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# Growth regimes of populist governments: A comparative study on Hungary and Poland

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# **Growth regimes of populist governments: A comparative study on Hungary and Poland**

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## **Abstract**

This paper aims to contribute to the debate of post-Keynesian growth models and Comparative Political Economy (CPE) by investigating the relationship between the changes in demand and growth regimes and the establishment of right-wing populist governments in Poland and Hungary after the Global Financial Crisis (GFC). In both countries, these parties established a system that lays a stronger focus on economic nationalism and the role of the state to reduce foreign influence. Both economies are currently in a transition phase in which their old, neoliberal regimes are slowly changing, but they have not yet completely abandoned neoliberalism. In both countries, post-GFC economic policies have led to changes in the growth regimes and increased the importance of the export sector. It was mainly the demands of domestic capitalists that constituted the social base for these changes.

**Key words:** Growth regimes, Populism, Comparative Political Economics

**JEL codes:** E12, E65, F40, F43, G01, O57

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## 1. Introduction

Considering the recent rise of populism, Hungary and Poland are two very interesting cases. Since the Global Financial Crisis (GFC), a democratic and liberal regression has set in this region, which began with the election victory of the Hungarian right-wing populist party Fidesz in 2010 (Rupnik 2016: 78). In April 2022, after 12 years in government, Fidesz was able to regain 53% of the votes. Despite a questionable election campaign and a rather unfairly distributed electoral system, the clear success shows that many voters are apparently satisfied with the conditions in the country (Tagesschau 2022a). A similar situation is present in Poland, where Prawo i Sprawiedliwość (PiS) has been in power since 2015 and was re-elected in 2019 (Vetter 2019).

After the end of the Soviet Union, the two countries implemented a series of neoliberal reforms with the goal to successfully integrate into the Western, capitalist system and become competitive. Particularly important in this process, and in the resulting economic system, were the inflows of foreign direct investment (FDI) from the West. However, the Global Financial Crisis (GFC) was a turning point, as the absence of capital inflows highlighted the weaknesses of this dependent system and new economic and political ideas emerged (Barber 2015). The right-wing populist parties Fidesz and PiS were able to take power from the previously ruling socialist-democratic or liberal parties in the 2010 and 2015 elections (Orenstein/Bugarič 2020: 2). They benefited from the disappointment and disillusionment of the electorate after the crisis and were able to convince voters with their new visions for the political, social, and economic order (Appel/Orenstein 2018: 29-31).

However, not only in Central and Eastern Europe Countries (CEECs), but in almost all developed capitalist countries, the trend of financialization had, and still has, far-reaching effects. Different strategies have emerged to increase aggregate demand and GDP growth (Hein 2012, Chapter 6: 116-120). The GFC triggered many changes, as established demand-led growth models had proven to be unsustainable. In this context, this paper aims to contribute to the debate of post-Keynesian growth models and Comparative Political Economy (CPE) by investigating the relationship between the changes in demand and growth regimes and the establishment of right-wing populist governments in Poland and Hungary after the GFC. In this respect, it is of interest to explore how the countries' demand and growth regimes have evolved since the collapse of the Soviet Union. The economic policies of these new regimes in the post-financial crisis period as

well as the impact of the socio-economic environment on possible changes using the concepts of social blocs and Polanyian countermovements will be analyzed.

Chapter two sets out the methodological and theoretical framework. Chapter three then focuses on the demand and growth models of Hungary and Poland for the period 2000-2008 and provides an overview of the countries' economic developments since the end of socialism. Chapter four briefly presents the impact of the GFC on the two economies and then focuses on the economic and political changes, particularly concerning the demand and growth regimes, after the crisis. Building on this, the policies of the two ruling right-wing populist parties and their potential impact on demand and growth regimes are examined in detail. Chapter five critically assesses the developments, their potential causes and consequences. Chapter six concludes the paper.

## **2. Theoretical Framework: A Hybrid Approach**

Theoretically, this comparative case study on Hungary and Poland builds on a hybrid approach, consisting of the post-Keynesian approach of demand-side growth regimes (cf. Hein 2012, Hein/Mundt 2012, Dünhaupt/Hein 2019, Akcay et al. 2021) and the CPE perspective (cf. Amable 2009; Amable 2018; Baccaro/Pontusson 2016; Bohle/Regan 2021).

As an alternative to the approach of earlier CPE researchers like Hall and Soskice (Varieties of Capitalism, 2001), the demand and growth regime approach was developed, which lays the focus on the demand instead of the supply side (Baccaro/Pontusson 2016: 180). Moreover, this categorization system is better suited to clarify common trends, such as financialization (Barnes 2015: 549-550). How exactly this phenomenon has influenced economies is shown by Hein (2012, Chapter 6), Dodig et al. (2016), and Hein and van Treeck (2010), who identified the four main channels Distribution, Investment, Redistribution and Consumption in this regard. The resulting redistribution of investment in the capital stock as well as of income, especially a declining share of labor income, has led to the development of various strategies to boost aggregate demand and GDP growth. In the process, four contrasting models have emerged (Hein 2012, Chapter 6: 116-120, Hein/Mundt 2012: 43-53, Dünhaupt/Hein 2019: 4-5), which are presented below, mainly based on the work of Dünhaupt/Hein (2019):

**Table 1: Classification of Demand and Growth regimes**

Export-led mercantilist (ELM)	Positive financial balances of the domestic sector
	Negative financial balances of the external sector
	Positive balance of goods and services
	Positive growth contributions of net exports
Weakly export-led (WEL)	positive financial balances of the domestic sector
	Negative financial balances of the external sector
	Negative growth contributions of net exports
	Positive growth contribution of domestic demand
	OR
	Positive financial balances of the external sectors
	Negative growth contributions of net exports
Positive growth contributions of the balance of goods and services	
Domestic demand-led (DDL)	Positive financial balances of the domestic sector
	Negative financial balances of the public sector
	Balanced or slightly positive financial balances of the external sector
	Positive growth contributions of the domestic demand
	Positive or negative growth contributions of the balance of goods and services
Debt-financed boom in private demand (DLPD)	Negative financial balances in the private sector
	Positive financial balances of the external sector
	Positive growth contributions of largely credit-financed, domestic demand (particularly private consumption)
	Negative growth contributions of the balance of goods and services

Source: Dünhaupt/Hein 2019: 4-5

To understand why and how governments choose different demand and growth regimes, several authors have developed an analytical framework that integrates political, social, and economic dynamics. Amable (2003, 2016, 2017, 2019), Amable and Palombarini (2009), and Baccaro/Pontusson (2019) draw on the work of Gramsci (1975, 1977), for whom the involvement of different social groups in the development process within the capitalist system was essential to ensure the constant redevelopment of markets (Amable/Palombarini 2009: 130). In so-called *social blocs* (cf. Amable/Palombarini 2009, Amable 2019, Baccaro/Pontusson 2019), diverse socio-political groups with different demands, goals, and resources to implement them, are combined. To form a bloc, a strategic mediation by politics is required (Amable 2019: 435).

The relationship between growth regimes and social blocs is reciprocal. Social blocs, defined by class and sector, influence national economic policy through their actions, which may change the overall demand and growth regime. The regimes, in turn, provide policy makers with various incentives for policy decisions as they have different preferences in terms of monetary, fiscal, exchange rate and wage-setting policies

(Baccaro/Pontusson 2019: 1-10). The responsibility of politics is to select the demands that should be targeted and to mediate between the various positions (Amable/Palombarini 2009: 130-131). In recent years, however, the established mainstream parties have had increasing problems with this mediation, which has benefited the rise of right-wing populist parties (Scheiring 2021: 183).

Voters are disillusioned with the established conservative, social-democratic or liberal parties and are increasingly giving their votes to populist parties (Muro 2017: 12). In the context of the CPE approach, this paper also refers to the work of Karl Polanyi, in the sense that some parallels can be drawn between the current rise of populism and the rise of fascism in the period between the two world wars. Polanyi (2001) argued that the self-regulating system of the market economy was no longer bound to social norms and regulations, leading to the separation of economy and society (cf. Polanyi 2001). These destructive effects on society represent a first major transformation. The following countermovement, in his case the politicization after World War I and the rise of fascism, is then the second major transformation (Block 2001: xxiii). The more recent changes in the economy and society due to financialization, automation, globalization, rising inequality and debt, as well as the weakening of trade unions have led to a situation of increasing market tensions comparable to the situation in Europe between the two world wars. While fascism emerged as a countermovement then, populist movements are part of this double movement against market conflicts today (Davis 2020: 398).

That the GFC has decisively supported this rise of populism is shown by Funke et al. (2016). They have cited historical evidence that the political climate changes significantly after financial crises and the far-right seems to benefit from this. After such crises, their nationalist or xenophobic rhetoric, which differentiates between the good, common people and the established, corrupt elites, tends to persuade voters (Funke et al. 2016: 2; Mudde 2007: 23). Mudde defines populism as a “*thin-centered ideology*” (Mudde 2007: 23), which has the advantage that it is very adaptable and can be mixed with thick ideologies such as liberalism or socialism (Muro 2017: 10). Therefore, the term *populism* can be used in various contexts and can refer to very different parties.

Scheiring (2021) attempts to explain these multiple manifestations in terms of the tensions arising from economic dependency and the associated management (Scheiring 2021: 185). Different types of integration into global capitalism have led to diverse forms of

dependencies (Akçay/Güngen 2022: 296-300). This has led to variants of economic and social disintegration that have created political opportunities for the development of populist systems, which are shaped locally by diverging populist-social coalitions (Scheiring 2021: 186-189). Populism and Neoliberalism used to be considered incompatible because populism was associated with nationalist and inward-looking economic policies (Weyland 1999: 379). However, examples such as Peru under President Alberto Fujimori or Turkey under Erdoğan have demonstrated the opposite (Weyland 1999: 379; Akçay 2018: 1).

The purpose of this hybrid approach is to trace the relationship between the economic and political developments in Hungary and Poland after the GFC. However, developments from the end of the Soviet Union up to the GFC are of great importance for understanding what happened after 2009. Therefore, the next chapter looks at the neoliberal transition after the end of socialism in Hungary and Poland before examining the demand and growth models of the countries in the early 2000s. An analysis of the countries' macroeconomic policy regimes is conducted to assess the policies of the right-wing populist parties in Hungary and Poland after the GFC and their impact on the growth regimes. This is based on a standardized set of indicators of monetary, fiscal and wage policy as well as of economic openness built on the ideal macroeconomic policy mix which results from the post-Keynesian model (cf. Hein/Martschin 2021). The CPE perspective (cf. Amable 2009; Amable 2018; Baccaro/Pontusson 2016; Bohle/Regan 2021) is used to examine the socioeconomic environment and its influence on the political and economic developments, where a special focus will be placed on the concept of social blocs and the Polanyian approach of countermovements (cf. Amable 2019, Baccaro/Pontusson 2019, Polanyi 2001).

### **3. Growth Regimes of Hungary and Poland: 2000-2008**

This chapter outlines the economic development of the two countries in the first years after the end of the Soviet Union. The second part of the chapter analyzes in detail the demand and growth regimes of Hungary and Poland from the beginning of the new millennium until the GFC.

#### **3.1 The Washington Consensus**

After the collapse of the Soviet Union, it was necessary for the states of the former Eastern bloc to carry out extensive reforms to successfully integrate their economies into the



capitalist, Western system. This led to an unprecedented triumph of neoliberalism in the region, which had not been expected by researchers. Most of them assumed that the economic reforms would generate such high transformation costs that they would be counteracted at the political, democratic level very soon (Myant/Drahokoupil 2011: 83; Przeworski 1991: 136-137; Sachs/Lipton 1990: 47-48; Appel/Orenstein 2018: 1). Therefore, in a so-called *neoliberal shock therapy*, the countries implemented as many reforms as possible in a small amount of time (Appel/Orenstein 2018: 1).

These neoliberal reforms, adopted by both left-wing and right-wing governments in the region, are commonly referred to as the *Washington Consensus*. In particular, the international financial institutions, the IMF and World Bank, coined this term (Babb 2013: 268; Gore 2000: 790; Appel/Orenstein 2018: 21). They advised the former socialist countries on their transformation and rewarded the implementation of certain (neoliberal) reforms with financial incentives (Myant/Drahokoupil 2011: 83; Babb 2013: 274). The reforms of the *neoliberal shock therapy* focused on stabilizing, liberalizing, and privatizing the former communist economies as well as limiting government spending and controlling the growth of the money supply (King/Sznajder 2006: 754).

Hungary had the advantage that it had already been incorporating some liberal components into its otherwise Soviet-style economic system since the 1980s, like the possibility to form joint ventures between foreign companies and Hungarian (and bankrupt) state-owned enterprises. Thus, at the beginning of the capitalist restructuring process, the country already had experience in cooperating with outsiders (Bruszt/Stark 1998: 54; Pogátsa 2009: 597). Additionally, Hungary showed itself to be very ambitious in the transition process (Pogátsa 2009: 598), and in 2001 the IMF praised the "*significant progress in recent years in increasing government transparency and accountability*" as well as the "*modern and well-working budget process*" (IMF 2001a, Executive Summary).

Poland, in contrast, did not have as much experience as Hungary with the integration of foreign actors into the domestic economy (Pogátsa 2009: 597) and the consequences of the neoliberal reforms of the Washington Consensus were initially far more serious than the government had expected. However, already from 1992 on, the Polish economy began to recover. From 1994 onwards, the unemployment figures also started to decline slowly (Dymarski 2015: 5). In the year 2001, the IMF recognized the Act of Public

Finances of 1998 in Poland as a „*major step forward in clarifying the responsibilities and activities of government*” (IMF 2001b, Executive Summary). Beyond this, however, the IMF saw some challenges that still had to be overcome, especially regarding Poland's planned accession to the European Union (IMF 2001b, Executive Summary).

### **3.2 Europeanisation and Avant-Garde Neoliberalism**

In the new millennium, the Washington Consensus was replaced as the main motivator for neoliberal reforms by the conditions for European Union membership; especially for the countries that eventually joined the EU in the early 2000s, such as Poland and Hungary (Appel/Orenstein 2018: 23). The two countries were firstly connected to the EU, or the European Economic Community, as it was then called, through the Association Agreements of December 1991 (Myant/Drahokoupil 2011: 90). Concrete accession negotiations with Poland and Hungary began in 1998 and were successfully concluded in December 2002 (Busch 2004: 3).

In the early 2000s, the European integration process was very demanding and led to the adaption and extension of the countries' national legislation. During the period of the Washington Consensus, countries had sometimes been able to mitigate or circumvent certain IMF and World Bank requirements. Now, however, they had no choice but to comply with the EU guidelines. The EU focused on the deregulation and flexibilization of labor markets, as well as privatizing pension and healthcare systems and strategically important sectors such as finance or telecommunications (Feldmann 2004: 273; Toplišek 2020: 390-392). In turn, the candidate countries were offered greater material incentives than those provided by the Washington Consensus. The EU presented an internal market of five hundred million people, and within it, the CEECs became very popular FDI locations as they combined relatively low-cost but high-quality workforce aspects (Günther/Kristalova 2016: 99; Appel/Orenstein 2018: 24).

The neoliberal transformation progress of these countries was tracked and evaluated very precisely by the institutions of the Washington Consensus and the European Commission (Appel/Orenstein 2018: 21-25; Pogátsa 2009: 600). Appel and Orenstein (2018) argue that the competition among the CEECs for the best possible ratings provided the decisive incentives for the implementation of further, sometimes extreme, reforms (Appel/Orenstein 2018: 25). Programs with avant-garde reforms were developed and implemented even after successful accession negotiations aiming at making the most of

the new inflows of FDI and attracting new FDI (O'Dwyer/ Kovalčík 2007: 3). However, many of these so-called second-generation reforms, which included extreme tax cuts for companies, generous investment incentives for foreign investors, and the weakening of trade unions, were no longer demanded by the IMF of the EU (Appel/Orenstein 2018: 26; O'Dwyer/ Kovalčík 2007: 8). They were the consequence of what Appel and Orenstein (2018) describe as "*competitive signaling*" (Appel/Orenstein 2018: 27); A phenomenon triggered by an enormous demand for capital as well as the relatively sudden transition to the global economic system. This was ultimately a much greater incentive than the reform requirements of international and European institutions (Appel/Orenstein 2018: 28-29).

#### Demand and growth regime development: 2000-2008

After the economies of Hungary and Poland had recovered from the *neoliberal shock therapy*, the first years of the 2000s were characterized by a catching-up phase with increasing FDI inflows and high growth rates. Table 2 shows the financial balances of the external, private, and public sector, the average real GDP growth as well as the growth contributions of domestic demand (private and public consumption), gross fixed capital formation and net exports as a percentage of real GDP for the periods of 2000-2008 and 2009-2019 for Poland and Hungary. Both countries had deep current account deficits between 2000 and 2008. Meanwhile, the financial balances of the public sector were strongly negative, while the ones of the private sector were slightly negative. Considering the growth contributions of the individual sectors, domestic demand stands out as the most important one with private consumption being particularly crucial.

The categorization of Hungary and Poland is not quite straightforward, but despite the slightly negative financial balances of households, Hungary and Poland can be classified in the group of domestic demand-led countries (as shown in Chapter 2) in the observed period, as the negative financial balances of the public sector are deeper than the one of the private sector, suggesting that the public sector was in deficit for investment or consumption and consequently more important. In addition, both countries had low household debt to GDP ratios. In Hungary, the average of Total Credit to Household ratio between 2000-2008 was 19.97% (as a share of GDP), while it was as low as 15.71% in Poland (BIS 2022). This suggests that private debt was not of great importance in terms of economic growth, which is why the debt-led private demand boom regime was excluded. Dodig et al. (2016) also classify Poland and Hungary in the group of DDL

countries but emphasize the more dynamic and higher economic growth as well as the substantial FDI inflows in comparison to the more mature DDL countries like France (Dodig et al 2016: 14).

From 1994 onwards, Hungary was able to record positive GDP growth rates (IMF 2022a), and between 2000 and 2008 the Hungarian economy continued to grow by an average of 3.5% (Table 2). The recovery of the Polish economy started in 1992 and the country was able to show GDP growth averaging 4.1% annually between 2000 and 2008 (Dymarski 2015: 11; Table 2). Since the 1990s, labor productivity increased rapidly, but the share of wages in GDP decreased (Dymarski 2015: 12). The importance of FDI for the Polish and Hungarian economies can be observed in the share of GDP accounted for by net FDI flows. In Hungary it was 5.8% in 2000 but rose by 20 percentage points in the year of EU accession compared with 2003 (World Bank 2022a). The changes in the percentages of Poland's net FDI inflows are certainly less enormous than in Hungary. However, the absolute figures of net FDI inflows (balance of payments, current US\$) also show a significant increase, especially since 2004 (World Bank 2022b, World Bank 2022c).

The favorable investment climate created by the neoliberal reforms and the relatively low wages attracted many transnational companies to Poland and Hungary and promoted economic growth. However, they did not succeed in creating their own national innovation system. The transnational corporations and foreign investors showed little interest in the social and economic upgrading of the economies. The development of new technologies occurred mainly in other industrialized countries, while the post-communist economies had to work mainly with older technologies left to them by the foreign investors. As a result, they became dependent on imports, especially in machinery and technology from Western European countries (Papava 2018: 121). The neoliberal transformation process combined with the post-communist low productivity of the domestic labor force and the poor international competitiveness led to deep current account deficits. Economic growth was thus dependent on domestic demand, which was boosted by rising disposable household income (Statista 2021a and b).

**Table 2: Growth regimes Hungary and Poland: 2000-2008 and 2009-2019**

average values for the respective period	Hungary		Poland	
	2000-2008	2009-2019	2000-2008	2009-2019
Real GDP Growth in percent	3.55	1.93	4.14	3.59
Growth contribution in percent of real GDP				
Domestic Demand	2.58	1.40	4.09	2.82
Private Consumption	1.22	0.72	2.31	1.79
Public Consumption	0.50	0.34	0.84	0.46
Investment (gross fixed capital formation)	0.86	0.33	0.94	0.57
Net Exports (Balance of Goods and Services)	0.25	0.38	0.15	0.82
Net exports as a percentage of GDP	-2.81	5.56	-1.82	1.33
Financial balances				
Sectoral Financial Balance as a share of nominal GDP of the public sector, in per cent	-6.17	-2.96	-4.17	-3.52
Sectoral Financial Balance as a share of nominal GDP of the external sector, in per cent	7.49	-1.33	4.56	2.40
Sectoral Financial Balance as a share of nominal GDP of the private sector, in per cent	-1.33	4.29	-0.38	1.12
Regime	DDL	ELM	DDL	WEL

Sources: European Commission (2022), Eurostat (2022), IMF (2022), World Bank (2022), own calculations and presentation<sup>1</sup>.

#### 4. Growth Regimes of Hungary and Poland: 2009-2019

The GFC originated in the Western countries, but with the sudden stop of capital inflows, the crisis quickly spread to the CEECs (Orenstein/Bugarič 2020: 4). Hungary was hit particularly hard as it was heavily indebted in foreign currency in the private and public sectors. This indebtedness led to greater instability in the Hungarian financial system and during the crisis, the country was no longer able to pay the loans in foreign currency (Badics/Szikszai 2015: 44; Bugarič 2019: 610). In contrast, Poland did not face such a high level of domestic debt in foreign currency, and financialization was generally less important in the country (Dymarski 2015: 66-69), which is why the impact of the crisis on the Polish economy was less severe (Dodig et al. 2016: 27; World Bank 2022d). Nevertheless, GDP growth also declined, while unemployment rates increased, as trading partners struggled with the crisis and FDI inflows declined (World Bank 2022d&h).

The GFC was in many ways a turning point for both countries, leading to the emergence of new economic and political ideas (Barber 2015). In the elections after the crisis, the

<sup>1</sup> Following the methodology of post-Keynesian demand and growth regimes, the average real GDP growth rates and the sum of the average growth contributions have to be equivalent. However, here this is not matched because of different methods used in the databases for deriving the country specific data.

right-wing populist parties managed to take power from the previously ruling socialist-democratic or liberal parties (Huthmacher 2010: 1; Marcinkiewicz 2016: 466; Tagesschau 2022a), which had overall maintained their neoliberal agenda. This cost them many voters as the GFC had shaken people's faith in the neoliberal system (Appel/Orenstein 2018: 29-31). The right-wing populist parties offered convincing alternative answers to the economic and social concerns of the people (Bugarič 2019: 610; Orenstein/Bugarič 2020: 6) and marketed themselves as protectors of traditional Western values (cf. Inglehart/Norris, 2016: 2 “Culture backlash theory”). Their nationalist and authoritarian populism promised voters not only economic self-government and a departure from the neoliberal status quo, but also the protection of the ordinary people and workers (Bugarič 2019: 612; Bluhm/Varga, 2020: 14; Orenstein/Bugarič 2020: 6).

#### **4.1 Demand and growth regimes in the aftermath of the GFC**

Not only in the CEECs, but in almost all developed, capitalist countries, financialization and the resulting GFC had far-reaching effects. Thus, demand-led growth regimes changed in many countries (Dodig et al. 2016: 36-38). As shown in Table 2, growth rates in Hungary and Poland, which were remarkably high before the crisis, declined significantly in the post-crisis period. Hungary slid into a deep recession of -6.6% in 2009 and experienced a second one in the wake of the Eurozone crisis in 2012. Only after 2013 the country was able to reach growth of over 2% again (World Bank 2022e). In Poland, economic growth also declined, but the country never slid into recession. The Eurozone crisis in 2012/2013 also slowed down economic growth, however overall, the average real GDP growth only fell to 3.59% (Table 2; World Bank 2022d).

The GFC led additionally to changes in the financial balance sheets of the countries. The Polish current account deficit was reduced, while Hungary even turned its deep deficit into a surplus. The deficits of the public sectors also decreased, and the private sectors went from a deficit to a surplus. The contribution of domestic demand, especially private consumption, continued to be important for economic growth, but declined compared to the previous period. Meanwhile, the importance of the balance of goods and services increased significantly (Table 2).

Overall, the impact of the crisis and the changes in the demand and growth regime were stronger in Hungary than in Poland (Table 2). Hungary moved to an export-led mercantilist regime with a current account surplus and an important growth contribution

of net exports. Poland developed in a similar direction, as the contribution of net exports to growth increased and net exports as a percentage of GDP were positive. However, it can be identified as a weakly export-led regime, as it still had a current account deficit and domestic consumption was very crucial for growth (Table 2). The following two chapters take a closer look at the policies of the two right-wing populist ruling parties, Fidesz and PiS, and their impact on these changes in the countries' growth regimes.

## **4.2 Hungary and Fidesz**

Following the GFC and the recession, the subsequent austerity measures demanded by the IMF and the EU fueled discontent among the Hungarian population, which helped Fidesz in the 2010 elections (Orenstein/Bugarič 2020: 6-7, Johnson/Barnes 2015: 535). The party was the clear winner receiving almost 53% of the votes. This election fundamentally changed Hungary's political landscape as Fidesz replaced the Socialist Party (MSZP), which had been in government for eight years (Huthmacher 2010: 1). Fidesz's leader Victor Orbán used the discontent of the people and the typical enemy rhetoric of the Central European neoconservative right-wing parties. This enabled Fidesz to win over large sections of the public, blaming not only the IMF and the EU but also the US for Hungary's problems (Szelényi/Csillag 2015: 35).

### The politics of Fidesz since 2010

Orenstein and Bugarič (2020) call Orbán's system "*managed illiberal capitalism*" (Orenstein/Bugarič 2020: 7), which combines some important components of the neoliberal economic system, such as a regressive social policy or a flat tax system, with political illiberalism and traditional conservatism (Orenstein/Bugarič 2020: 7, Fabry 2019: 135-136). Fidesz's two-thirds majority enabled them to amend the constitution, leading to almost unlimited power of the executive and restricted power of the Hungarian Constitutional Court (Bugarič 2019: 602; Szelényi/Csillag 2015: 42).

To distinguish his economic strategy from Western neoliberalism, Orbán called his approach "*East Wind*" (Orenstein/Bugarič 2020: 7). The focus lay on regaining control over the Hungarian economy. For this purpose, sectoral taxes were introduced, and certain companies nationalized in sectors that had previously been mainly foreign-owned as energy, telecommunications, or the financial sector (Orenstein/Bugarič 2020: 7; Bohle/Regan 2021: 91; Toplišek 2020: 395). However, Bohle and Regan (2021) emphasize the "*selective character*" (p. 91) of the Hungarian economic nationalism

(Bohle/Regan 2021: 91) as in certain sectors FDI is still attracted through generous incentives (Toplišek 2020: 396).

To further limit the power of international companies and organizations, "*near-to-Fidesz compan[ies]*" (Kornai 2015: 38) were developed by replacing the former owners with party supporters (Kornai 2015: 38). Increasingly, all public institutions as well as a growing part of the economy are under the control of the state (Fabry 2019: 135-136). Orbán's government also implemented unorthodox and national measures to control government deficits and debt, thereby reducing the influence of international institutions (Johnson/Barnes 2015: 535). Fidesz uses its social policies to support their conservative-nationalist ideology. In 2019, the Orbán government created financial incentives in form of so-called birth credits as well as subsidies and tax breaks for child-rich, working families to increase Hungarian birth rates (Orenstein/Bugarič 2020: 8; Fabry 2019: 135). While the minimum wage was significantly increased (Toplišek 2020: 395-396), a new labor law allows more flexibility and deregulation in labor relations and limits the right to strike. Support for the unemployed and poor is very low and is built on a penalty-based and exploitative workfare program (Fabry 2019: 135-136).

#### Macroeconomic policies regime analysis

To assess the impact of the policy change on the Hungarian growth system, this chapter analyses the country's macroeconomic policy regime. Following the example of Hein and Martschin (2021), monetary, wage and fiscal policy, as well as the openness of the economy are examined in more detail for that purpose. The data in table 3 and 4 indicates significant changes in Hungary in this respect from 2009 to 2019 compared to the previous decade.



**Table 3: Indicators for the macroeconomic policy regimes of Hungary and Poland**

Average values for the respective period	Hungary		Poland	
	2000-2008	2009-2019	2000-2008	2009-2019
<b>Monetary Policy</b>				
Short-term real interest rate, percent	2.79	0.37	5.11	1.13
Long-term real interest rate, percent	1.26	1.95	3.86	2.30
Long-term real interest rate minus real GDP growth, percentage points	-2.29	0.02	-0.27	-1.29
<b>Wage Policy</b>				
Nominal unit labor costs, annual growth, percent	6.65	-0.04	4.16	-0.06
Inflation rate (HCPI), percent	6.36	2.65	3.54	1.74
Labor income share, percent	50.11	46.55	52.39	48.23
Change in labor income share from previous decade	0.48	-3.56	-5.90	-4.16
<b>Fiscal Policy</b>				
Cyclical adjusted budget balance (CBR) (as percentage of potential GDP), annual change, percentage points	-6.97	-2.49	-3.85	-3.72
Output gap (as percentage of potential GDP), annual change, percentage points	2.92	-1.63	-0.18	0.18
Number of years with pro-cyclical fiscal policy	7.00	2.00	4.00	8.00
Public investment in percent of GDP	4.09	4.53	4.09	4.53
<b>Open economy</b>				
Change in real effective exchange rate, vis-à-vis 37 industrial countries, per cent	3.76	-0.86	3.36	-1.16
OECD economic complexity index	0.99	1.39	0.76	1.03
Net exports as a percentage of GDP	-2.81	5.56	-1.82	1.33

Sources: European Commission (2022), Eurostat (2022), IMF (2022), World Bank (2022), own calculations and presentation; based on Hein/Martschin (2021)

**Table 4: Macroeconomic policy regime of Hungary and Poland**

	Hungary		Poland	
	2000-2008	2009-2019	2000-2008	2009-2019
MP	+	-	+	+
WP	-/+	-	-	-
FP	-/+	+	+	-/+
OE	-	0/+	-	+
Growth Regime	DDL	ELM	DDL	WEL

## Monetary Policy

- + negative real long-term interest rate-real GDP growth differential
- positive real long-term interest rate-real GDP growth differential

## Wage Policy

- + nominal unit labour cost growth close to CB inflation target and rising labour income share
- nominal unit labour cost growth far away from CB inflation target and falling labour income share
- /+ nominal unit labour cost growth far away from CB inflation target and rising labour income share
- +/- nominal unit labour cost growth close to CB inflation target and falling labour income share

## Fiscal Policy

- + counter-cyclical in many years, high public investment-GDP ratio
- pro-cyclical in many years, low public investment-GDP ratio
- +/- counter-cyclical in many years, low public investment-GDP ratio
- /+ pro-cyclical in many years, high public investment-GDP ratio

## Open Economy

- + real depreciation
- real appreciation, with low non-price competitiveness (complexity index)
- /0 real appreciation, with intermediate non-price competitiveness (complexity index)
- 0/+ small real depreciation, with high non-price competitiveness (complexity index)
- 0 small real depreciation, with intermediate non-price competitiveness (complexity index)

+: expansionary stance, -: contractionary stance, 0: neutral stance

Sources: European Commission (2022), Eurostat (2022), IMF (2022), World Bank (2022), own calculations and presentation based on Hein/Martschin (2021: 23)

Like the European Central Bank (ECB), the Hungarian National Bank's aim is price stability, for which it has been using inflation targeting since 2001 (MNB 2022). Monetary policy changed from being expansionary in 2000 to 2008 to contractionary in the period from 2009 to 2019 with a positive difference between the long-term interest rate and real GDP growth. However, since 2013, the previous Minister of Economy, György Matolcsy, has pursued a looser monetary policy to stimulate the economy and to promote lending. The key interest rate was gradually lowered from 7% to 1% in 2016 (Toplišek 2020: 395) so that monetary policy appears to have returned to the expansionary stance. The central bank has placed a greater focus on the organization of the different branches of economic policy to improve the coordination of monetary and fiscal policy, lower the external vulnerability of the country and create growth-enhancing credits (Palotai 2021: 464).

Inflation has reduced and moved closer to the target of 3% (MNB 2022). However, the decline in the inflation rate went hand in hand with a decrease in the labor income share, which fell on average to 46% between 2009 and 2019 (Table 3). Due to the numerous structural reforms on the labor market, wage policy changed from being more expansionary to contractionary and became deflationary: the nominal growth of unit labor costs was negative (Table 3).

Tables 3 and 4 further indicate that, in terms of fiscal policy, Hungary's economic policy was predominantly pro-cyclical from 2000 to 2008. Since 2009, it has been counter-cyclical in all years except in 2018 and 2019. However, the high public investment-GDP ratio has remained the same throughout. Overall, the Hungarian fiscal policy between 2009 and 2019 was clearly expansionary. The renationalization and stimulation of the economy as well as the support of the domestic capitalists were the main goals of the Fidesz government (Orenstein/Bugarič 2020: 7; Bohle/Regan 2021: 91) However, from 2010 onwards the Hungarian economic policy also worked on the gradual consolidation of the state budget by reorganizing the tax and pension system (Palotai 2021: 454-455).

Regarding economic openness, the importance of foreign trade for the Hungarian economy has increased significantly (Table 3). Hungary experienced a small depreciation of its currency in the period between 2009 and 2019. This improved its international competitiveness, which was reflected in a significant rise in net exports as a share of GDP. Additionally, Hungary's non-price competitiveness also increased (see OEC index, Table 3). While exports became increasingly important, benefiting from the improved international price as well as non-price competitiveness, the impact of the GFC and related austerity measures, like rising long-term real interest rates and declining labor income shares, have weakened domestic demand. Overall, these changes in the macroeconomic policy regime have supported the developments in Hungary's growth regime shifting from DDL to ELM (Table 2, Chapter 4.1).

### **4.3 Poland and PiS**

In 2015, a significant political change also began in Poland with a change in both the ruling party and the presidency. Poland's former stable party system regained dynamics and the centrist-liberal Civic Platform (PO) was put into opposition after it had ruled the country for eight years (Marcinkiewicz 2016: 464). Despite the fact that they had led

Poland through the economic crisis quite smoothly, many people had been dissatisfied with their neoliberal policies and felt left behind (Orenstein/Bugarič 2020: 10).

PiS had criticized the social costs of neoliberal structural change and “*the accumulation of privatized wealth by post-communist elites and foreign businesses*” from the very beginning (Gromadzki et al. 2022: 6). As of 2005, it first governed in a coalition of nationalist and agrarian populist parties, which broke apart in 2007. Thereafter, the party's program and rhetoric began to become more nationalist and populist. It increasingly espoused the idea of an illiberal democracy aiming at the protection of conservative traditions and family values. While the PiS was originally popular mainly in the cities, since 2007 it has been primarily a party of the rural and small-town population (Gromadzki et al. 2022: 6).

With their new program, PiS was able to win the two major elections of 2015. In May, PiS candidate Andrzej Duda overthrew PO-backed candidate Bronisław Komorowski. In the parliamentary elections in October, PiS then won 37.58% of the vote and with that obtained an absolute majority in the Sejm. PO lost 15.09 percentage points compared with 2011 and only reached 24.09%. In the last elections there was a clear geographical divide between north-west and south-east in the results of these two major parties. However, in 2015, PiS succeeded in 14 of 16 regions (Szczurbiak 2016: 409, 415-417). The clever combination of generous social promises, a rhetoric based on national pride, and the skillful use of social media, helped PiS and Duda to win. The promise of an income-independent child benefit was very important, but the refugee crisis also became a central part of their campaign (Marcinkiewicz 2016: 465-466, 474). Moreover, according to Marcinkiewicz (2016), this double victory would not have been possible without the support of the Catholic Church and the strongly disciplined fundamentalist Catholic electorate (Marcinkiewicz 2016: 474).

### The politics of PiS since 2015

In many ways, Poland has followed Hungary's path since 2015. PiS focused on a mass social and economic policy, that seeks to modify the neoliberal economic system. Unlike Hungary, however, they concentrate less on redistribution from the bottom to the top and the illiberalism in Poland is weaker (Scheiring 2021: 184).

Economically, PiS policies focus on re-industrialization and the *re-polonization* of the economy (Miszerak/Rohac 2017, Toplišek 2020: 393). Not only does the current

government reject the old privatization agenda, but in 2016 a levy on the banking and insurance sectors was introduced and state control over the domestic banking sector was strengthened. The domestic energy sector was secured by the state in that the state-owned PGE had purchased the assets of the French EDF and subsequently increased controls (Toplišek 2020: 393-394). Nevertheless, FDI continued to be of great importance to the country, for example for the new airport outside Warsaw (Orenstein/Bugarič 2020: 10).

PiS' policy decisions are often linked to its national-populist ideologies. They aim to protect conservative, moral values, the Polish nation and especially the traditional, Polish family and workers (Orenstein/Bugarič 2020: 10-11). For this purpose, PiS introduced the promised new social program for families (*Family 500+*). This child benefit was, and is, very popular and provides an unconditional monthly payment for children under the age of 18 of around \$125 (Gromadzki et al. 2022: 1-2). Gromadzki et al. (2022) showed how this transfer of money led to a significant increase in the share of votes for the PiS in the parliamentary elections of October 2019 (Gromadzki et al. 2022: 2).

#### Macroeconomic policies regime analysis

The post-GFC policy shift has led to changes in the macroeconomic policy regime between the periods of 2000 to 2008 and 2009 to 2019. Still, analogous to the demand and growth regime transition (Chapter 4.1), the changes in Poland are much smaller than in Hungary. However, it should also be noted that PiS has only been in government since 2015.

The Polish monetary policy remained in line with its previous approach and continued to be expansionary with a negative real long-term interest rate-real GDP growth differential. The primary objective of the National Bank of Poland (Narodowy Bank Polski) is price stability, which is intended to be achieved through direct inflation targeting (NBP 2022). Inflation in Poland has fallen on average since 2008 and was below the target of 2,5% in the period between 2009 and 2019, while it was still above this target in the previous decade (Eurostat 2022b). Compared with Hungary, Polish monetary policy remained largely faithful to the previous orthodox and conservative agenda, and the key interest rate remained at 1.5% (Toplišek 2020: 395).

The Polish wage policy was contractionary in the period from 2009 to 2019, as in the previous period, with declining income shares of the labor force. The fiscal policy continued to be expansionary, although no longer mainly counter-cyclical, but

predominantly pro-cyclical (Table 3). However, as the PiS government needs to increase public spending to fulfill its election promises, it is turning away from the strict fiscal policy of previous governments by accepting an increase in the structural deficit (Toplišek 2020: 395).

The openness of the economy saw the largest changes. There was a real depreciation and an improvement in the OEC index, which is reflected in an increased share of net exports in GDP (Tables 3 and 4). Additionally, so-called special economic zones with tax benefits were introduced, designed to promote the responsible and sustainable development of the location. This system also aims to empower domestic capitalists relative to foreign investors and encourage the development of innovative, high value-added products (Toplišek 2020: 396).

As discussed in chapter 4.1, the Polish economy was much less affected by the GFC, and domestic demand was still very important for the country's economic growth. Furthermore, no major changes could be identified in monetary, wage and fiscal policies compared to the pre-GFC period. Only the openness of the economy has undergone a major change, which explains why the growth regime has only changed slightly from DDL to WEL, with foreign trade being crucial in this (Table 2).

## 5. Critical Assessment

As a catalyst for change, the GFC brought forward new economic and political ideas (Barber 2015). Right-wing populist parties blamed the established neoliberal system for the economic problems and turned against it (Orenstein/Bugarič 2020: 6). In Poland and Hungary, the right-wing populist parties managed to win the elections with this rhetoric and thus could realize their new ideas and programs. It is often argued that in both countries the political changes in governments are an expression of a Polanyian countermovement against neoliberalism (Szabó /Kurucz 2022: 12). Scheiring and Szombati (2020) stress the "*authoritarian reembedding*" of the last years as a reaction to the "*neoliberal disembedding*" (Scheiring/Szombati 2020: 721) of the preceding decades.

In the period following the collapse of the Soviet Union, Poland and Hungary quickly established a policy of *neoliberal shock therapy*, with FDI playing an important role in financing this transformation process. The competition among the CEECs for these capital inflows led to the introduction of further, sometimes extreme, neoliberal reforms, which resulted in increasing market tensions and a deep dependence on the West (Davis

2020: 398; Blyth/Matthijis 2017: 217-220). In consequence, the GFC spilled over quickly, hitting especially Hungary very hard (see chapter 4). This led to the undermining of the legitimacy of the neoliberal economic program for both workers and capitalists (Appel/Orenstein 2018: 160; Toplišek 2020: 393).

With the decrease of FDI inflows from the West, Fidesz and PiS began to despise the free market and dependent development model pursued by their predecessors, which they also had supported before the crisis. After 2008, they developed new economic policy programs and made a remarkable and successful u-turn (Orenstein/Bugarič 2020: 2, Toplišek 2020: 393). Their combination of new economic ideas with the populist rhetoric won over the electorate from 2010 on. Furthermore, both parties benefited from weakness of the left-wing forces, which had lost the support of the domestic labor force through their engagement with the neoliberal reforms in the last decades (Berman/Snegovaya 2019: 6; Tavits/Letki 2009: 555; Mudde 2000: 43). The neoliberal system and its consequences, such as the GFC, can therefore be seen as a trigger for many political and economic changes in the two countries.

In the process, however, the countermovements took different, albeit similar paths (cf. Chapter 4.1 and 4.2), where powerful actors within social blocs in the countries played an important role. In Hungary, the domestic labor force had initially accepted the consequences of neoliberal reforms expecting that the capitalist economic system of the West would decisively improve their lives. However, the post-socialist transformation increasingly led to disappointment through the dissolution of local communities and identities as well as a sense of powerlessness of the workers (Scheiring 2020: 321-325). The national bourgeoisie suffered from globalization, fierce competition with transnational capitalists and the economic policies of left-wing governments (Scheiring 2020: 325-328).

Fidesz managed to take advantage of the frustration of the national bourgeoisie as well as of the working class and successfully established itself as the representative of both (Ban et al. 2021: 16; Scheiring, 2020: 217-260). They ensured the emancipation of the domestic capitalists with their economic nationalism, however, they also allied themselves with some transnational capitalists (Scheiring 2020: 330-331; Bohle/Regan 2021: 91). In return, the Hungarian Chamber of Commerce significantly assisted Fidesz in the development of their new economic strategy (Ban et al. 2021: 16-19). The party succeed

in solving conflicts of interest between the different components of the Hungarian social bloc, holding it together and thereby securing the support of a large part of the population (Ban et al. 2021: 8; Scheiring 2020: 331-333). They also created a new class of party-loyal oligarchs whose profits are heavily dependent on the party policies (Geva 2021:80).

For Poland, Naczyk (2021) shows that the post-GFC political and economic changes were particularly driven by the "*comprador bankers*" (Naczyk 2021: 3). Their strong position of power within Polish politics stemmed from their important status within the social bloc supporting the Polish FDI-dependent growth regime. Moreover, through their work, Polish bankers were able to establish and intensify corresponding relationships and opportunities for influence with economic and political decision-makers as well as with companies (Schoenman 2014: 3-5; Naczyk 2021: 3). It is important to note that the influence of the domestic banking elite is not limited to PiS but has already impacted the policies of the liberal PO (2007-2015). The trend towards greater state intervention, the *re-polonization* of the domestic economy and the introduction of new industrial policies in favor of the domestic economy, began immediately after the GFC (Naczyk 2021: 3). However, PiS particularly embraced this new direction as seen in chapter 4.2.

The motivation behind the action of the Polish bankers was their learning from the GFC. While the crisis was relatively benign for Poland, it was accompanied by a significant loss of control over decision-making processes for domestic bankers, as foreign parent companies increasingly centralized risk and strategy decisions and had withdrawn excess liquidity from their Polish subsidiaries during the crisis (Clift/Woll 2012: 314). As a counter-reaction, the Polish banking elite ensured that state control over the banking sector was expanded, and that the development of the Polish economy was pushed forward through the reformation of Polish development institutions and the introduction of certain industrial policies to strengthen domestic industries, promote Polish exports and ultimately increase the autonomy of the Polish banking system (Naczyk 2021: 4).

Several authors argue that the right-wing populist parties in Hungary and Poland have developed a new type of neoliberalism (Davies/Gane 2021: 4) and speak of "*postneoliberalism*" (Springer 2014: 6) or "*zombie neoliberalism*" (Peck 2010: 104). While the role of the state has become far more important, some other neoliberal elements remain significant or have even been intensified (Davies/Gane 2021: 4-5). FDI continue to play an essential role, but the populist governments are trying to diversify the sources



of investment and are increasingly turning to China or Russia, at least before the war, to do so (Orenstein/Bugarič 2020: 15). According to Davies and Gane (2021:4-5), the post-neoliberalism summarizes a series of emerging changes in the neoliberal system that are leading to its central tenets being weakened or altered.

In Hungary, Fidesz managed to implement certain demands of the countermovement as reducing the influence of foreign investors in key sectors of the Hungarian economy or the renationalization of some companies. However, they also deepened neoliberal reforms, especially regarding the labor market and social policies (Szabó/Kurucz 2022: 12). Szabó and Kurucz (2022) argue that, while Fidesz brought some changes, it remained faithful to the neoliberal system itself, contrary to their rhetoric. It is called a "*disguised neoliberalism*" (Szabó/Kurucz 2022: 12) under state control, where foreign influence is limited (Szabó/Kurucz 2022: 12). According to Ban et al. (2021), Hungary is pursuing a nationalist neoliberal strategy that uses a range of orthodox and heterodox policy instruments to implement state interventions that particularly favor the upper middle class and domestic capital. It further targets the accumulation of capital for the national bourgeoisie and supports transnational capitalists in the export-oriented and labor-intensive low-tech production sectors (Ban et al 2021: 9-13; Scheiring 2021: 196).

Geva (2021) calls Hungary's authoritarian and hyper-national neoliberalism "*ordonationalism*" (Geva 2021: 71). She argues that Orbán and Fidesz have established a regime that goes beyond existing forms of neoliberalism by combining elements of "*authoritarianism, racist and patriarchal nationalism, clientelism and partial neoliberalization*" (Geva 2021: 72), relying on a strong state and its charismatic leader, pretending to be representatives of all social classes. The contradictions that arise from this strategy further increase the need for state intervention. Moreover, the interventions by the Hungarian authoritarian state to solve crises, that it has itself created, rely on partnerships with powerful actors in the global system such as China or Russia (Geva 2021: 76). So, while Orbán preaches national independence, his path reinforces Hungary's dependence on these countries. According to Geva (2021), Hungary's "*ordonationalism*" (Geva 2021: 71) can therefore also be described as post-neoliberal in that it "*represents the last frontier of neoliberalism*" (Geva 2021: 76).

In Poland, the backlash was slower and weaker than in Hungary, as the analysis of the demand and growth regime and the macroeconomic regime in chapter 4.2 showed. Poland

was able to cushion the impacts of the GFC better (Dymarski 2015: 66-68), but the increasing emigration of Poles abroad or the rising income inequality reinforced criticism against the neoliberal system (Szabó/Kurucz 2022: 12). Like Fidesz, PiS criticizes the system of the free-market economy itself and the dependent development model pursued by its predecessors (Marcinkiewicz 2016: 465-466). Since its election victory in 2015, the PiS has been working to mitigate the uncertainties in the labor market, for example through the increase of the minimum wage in 2019 (Website of the Republic of Poland 2018) or the popular child benefit program (Szabó/Kurucz 2022: 11).

Additionally, the role of the state was redefined by the "*Responsible Development Plan*" (Szabó/Kurucz 2022: 11), which focuses on greater state involvement in economic affairs and is also intended to strengthen Polish exports and domestic capital. Naczyk (2021:5) speaks of "*a revival of developmentalism*". While Poland's Prime Minister dismisses Statism himself, he aims to reduce Poland's dependence on foreign investors and criticizes sheer reliance on free-market strategies (Morawiecki 2016; Naczyk 2021: 5). Szabó and Kurucz (2022) argue that Poland's economic and social system is slowly moving towards a *post-neoliberal system*, that is about reversing certain shortcomings of neoliberalism. However, the Polish populists also pushed through a right-wing ultra-conservative program, which threatens political liberalism and the associated European integration (Szabó/Kurucz 2022: 11).

With these new strategies, combining authoritarian, illiberal as well as anti-democratic aspects with nationalist economic policies, the Polish and Hungarian right-wing populist parties are quite successful merely considering the figures for GDP growth or unemployment (Hendrikse 2018: 169-170; Davies/Gane 2021: 4; Szabó/Kurucz 2022: 12; World Bank 2022d; World Bank 2022e; World Bank 2022f; World Bank 2022h). However, many criticize that the good macroeconomic figures mask other problematic processes in both countries, who ranked 43rd and 56th in the Corruption Perceptions Index (International Transparency 2021). Furthermore, Hungary has seen a significant increase in inequality since 2009 (World Bank 2022g)

Poland's Gini index, however, has decreased since joining the EU in 2004 (World Bank 2022i). Through the *re-polonization* of the financial sector and other parts of the economy, the domestic banking elite, as the most powerful member of the social bloc, has in many respects regained control and achieved its goals. Furthermore, the *Family*

500+ program substantially enhanced the financial situation of families and had a positive effect on the reduction of absolute and relative child poverty in the country (Brzeziński/Najsztub 2017: 18-20; Gromadzki 2021: 4). But Szabó and Kurucz (2022) argue that PiS rewards its conservative voters through direct payments and *buys* support from the direct recipients of state benefits instead of focusing on creating a progressive welfare system (Szabó/Kurucz 2022: 11).

Ultimately, both countries are in a transition phase that is slowly changing the old regimes built on neoliberal principles. Compared to the government in Poland, the Orbán regime is pursuing the renationalization of privatized companies far more aggressively as part of its economic strategy, while Poland's right-wing populist government is following a more development-oriented economic strategy with state stakes in capital-intensive production. Very strong neoliberal tendencies are still evident in the areas of labor market policy, while this has been significantly altered in other sectors such as finance. Overall, Hungary relies much more on a strategy of economic nationalism and implements a "*disguised neoliberalism*" (Szabó/Kurucz 2022: 12), while Poland is moving more towards a *post-neoliberal* system with a stronger orientation on developmentalism (Szabó/Kurucz 2022: 12).

The different intensity of the countermovement can be attributed, on the one hand, to the different degrees of impact of the crisis. In Poland, the reaction was weaker than in Hungary because the country got off much more lightly. In addition, PiS had five years less time to implement its new visions than Fidesz. However, on the other hand, the different motivations of the social blocs are also important in this comparison. The Polish bankers wanted to overcome certain shortcomings in the neoliberal economic system and make Poland's economy stronger and more independent. In Hungary, domestic capitalists aimed to limit the influence of foreign investors and change the system to their advantage. Fidesz used anti-neoliberal rhetoric to this end, which also won over Hungarian workers.

The establishment of these new strategies led to changes in the demand and growth regimes of the countries (cf. Chapter 4). The old domestic demand-led and FDI dependent models were no longer sustainable, as the Great Depression resulted in significant declines in FDI inflows and exposed the dependence of the countries. Both countries increased state intervention in some areas, while introducing even more extreme neoliberal reforms especially in labor and tax law. Favorable taxes for specific companies

in certain sectors as well as low wages promoted the country's international competitiveness and export performance. Additionally, both countries still have their own monetary policies, which they use to devalue their own currencies and thus support the export sector. In Hungary, despite the focus on economic nationalism, domestic demand became less important because only part of the Hungarian population really benefited from the policies of the right-wing populist party, the national bourgeoisie. Therefore, exports became more and more important for growth, which leads to the fact that Hungary can be categorized as ELM today (Table 2).

As shown in chapter 4, in Poland private consumption continued to be of great importance. Poland's social and economic system exhibits stronger post-neoliberal tendencies and focuses more than Hungary on redistribution and reducing inequality in the country. The PiS's chauvinist welfare program, especially the generous child benefit, has provided many households with a significant increase in income. As a result, domestic demand remains strong, and Poland is classified today as WEL despite the growing importance of the export sector (Table 2). Moreover, the national bankers primarily wanted to strengthen the domestic economy and make it more independent of foreign countries, which is why the demand and growth regime still has the strong focus on domestic demand despite the significant changes in the political sphere. The fact that this development could already be observed in the last years of the previous PO government shows the strong influence of the social bloc on politics in Poland.

The right-wing populist regimes in Hungary and Poland were able to implement major changes in the social, economic, and political spheres. However, both countries continue to operate within a global, largely neoliberal system from which they cannot completely break free. Furthermore, both countries are members of the European Union, which has stopped some authoritarian and anti-democratic developments. This also became clear in the Covid-19 pandemic, as the European Commission tied the disbursement of financial aid to the implementation of certain conditions (EU 2022). Only recently the resources of the Covid-19 relief funds for Poland were released after the government in Warsaw accepted to withdraw certain judicial changes in the country (DW 2022).

## **6. Conclusion**

Hungary and Poland carried out extensive reforms in a *neoliberal shock therapy* to integrate their economies into the capitalist, Western system after the collapse of the

socialist system. What followed was an unprecedented triumph of neoliberalism, in which far more reforms were realized than demanded by the institutions of the Washington Consensus and the EU. Further avant-garde neoliberal reforms were implemented in a competition that arose among the CEECs, due to the enormous demand for FDI. These neoliberal reforms created a favorable investment climate and combined with the relatively low wage levels, led to many transnational companies entering Hungary and Poland and stimulating economic growth. However, insufficient industry policies to ensure social and economic upgrading, the strong confidence in FDI inflows, post-communist low productivity of the domestic labor force and low international competitiveness; resulted in deep current account deficits. Domestic demand was the main driver of economic growth in Poland and Hungary between 2000 and 2008.

However, with the GFC the countries' weaknesses were disclosed. Hungary was hit hard, and even though Poland got off lighter, the crisis represented a turning point for both countries. It led to countermovements against the neoliberal system and to the emergence of new political and economic ideas. In Hungary and Poland, the right-wing populist parties offered voters convincing alternative answers to their grievances. Fidesz and PiS established a system that focused more on economic nationalism and strengthened the role of the state, especially in strategically important sectors, to reduce foreign influence. In other sectors, however, they promoted further FDI and, especially in the labor and tax sectors, the parties implemented even more extreme neoliberal reforms.

Both economies are currently in a transitional phase that is slowly changing their old purely neoliberal regimes. As seen in chapter 4, Fidesz relies heavily on the renationalization of private enterprises, while PiS focuses on a more development-oriented economic strategy. Strong neoliberal tendencies are still evident in the areas of taxation and labor law. However, in the social sphere and in certain sectors such as finance and banking, both regimes continue to develop the old neoliberal system in a different direction. Overall, Hungary still shows a strong neoliberal influence combined with a strategy of economic nationalism. Poland's system, in contrast, is moving in a more post-neoliberal direction.

Continued low wages and monetary policies that devalue the own currencies have strengthened the countries' international competitiveness and export sectors. The post-GFC economic policies in the two countries led to changes in the growth regimes of

Hungary and Poland, whose old DDL regimes, which depended on generous FDI inflows, had proved unsustainable in the era of financialization (Chapter 4). Since then, net exports have generally gained importance as a growth factor in both countries, even if this development is weaker in Poland than in Hungary. Hungary can be classified as an ELM regime in the period between 2009 and 2019, while Poland is WEL, as private consumption continues to be of great importance.

Chapter 5 has shown that in both countries, domestic capitalists have driven these changes. In Hungary, the national bourgeoisie felt threatened by globalization and the fierce competition with transnational capitalists. The Hungarian Chamber of Commerce played an important role in the development of Fidesz's economic strategy after the GFC and thus contributed decisively to the shaping of their new economic policy program. The Polish banking elite was also frustrated by the consequences of the GFC and looked for economic and political changes. This development started right after the crisis, which is why they not only decisively influenced PiS, but also the previous ruling PO. The domestic bankers advocated greater state control over the financial sector and the development of the Polish economy. PiS then succeeded in making this new direction of economic policy its own. However, the underlying reasons for the specific behavior of individual groups of the social blocs in Hungary and Poland is a valuable field for further investigation.

Nevertheless, both countries continue to operate within a global, largely neoliberal system and are members of the European Union. This binds them to certain economic and political prescriptions that have halted some authoritarian and anti-democratic developments. This became clear recently in respect of the Covid-19 pandemic, as the European Commission tied the disbursement of financial aid to the implementation of certain conditions (EU 2022). Together with Slovakia and the Czech Republic, however, the two states have also formed an alliance of convenience, the Visegrad 4, as a counterweight to the Berlin-Paris axis in the EU. They support each other, especially regarding EU state-of-law proceedings. However, due to the different attitudes regarding the Russian war against Ukraine, this alliance has been significantly weakened (Tagesschau 2022b).

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