classified already as an 'electoral autocracy'.

Democratic backsliding and the Eurozone 47

Figure 4.2 V-Dem Electoral Democracy Index scores in the region, 2003–19

Note: Data indicate the year under review. Dotted lines show Eurozone countries (the year of Eurozone accession appears in brackets) and continuous lines show non-Eurozone countries. Here, 1 is the highest and 0 the lowest score.

Source: authors' compilation based on V-Dem methodology.

Economist Intelligence Unit

Finally, we would like to compare and group the EU member states (in the CEE region and beyond) using the Economist Intelligence Unit (EIU)'s Democracy Index as a more robust and thicker definition of democracy. Since 2006 the EIU has employed its methodology to compile reports on 167 countries around the world, and stresses that the terms 'freedom' and 'democracy' used by Freedom House are far from being synonymous with one another and therefore a broader concept of democracy is needed. The most important innovation here is that the EIU looks beyond institutions, and there is also emphasis on (democratic) political culture and participation as 'software type' aspects of democracy.⁵ Overall, the EIU does not only examine more than one dimension, but also defines the 'free and fair' criterion more deeply: 'full democracy' here is more robust and resilient than the term 'liberal democracy', while 'flawed democracy' (6.01–8.00) can be considered to be a more or less an empty democratic facade in that it lacks a stable, sustainable and viable democracy behind it. The findings of the grouping are shown in Table 4.1 (set order based on the quality of democracy).

The longitudinal data show a clear strong order among the groups we identified. If we start our analysis from the bottom of Table 4.1, we can see that the Eastern non-EU countries experience the sharpest rate of decline (–13,2%); they are 'hybrid regimes' (4.01–6.00) throughout the examined

Table 4.1 Comparison of different groups of European countries on the basis of the EIU Index

<i>Group</i>	<i>2006</i>	<i>2019</i>	<i>Drop rate</i>
Non-member Western countries (in 2020) ⁶	9,43	9,49	+0,7%
Old EU members (joining before 2004) ⁷	8,71	8,49	–2,5%
Old EU and Eurozone members ⁸	8,59	8,35	–2,8%
Old EU but not Eurozone members ⁹	9,16	9,04	–1,3%
New EU members (joining from 2004) ¹⁰	7,46	7,14	–4,3%
New EU and Eurozone members ¹¹	7,58	7,51	–0,9%
New EU but not Eurozone members ¹²	7,37	6,84	–7,2%
Non-member Eastern countries (in 2019) ¹³	5,89	5,11	–13,2%

Source: authors' compilation based on EIU data.

Note: Each category has a rating on a 0 to 10 scale where 10 is the highest score. The overall index is the simple average of the five category indices.

period. At the top of the table, the Western non-EU countries have achieved a slight improvement (+0,7%): they are the most 'full democracies' (8.01–10.00). While this chapter focuses on the CEE countries, in this table we offer a comparison for the region. Among the old EU member states (the EU-15) the general rate of decline is low (–2.5%); however, the non-Eurozone Western EU member states show less decline than the Eurozone members. We can add here that in the non-Eurozone EU-15 group the United Kingdom showed improvement (the country left the EU in January 2021) and in the case of the Eurozone members, Greece recorded a particularly steep rate of decline. However, this decline is still smaller than that shown by the CEE European member states – in the case of all the CEE 'new' member states the average rate of decline is –4.3%. What is important here and supports our argument is the difference between the CEE Eurozone members and the non-members: while the CEE Eurozone members show an insignificant rate of decline (–0.9%), the non-members show a decrease of –7.2%. This average includes Czechia, which, as we saw above, is the odd one out in the group.

Is there a correlation between Eurozone membership and the quality of democracy in CEE?

In this chapter we explore the issue of whether the decline in the quality of democracy in certain EU member states in CEE shows any correlation with their membership or non-membership of the Eurozone. Having explored data provided by three democracy measurement institutions, in this section we will interpret the data and trends shown in the indices.

We found that all three longitudinal datasets show a clear grouping of members and non-members of the Eurozone in the examined period. Although they work with different democracy definitions and varied methodology, the trend they show is rather similar. Estonia, Lithuania, Latvia,

Slovakia, Czechia, Slovenia, Hungary and Poland can be said to have had similar qualities of democracy at the time of EU accession in 2004. Bulgaria, Romania and Croatia, which joined the EU later, showed a lower level of democracy from the early 2000s onwards. In the period after EU accession, the development of these two groups showed mixed patterns. The 2004 group became divided – Slovenia, Slovakia and the three Baltic states retained their level of democracy, and in the meantime they joined the Eurozone. Czechia remained in the group of countries that retained their level of democracy without joining the Eurozone. Hungary and Poland, which scored highly in terms of their quality of democracy in the early 2000s fell back significantly and in the second decade of the 21st century they joined the group of late-comers to the Eastern enlargement that were outside the Eurozone. These countries – Bulgaria, Romania and Croatia – retained their lower levels of democracy throughout the examined period. In sum, what we see in the data above is that, with the exception of Czechia, non-Eurozone members show a continuously low or sharply declining quality of democracy.

What we need to be very cautious about is the explanation for this phenomenon. Looking at two phenomena or trends (changes in the quality of democracy and Eurozone membership), can we assume that there is connection between the two – but is this correlation or causality? Or are we facing the old joke where villagers connected the birth of more babies with more storks arriving in a particular year?

This question, implying an assumption that there is some kind of a correlation, seems to be surprising, even counterintuitive, in at least three ways. First, it is unusual to think about the Eurozone having to do anything with the quality of democracy as a lot has been written and said about the institutions and procedures that the EU has put in place in order to maintain European values such as democracy, rule of law and fundamental rights (Closa and Kochenov 2016; Kelemen and Blauburger 2017; Sedelmeier 2017) and they seem to be entirely disconnected from the Eurozone (while it is worth noting that so far none of them have proved to be efficient). Second, our assumption could be counterintuitive because in Mediterranean countries (especially in Italy and Greece), the Eurozone crisis and tighter fiscal discipline required by the European Semester led to assumptions that the Eurozone undermines member states' democracies. Budgetary control managed by the European Commission is often presented by politicians as well as analysts so that elected governments have little choice but to comply and thus the will of people does not matter (Schmidt 2012). We also know that the EU-15 member states – partly as a result of the economic and financial crisis – face the transformation of their party systems, the spread of populism and growing Euroscepticism that pose a different challenge to liberal democracy than to CEE countries (Pappas 2014; Baldini and Giglioli 2018). Third, we are aware that certain CEE Eurozone member states are also struggling with problems of democracy: Bugaric (2015) argues that this is the case in Slovenia – although he says that in the Slovenian case formal

constitutional rules have remained intact and do not even remotely show authoritarian elements. Mesežnikov and Gyárfášová (2018) argue that the dramatic events of the murder of the young investigative journalist Jan Kuciak and his fiancée revealed the weaknesses of Slovakian democracy (we see a certain decline in the charts); however, in our datasets the country scores significantly better than declining non-Eurozone members.

Without denying these considerations, we would like to offer an interpretation based on our results that sheds light on the special developments in CEE. In the theoretical section of this chapter we indicated that Eurozone membership implies a duality in institutional framework inside and outside the Eurozone. The fact that inside the Eurozone there is significantly tighter co-operation in fiscal policy and bank supervision means that the fact that significantly more areas and institutions are managed using techniques of shared sovereignty is gaining importance when we experience democratic backsliding in certain CEE member states. We are not suggesting that Eurozone membership is or could be a token for maintaining democracy and the rule of law in CEE, but it could be a factor that adds to the stability of democracy and the rule of law. While the mission of the Eurozone is financial and mainly effects the economy, close co-operation in certain fiscal and economic areas, adapting to certain rules in this area is connected to other areas. For example, the European Semester's main task is to ensure sound public finances, prevent excessive macroeconomic imbalances, create more jobs and growth and boost investment; however, the performance of the judicial systems in member states (where the European Semester does have a mechanism) has a positive impact on business dynamics and foreign direct investment inflows (Lorenzani and Lucidi 2014). Thus, Eurozone membership may have a kind of unintended side effect on at least the institutional side of the rule of law.

Our data show that none of the CEE Eurozone members slid back in terms of the quality of democracy and the rule of law; on the other hand, some non-Eurozone CEE countries managed to avoid sliding back, like Czechia. We can safely say that staying out of the Eurozone, with fewer shared competences, gives governments more room for manoeuvre. As Kochenov (2016: 339) suggests, in the case of Hungary (we can add Poland), non-compliance with the values of the EU is ideological, and thus more sovereignty may be used for transforming the political system and moving away from the shared values set in Art. 2 TEU.

We are aware that these suggestions pose more questions than answers. We are assuming that the European Semester (especially the inbuilt Judicial Scoreboard) and membership of the BU set a tighter rule of law framework than other mechanisms applied to all member states. We also assume that belonging to the core of the EU and participation in Eurozone mechanisms may contribute to greater Europeanization. According to Radaelli (2004), this goes beyond rules and institutions and includes norms, beliefs, and also 'ways of doing things' that are less well developed outside the Eurozone.

Thus, maybe we do not have causality here, but a correlation between Eurozone membership and the quality of democracy does seem to exist.

Conclusion

In this chapter we have examined whether a decline in a country's level of democracy and staying out of the Eurozone are interconnected. The basis of this question lies in the duality of the institutional framework inside and outside the Eurozone. Owing to the fact that inside the Eurozone there is significantly tighter co-operation in fiscal policy and bank supervision more areas and institutions are managed by techniques of shared sovereignty, and this is gaining importance when we see that certain CEE member states have experienced democratic backsliding. We used different democracy indices to explore the quality of democracy in the CEE countries following their accession to the EU, including ones based on thin and thick definitions of democracy.

We found that the longitudinal data show a clear grouping of Eurozone members and non-members in the examined period. Although the later Eurozone members originally had higher levels of democratic quality (before joining), the distance has clearly increased over time: they have stagnated, while the others have slipped back. The sole exception is Czechia that fits to Eurozone members in the region in terms of quality of democracy which is supported by other analyses as well (Pehe 2018). The widely analysed cases of Hungary and Poland show sharp fallbacks from the level of average of CEE Eurozone members to levels of non-members. Furthermore, according to the latest V-Dem report, Hungary is no longer a democracy and is now classified as an electoral authoritarian regime (the first EU member not to be classified a democracy) (V-Dem, 2020). All the indices show that CEE Eurozone members remained relatively stable in terms of the quality of democracy in the examined period.

We have to be clear about the limits of our findings – we are not saying that those CEE countries in the Eurozone are perfect democracies while that are those outside the Eurozone are subject to democratic decline. Still, our findings show that the sharpest declines were recorded in two countries that are outside the Eurozone, while the CEE countries that are Eurozone members were able to retain their higher levels of democracy.

Our study did not fully reveal the reasoning for the phenomenon that we identified. It is a very complex issue since the Eurozone itself is not a token for democracy (we see slight declining tendencies among Eurozone members, too) and non-Eurozone members do not necessarily slide back (as is the case of Czechia). However, the visible correlation between Eurozone membership and the quality of democracy can drive further research. With our study we intended to encourage political scientists and political economists to dig deeper in this area to obtain a clearer picture of this limited potential side effect of Eurozone membership in the CEE region.

Notes

- 1 We would like to thank all the participants of the ECPR Joint Sessions Workshop ‘Democratic Backsliding in EU Member States and Candidate Countries’ held in April 2019 in Mons, Belgium, for their valuable comments on the first draft of this chapter, especially Carlos Closa, Eli Gateva, Claudia Matthes, Uli Sedemeier, Milada Vachudova and Natascha Wunsch. The work of István Benedek was part of the research project ‘Return of the Weberian leaders: plebiscitary leader democracy as a means of cognition for contemporary political trends’, NKFIH project number: K 128139.
- 2 See Freedom in the World methodology. Available at <https://freedomhouse.org/reports/freedom-world/freedom-world-research-methodology> (accessed 3 August 2020).
- 3 See Nations in Transit methodology. Available at <https://freedomhouse.org/reports/nations-transit/nations-transit-methodology> (accessed 3 August 2020).
- 4 See V-Dem methodology. Available at www.v-dem.net/en/our-work/methods/ (accessed 3 August 2020).
- 5 See EIU’s methodology in its latest report. Available at www.eiu.com/topic/democracy-index (accessed 3 August 2020).
- 6 Norway, Switzerland, Iceland.
- 7 Belgium, France, Germany, Italy, Luxembourg, the Netherlands, Denmark, Ireland, the United Kingdom, Greece, Portugal, Spain, Austria, Finland, Sweden.
- 8 Greece, Austria, Belgium, the Netherlands, Finland, France, Germany, Ireland, Italy, Luxembourg, Portugal, Spain (not including microstates such as Andorra, Monaco, etc.).
- 9 The United Kingdom, Sweden, Denmark.
- 10 The Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, Slovenia, Bulgaria, Romania, Croatia (not including Cyprus and Malta).
- 11 Lithuania, Latvia, Estonia, Slovakia, Slovenia (not including Cyprus and Malta).
- 12 Hungary, the Czech Republic, Poland, Bulgaria, Romania, Croatia.
- 13 Albania, Belarus, Bosnia and Herzegovina, North Macedonia, Moldova, Montenegro, the Russian Federation, Serbia, Ukraine.

References

- Arató, K. (2009) Sobering after a ‘Grim Wedding’: A Realistic Evaluation of Hungary’s Accession to the European Union. In K. Arató and P. Kaniok (eds) *Euroscepticism and European Integration*. Zagreb: CPI, 97–118.
- Arató, K. (2016) *Democracy Control in the European Union*. Paper presented at the ECPR General Conference, Prague, Charles University, 7–10 September.
- Arató, K. and Varga, A. (2015) An Obligation or an Opportunity? Safeguarding Democracy in the European Union. In C. Tóth and D. Mikecz (eds) *Member State Violation against Democratic Principles: What Can the EU Do?* Budapest: Republikon, 42–68.
- Ágh, A. (2015) De-Europeanization and de-Democratization trends in ECE: From the Potemkin democracy to the elected autocracy in Hungary. *Journal of Comparative Politics*, 8 (2): 4–26.
- Ágh, A. (2016) The Deconsolidation of Democracy in East-Central Europe: The New World Order and the EU’s Geopolitical Crisis. *Politics in Central Europe*, 12 (3): 7–36.
- Balassa, B. (1961) *The Theory of Economic Integration*. New York: Greenwood Press.
- Baldini, G. and Giglioli, M. F. (2018) Italy 2018: Perfect Populist Storm? *Parliamentary Affairs*. doi:10.1093/pa/gy052.

Democratic backsliding and the Eurozone 53

- Bátory, Á. (2016) Populists in Government? Hungary's 'System of National Cooperation'. *Democratization*, 23 (2): 283–303. doi:10.1080/13510347.2015.1076214.
- Bermeo, N. (2016): On Democratic Backsliding. *Journal of Democracy*, 27 (1): 5–19. doi:10.1353/jod.2016.0012.
- Bogaards, M. (2018) De-democratization in Hungary: Diffusely Defective Democracy. *Democratization*, 25 (8): 1481–1499. doi:10.1080/13510347.2018.1485015.
- Bollen, K. A. and Paxton, P. (2000) Subjective Measures of Liberal Democracy. *Comparative Political Studies*, 33 (1): 58–86. doi:10.1177/0010414000033001003.
- Bozóki, A. and Hegedűs, D. (2018) An Externally Constrained Hybrid Regime: Hungary in the European Union. *Democratization*, 25 (7): 1173–1189. doi:10.1080/13510347.2018.1455664.
- Bugaric, B. (2015) A Crisis of Constitutional Democracy in Post-Communist Europe: 'Lands in-between Democracy and Authoritarianism'. *International Journal of Constitutional Law* 13 (1): 219–245, doi:10.1093/icon/mov010.
- Cianetti, L., Dawson, J. and Hanley, S. (2018) Rethinking 'Democratic Backsliding' in Central and Eastern Europe: Looking beyond Hungary and Poland. *East European Politics*, 34 (3): 243–256. doi:10.1080/21599165.2018.1491401.
- Closa, C. and Kochenov, D. (eds) (2016) *Reinforcing Rule of Law Oversight in the European Union*. Cambridge: Cambridge University Press.
- Collier, D. and Levitsky, S. (2009) Conceptual Hierarchies in Comparative Research: The Case of Democracy. In D. Collier and J. Gerring (eds), *Concepts and Method in the Social Science: The Tradition of Giovanni Sartori*. London: Routledge, 269–288.
- Copelovitch, M., Frieden, J. and Walter, S. (2016) The Political Economy of the Euro Crisis. *Comparative Political Studies* 49 (7): 811–840. doi:10.1177/0010414016633227.
- Coppedge, M., Teorell, J. and Skaaning S.-E. et al. (2011) Conceptualizing and Measuring Democracy: A New Approach. *Perspectives on Politics*, 9 (2): 247–267. doi:10.1017/S1537592711000880.
- Dawson, J. and Hanley, S. (2016) The Fading Mirage of the 'Liberal Consensus'. *Journal of Democracy*, 27 (1): 20–34. doi:10.1353/jod.2016.0015.
- Dahl, R. A. (1971) *Polyarchy: Participation and Opposition*. New Haven, CT: Yale University Press.
- Denk, T. (2013) How to Measure Polyarchy with Freedom House: A Proposal for Revision. *Quality and Quantity*, 47 (6): 3457–3471. doi:10.1007/s11135-012-9732-1.
- Diamond, L. (2002) Thinking about Hybrid Regimes. *Journal of Democracy*, 13 (2): 21–35. doi:10.1353/jod.2002.0025.
- Diamond, L. and Morlino, L. (2004) The Quality of Democracy: An Overview. *Journal of Democracy*, 15 (4), 20–31. doi:10.1353/jod.2004.0060.
- Diamond, L., Green, E. C. and Gally, W. (2016) Measuring Democracy. In L. Diamond (ed.) *In Search of Democracy*. London: Routledge. 46–75.
- Dimitrova, A. L. (2018) The Uncertain Road to Sustainable Democracy: Elite Coalitions, Citizen Protests and the Prospects of Democracy in Central and Eastern Europe. *East European Politics*, 34 (3): 257–275. doi:10.1080/21599165.2018.1491840.
- Dori, Adriani (2015) The EU Justice Scoreboard: Judicial Evaluation as a New Governance Tool. MPILux Working Paper 2. Luxembourg: Max Planck Institute Luxembourg for International, European and Regulatory Procedural Law.
- Epstein, R. A. and Jacoby, W. (2014) Eastern Enlargement Ten Years On: Transcending the East–West Divide? *Journal of Common Market Studies*, 52 (1): 1–16. doi:10.1111/jcms.12089.

54 *Krisztina Arató and István Benedek*

- European Commission (2019) *Commission Staff Working Document: Country Report Italy 2019. Including an In-Depth Review on the Prevention and Correction of Macroeconomic Imbalances*. Brussels: European Commission.
- Foa, R. S. and Mounk, Y. (2017) The Signs of Deconsolidation. *Journal of Democracy*, 28 (1): 5–16. doi:10.1353/jod.2017.0000.
- Fukuyama, F. (1992) *The End of History and the Last Man*. New York: Avon Books.
- Grabbe, H. (2006) *The EU's Transformative Power: Europeanization through Conditionality in Central and Eastern Europe*. London: Palgrave Macmillan.
- Greskovits, B. (2015) The Hollowing and Backsliding of Democracy in East Central Europe. *Global Policy*, 6 (1): 28–37. doi:10.1111/1758-5899.12225.
- Högström, J. (2013) Classification and Rating of Democracy: A Comparison. *Taiwan Journal of Democracy*, 9 (2): 33–54.
- Huntington, S. P. (1991) *The Third Wave of Democratization in the Late Twentieth Century*. London: University of Oklahoma Press.
- Jabko, N. (2014) The Divided Sovereignty of the Eurozone. In P. Genschel and M. Jachtenfuchs (eds) *Beyond the Regulatory Polity? The European Integration of Core State Powers*. Oxford: Oxford University Press, 124–142.
- Kelemen, R. D. and Blauburger, M. (2017) Introducing the Debate: European Union Safeguards against Member States' Democratic Backsliding. *Journal of European Public Policy*, 24 (3): 317–320. doi:10.1080/13501763.2016.1229356.
- Kochenov, D. (2016) The Missing EU Rule of Law? In C. Closa and D. Kochenov (eds) *Reinforcing Rule of Law Oversight in the European Union*. Cambridge: Cambridge University Press. 290–312.
- Kornai, J. (2015) Hungary's U-Turn. *Capitalism and Society*, 10 (1): Art. 2.
- Laffan, B. (2017) The Eurozone in Crisis: Core-Periphery Dynamics. In D. Dinan et al. (eds) *The European Union in Crisis*. London: Palgrave Macmillan, 131–148.
- Levitsky, S. and Way, L. A. (2010) *Competitive Authoritarianism: Hybrid Regimes after the Cold War*. Cambridge: Cambridge University Press.
- Lorenzani, D. and Lucidi, F. (2014) The Economic Impact of Civil Justice Reforms. *European Economy*. Economic Papers 530.
- Lührmann, A. and Lindberg, S. I. (2019) A Third Wave of Autocratization Is Here: What Is New about It? *Democratization* 26 (7): 1095–1113. doi:10.1080/13510347.2019.1582029.
- Merkel, W. (2004) Embedded and Defective Democracies. *Democratization*, 11 (1), 33–58. doi:10.1080/13510340412331304598.
- Mesežnikov, G. and Gyárfášová, O. (2018) Explaining Eastern Europe: Slovakia's Conflicting Camps. *Journal of Democracy*, 29 (3): 78–90. doi:10.1353/jod.2018.0046.
- Mérő, K. and Piroška, D. (2016) Banking Union and Banking Nationalism: Explaining Opt-Out Choices of Hungary, Poland and the Czech Republic. *Policy and Society*, 35 (3): 215–226. doi:10.1016/j.polsoc.2016.10.001.
- Møller, J. and Skaaning, S.-E. (2010) Beyond the Radial Delusion: Conceptualizing and Measuring Democracy and Non-democracy. *International Political Science Review* 31 (3): 261–283. doi:10.1177/0192512110369522.
- Munck, G. L. and Verkuilen, J. (2002) Conceptualizing and Measuring Democracy: Evaluating Alternative Indices. *Comparative Political Studies*, 35 (1): 5–34. doi:10.1177/001041400203500101.
- Pappas, T. S. (2014) Populist Democracies: Post-Authoritarian Greece and Post-Communist Hungary. *Government and Opposition*, 49 (1): 1–23. doi:10.1017/gov.2013.21.

- Pehe, J. (2018): Explaining Eastern Europe: Czech Democracy Under Pressure. *Journal of Democracy*, 29 (3): 65–77. doi:10.1353/jod.2018.0045.
- Przybylski, W. (2018) Can Poland's Backsliding Be Stopped? *Journal of Democracy*, 29 (3): 52–64. doi:10.1353/jod.2018.0044.
- Radaelli, C. (2004) Europeanisation: Solution or Problem? *European Integration online Papers*, 8 (16).
- Rupnik, J. (2018) Explaining Eastern Europe: The Crisis of Liberalism. *Journal of Democracy*, 29 (3): 24–38. doi:10.1353/jod.2018.0042.
- Sallai, D. and Schnyder, G. (2017) *Coping with Autocracy: Corporate Political Activity, Institutional Duality, and MNE – Local Firm Rivalry during 'Institutional Backsliding'*. Greenwich Papers in Political Economy, No. GPERC 53, London: University of Greenwich.
- Sallai, D. and Schnyder, G. (2018) *The Transformation of Post-Socialist Capitalism: From Developmental State to Clan State?* Greenwich Papers in Political Economy, No. GPERC 57, London: University of Greenwich.
- Schedler, A. (2013) *The Politics of Uncertainty. Sustaining and Subverting Electoral Authoritarianism*. Oxford: Oxford University Press.
- Schimmelfennig, F. and Sedelmeier, U. (2004) Governance by Conditionality: EU Rule Transfer to the Candidate Countries of Central and Eastern Europe. *Journal of European Public Policy*, 11 (4): 661–779. doi:10.1080/1350176042000248089.
- Schmidt, V. A. (2012) The Eurozone and Democracy. In J. Roy (ed.) *The State of the Union(s): The Eurozone Crisis, Comparative Regional Integration and the EU Model*. Miami: Miami-Florida European Union Center/Jean Monnet Chair, 103–116.
- Schumpeter, J. (2003) *Capitalism, Socialism, and Democracy*. London: Routledge.
- Sedelmeier, U. (2017) Political Safeguards against Democratic Backsliding in the EU: The Limits of Material Sanctions and the Scope of Social Pressure. *Journal of European Public Policy*, 24 (3): 337–351. doi:10.1080/13501763.2016.1229358.
- Steiner, N. D. (2014) Comparing Freedom House Democracy Scores to Alternative Indices and Testing for Political Bias: Are US Allies Rated as More Democratic by Freedom House? *Journal of Comparative Policy Analysis*, 18 (4): 329–349. doi:10.1080/13876988.2013.877676.
- Stein-Zalai, J. and Gyulai, A. (2016) *From Democratic Pioneer to Democratic Backslider? A Long(er) History of Democratic Defects in Hungary*. Paper presented at the ECPR Conference, Prague, 7–10 September.
- V-Dem (2020) *Autocratization Surges: Resistance Grows. Democracy Report 2020*. Gothenburg: Varieties of Democracy Institute.
- Verdun, A. and Zeitlin, J. (2018) Introduction: The European Semester as a New Architecture of EU Socioeconomic Governance in Theory and Practice. *Journal of European Public Policy*, 25 (2): 137–148. doi:10.1080/13501763.2017.1363807.
- Zakaria, F. (1997) The Rise of Illiberal Democracy. *Foreign Affairs*, 76 (6): 22–43.