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

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*This paper aims to contribute to the debate of post-Keynesian growth models and the political economy of populism by investigating the relationship between the changes in demand and growth regimes and the politics of the right-wing populist governments in Poland and Hungary after the Global Financial Crisis (GFC). In both countries, the GFC was a turning point, leading to the emergence of new economic and political ideas. These processes resulted in changes in the growth regimes and increased the importance of the export sector.*

**Keywords:** *growth regimes, populism, comparative political economics*

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

## 1 INTRODUCTION

Considering the recent rise of populism worldwide, 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 even able to retain 53 per cent of the votes. Despite a questionable election campaign and a rather unfairly distributed electoral system, the clear success shows that many voters were apparently satisfied with the conditions in the country (Tagesschau 2022a). A similar situation prevails in Poland, where Prawo i Sprawiedliwość (PiS) has been in power since 2015 and was re-elected with great success 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 transform into competitive economies in the global market. Particularly important in this process, and in the resulting economic system, were the inflows of foreign direct investment (FDI) from the West. However, the GFC was a turning point, as the absence of these capital inflows highlighted the weaknesses of this dependent system, and new economic and political ideas emerged (Barber 2015). Fidesz in Hungary and the PiS in Poland realigned their party programs towards the right-wing populist spectrum and were able to grasp power from the previously ruling socialist-democratic or liberal parties (Orenstein/Bugarič 2020: 2). They achieved great success in the 2010 and 2015 elections, benefitting from a disappointed and disillusioned electorate in their respective countries after the crisis and were able to convince voters about their new visions for the political, social, and economic order (Appel/Orenstein 2018: 29–31).

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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: ch. 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 (*cf.* Hein 2012; Hein/Mundt 2012; Dünhaupt/Hein 2019; Akcay et al. 2022) and the political economy of populism debate (*cf.* Rodrik 2021; Guriey/Papaioannou 2022) 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 context, the paper examines the influence of the GFC on political and economic decisions in the two countries. For this purpose, the consequences of the GFC as well as the economic policies of the two right-wing populist parties, Fidesz and PiS, and their influence on growth regimes are analyzed. It is also of interest to examine how the countries' demand and growth regimes evolved after the end of the Soviet Union until the GFC in order to better understand the events that unfolded after 2009.

The paper proceeds as follows. After a brief introduction, Section 2 sets out the theoretical framework for the analysis. This is followed by a description of the evolution of the political economies of Hungary and Poland from the 1990s to 2008 and the growth regimes of the two countries between 2000 and 2008 in Section 3. Section 4 follows with a description of the economic policy situation of the two countries for the period from 2009 to 2019 combined with descriptive data on monetary, wage, fiscal, and trade policies, as well as an analysis of the implications for the growth regimes. Section 5 concludes the results in the context of the analytical concepts presented in Section 2.

## 2 THEORETICAL FRAMEWORK: A HYBRID APPROACH

This paper builds on a hybrid comparative political economy (CPE) approach, consisting of the post-Keynesian approach of demand-side growth regimes (*cf.* Hein 2012; Hein/Mundt 2012; Dünhaupt/Hein 2019; Akcay et al. 2022) and an analysis of the political economy of populism (Rodrik 2021). The purpose of this methodology is to trace the relationship between the economic and political developments in Hungary and Poland after the GFC. An analysis of the countries' macroeconomic policy regimes (*cf.* Hein/Martschin 2021) is conducted to assess the policies of the right-wing populist parties that came into power in that time and their impact on the growth regimes.

The post-Keynesian demand and growth regime approach was developed as an alternative to the strategies of earlier CPE researchers like Hall/Soskice (2001), who focused their analyses on the supply side (Baccaro/Pontusson 2016: 180). However, the demand-side focused Growth Model System is better suited to clarify common trends like financialization (Barnes 2015: 549–550). Hein (2012: ch. 6), Dodig et al. (2016), and Hein/van Treeck (2010) show in their work how this phenomenon has influenced economies and 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. As seen in Table 1, in the domestic demand-led regime (DDL), domestic demand drives growth while exports contribute almost nothing. If private consumption demand makes the largest contribution to domestic demand, while net exports make a negative contribution, then the regime is defined as

*Table 1 Classification of demand and growth regimes*

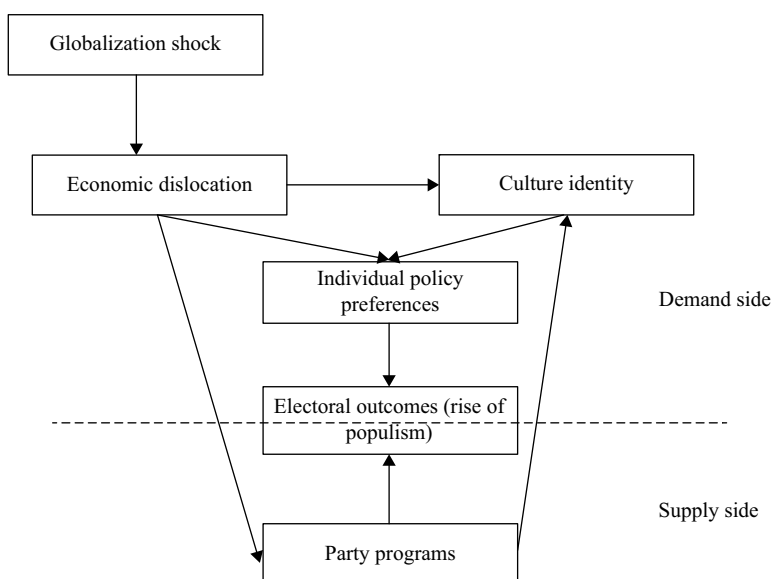
<b>Export-led mercantilist (ELM)</b>	Positive financial balances of the domestic sector Negative financial balances of the external sector Positive balance of goods and services Positive growth contributions of net exports
<b>Weakly export-led (WEL)</b>	Positive financial balances of the domestic sector 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
<b>Domestic demand-led (DDL)</b>	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
<b>Debt-led private demand boom (DLPD)</b>	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).

a debt-led private demand boom (DLPD). In the case that the export sector particularly drives growth, a distinction is made between the two further subtypes of export-led mercantilist regimes (ELM) and weakly export-led growth models (WEL) (Hein 2012: ch. 6, 116–120; Hein/Mundt 2012: 43–53; Dünhaupt/Hein 2019: 4–5).

The Macroeconomic Policy Regime Analysis, as conducted by Hein/Martschin (2021), helps to better understand the impact of specific economic policy decisions on growth regimes. It is based on a standardized set of indicators of monetary, fiscal, and wage policies as well as economic openness. The analysis of the monetary policy focuses on the short- and long-term real interest rate as well as the difference between the long-term real interest rate and the growth rate of real GDP. In the area of fiscal policy, government gross investment and the countercyclical or cyclical orientation of fiscal policy are identified and analyzed using structural budget balances and the output gap as a share of potential GDP. For the development analysis of wage policy, the growth of nominal unit labor costs is compared with the inflation rate and the development of the wage share is assessed. Finally, by analyzing import and export shares as well as international price and non-price competitiveness, the openness of the economy can be evaluated (Hein/Martschin 2021: 510–511).

To elaborate on the relationship between changes in the political sphere and growth regimes, especially in the times after the GFC, the paper draws on the framework of Rodrik (2021) (Figure 1). It shows the causal relationships and mechanisms through which globalization could support the rise of populism. Different types of globalization



*Source:* Own presentation based on Rodrik (2021: 140).

Figure 1 Causal framework – globalization shock

shocks (trade, finance, or immigration) affect different components in the system. Rodrik distinguishes between the demand and supply sides of politics. Economic dislocations can directly or indirectly lead to changes in individual policy preferences as well as party platforms. In the process, these globalization shocks often work through culture and identity (Rodrik 2021: 139–140). That the GFC has decisively supported the recent rise of populism is also shown by Funke et al. (2016). They cite historical evidence that the political climate changes significantly after financial crises and that the far-right especially seems to benefit from this. Particularly 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).

This paper follows the definition of populism by Mudde (2007), who emphasizes exactly these anti-elitist and anti-pluralist components of populism. Moreover, he describes it as a ‘thin-centered ideology’ that has the advantage of being very adaptable and can be mixed with ‘thick’ ideologies such as liberalism or socialism (Mudde 2007: 23, Muro 2017: 10).

## 3 GROWTH REGIMES OF HUNGARY AND POLAND: 2000–2008

After the collapse of the socialist system, economic and political changes were inevitable in Hungary and Poland. Most of the researchers predicted that economic reforms would especially generate such high transformation costs that they would be counteracted at the political and democratic level very soon (Myant/Drahokoupil 2011: 83; Przeworski 1991: 136–137; Sachs/Lipton 1990: 47–48); likewise, in a so-called neoliberal shock therapy, the two

countries implemented as many reforms as possible in a short time (Appel/Orenstein 2018: 1). In this regard, the Washington Consensus institutions, IMF and World Bank, as well as the European Union (EU) played a crucial role in the transition process of Hungary and Poland (Babb 2013: 268; Gore 2000: 790; Appel/Orenstein 2018: 21–23). The reforms 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 Lee 2006: 754). EU membership negotiations also set in motion the deregulation and flexibilization of labor markets as well as the privatization of pension and health-care systems and strategically important sectors such as finance or telecommunications (Feldmann 2004: 273; Toplišek 2020: 390–392).

In this process, both countries became very popular FDI locations (Günther/Kristalova 2016: 99; Appel/Orenstein 2018: 24). Appel/Orenstein (2018: 25–29) argue that the huge demand for capital drove the countries of Eastern Europe into competition with each other for FDI, causing them to introduce more and more reforms, sometimes even going beyond the demands of the IMF, the World Bank, or the EU.

### 3.1 Demand and growth regime development: 2000–2008

These above-mentioned circumstances led to both the Hungarian and the Polish economy quickly entering an upswing at the beginning of the 1990s. 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 per cent (Table 2). The recovery of the Polish economy began in 1992, and the country was able to show GDP growth averaging 4.1 per cent annually between 2000 and 2008 (Dymarski 2015: 11; IMF 2022b) (Table 2). Labor productivity increased rapidly, but at the same time the share of wages in GDP decreased since the 1990s (Ibid.: 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 per cent in 2000 but rose by 20 percentage points in the year after the EU accession (World Bank 2022a). Even though the percentage changes in Polish net FDI inflows are smaller compared to that of Hungary, a comparison of the absolute figures also shows a significant increase here, especially since 2004 (World Bank 2022b, 2022c).

The categorization of the Hungarian and Polish growth regimes is not quite straightforward, but despite the slightly negative financial balances of households, both can be classified in the group of domestic demand-led countries (cf. Table 2 and Section 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 between 2000–2008 was 19.97 per cent (as a share of GDP), while it was as low as 15.71 per cent 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: 14) 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 matured DDL countries like France.

The favorable investment climate created by the economic 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

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

Average values for the respective periods	Hungary		Poland	
	2000–2008	2009–2019	2000–2008	2009–2019
Real GDP growth (in %)	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 %	–6.17	–2.96	–4.17	–3.52
Sectoral financial balance as a share of nominal GDP of the external sector, in %	7.49	–1.33	4.56	2.40
Sectoral financial balance as a share of nominal GDP of the private sector, in %	–1.33	4.29	–0.38	1.12
Regime	DDL	ELM	DDL	WEL

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

the social and economic upgrading of the Hungarian and Polish economies. While the development of new technologies occurred mainly in other industrialized countries, both post-communist economies had to work mainly with the 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). Therefore, the neoliberal transformation process, combined with the post-communist low productivity of the domestic labor force as well as the poor competitiveness in international comparison, led to deep current account deficits. Economic growth was thus dependent on domestic demand, which was additionally boosted by the rising disposable household income (Statista 2021a, 2021b).

#### 4 GROWTH REGIMES OF HUNGARY AND POLAND: 2009–2019

In many ways, the GFC was a turning point for both countries, leading to the emergence of new economic and political ideas (Barber 2015). The crisis quickly spilled over due to the sudden stop of capital inflows, hitting Hungary particularly hard as the country was heavily indebted in foreign currency in the private and the public sectors (Orenstein/Bugarić 2020: 4). This indebtedness increased the instability of the Hungarian financial system, leading Hungary to being 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 accorded less importance 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 dropped (World Bank 2022d, 2022f).

In the elections after the crisis, the right-wing populist parties Fidesz and PiS managed to grasp power from the previously ruling parties (Huthmacher 2010: 1; Marcinkiewicz 2016: 466; Tagesschau 2022a). Many people were dissatisfied with the politics of the established parties during and after the crisis (Appel/Orenstein 2018: 29–31). The economic problems triggered by GFC not only led to discussions in the field of economic policy, but also to disputes in the social and cultural spheres. The right-wing populist parties offered convincing alternative answers to the economic and social concerns of the people (Funke et al. 2016; Bugarič 2019: 610; Orenstein/Bugarič 2020: 6) and marketed themselves as protectors of traditional Western values (cf. cultural backlash theory, Inglehart/Norris 2016: 2). They promised voters economic self-governance and the protection of the ordinary people and workers (Bugarič 2019: 612; Bluhm/Varga 2020: 14; Orenstein/Bugarič 2020: 6).

#### 4.1 Hungary and Fidesz

The discontent of the Hungarian population caused by the GFC, the ensuing recession, and the related austerity measures demanded by IMF and EU helped Fidesz in the 2010 election as party leader Victor Orbán blamed these institutions for Hungary's problems (Orenstein/Bugarič 2020: 6–7, Johnson/Barnes 2015: 535). Fidesz emerged as the clear winner in the 2010 Hungarian elections, receiving almost 53 per cent of the votes, replacing the Socialist Party (MSZP), which had been in government for eight years. According to Huthmacher (2010: 1), this election fundamentally changed Hungary's political landscape. The two-thirds majority won by Fidesz enabled them furthermore 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).

The theoretical framework of Rodrik (2021) presented in Section 2 can be well applied here to Hungary. The economic problems in the country following the GFC triggered the rise of right-wing populism in different ways (Ibid.). Gyöngyösi/Verner (2022) point to the important role of the crisis-induced increase in household debt in the rise of Hungarian populism. They show that the share of votes for extreme right-wing parties increased significantly in areas that had a high share of household foreign currency loans in 2008 (Ibid.: 2472). Viktor Orbán shifted Fidesz's originally moderate program further to the right, winning the 2010 elections with a populist agenda (Guriey/Papaioannou 2022: 785).

##### 4.1.1 *The economic politics of Fidesz since 2010*

To distinguish his economic strategy from the Western neoliberalism implemented earlier, Orbán called his approach 'east wind' (Orenstein/Bugarič 2020: 7), focusing on regaining control over the Hungarian economy. To this end, sectoral taxes were introduced, and certain companies were nationalized in sectors that were previously mainly foreign-owned, such as energy, telecommunications, and the financial sector (Orenstein/Bugarič 2020: 7; Bohle/Regan 2021: 91; Toplišek 2020: 395). However, Bohle/Regan (2021: 91) emphasize the 'selective character' of Hungarian economic nationalism, as



FDI is still very welcome in certain sectors and attracted by generous incentives (Toplišek 2020: 396).

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). While they ensured the emancipation of the domestic capitalists with their economic nationalism, 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).

To further limit the power of international companies and organizations, ‘near-to-Fidesz compan[ies]’ (Kornai 2015: 38) were established by replacing the former owners with party supporters. Increasingly, all public institutions, as well as a growing part of the economy, have come under the control of the state (Fabry 2019: 135–136). Orbán’s government has also introduced unorthodox and national measures to control government deficits and debt, reducing the influence of international institutions (Johnson/Barnes 2015: 535). In addition, Fidesz uses its social policies to support its conservative nationalist ideology. The Orbán government created several financial incentives for large working families to increase Hungarian birth rates (Orenstein/Bugarič 2020: 8; Fabry 2019: 135). While the minimum wage has been significantly increased (Toplišek 2020: 395–396), a new labor law allows more flexibility and deregulation in labor relations and restricts the right to strike. Support for the unemployed and poor is very low and based on a punitive and exploitative workfare program (Fabry 2019: 135–136).

#### *4.1.2 Macroeconomic policies regime analysis*

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

Similar to the European Central Bank (ECB), the Hungarian National Bank’s aim is price stability, for which it uses inflation targeting since 2001 to achieve it (MNB 2022). Monetary policy changed from being expansionary in 2000–2008 to contractionary in 2009–2019, with a positive difference between the long-term interest rate and real GDP growth. However, since 2013, the previous Minister of National Economy, György Matolcsy, has been pursuing a looser monetary policy to stimulate the economy and promote lending. For this purpose, the key interest rate was gradually lowered from 7 per cent to 1 per cent in 2016 (Toplišek 2020: 395) so that monetary policy appears to return to the expansionary stance. Furthermore, 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 was reduced and has moved closer to the target of 3 per cent (MNB 2022). However, the decline in the inflation rate went hand in hand with a decrease in the labor income share. While it increased in comparison to the period between 2000 and 2008, it fell on average to 46 per cent between 2009 and 2019 (Tables 3 and 4). Due to the numerous structural reforms in the labor market, wage policy changed from being more expansionary to contractionary and became deflationary: the nominal growth of unit labor costs was negative (Tables 3 and 4).

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

Average values for the respective periods	Hungary		Poland	
	2000–2008	2009–2019	2000–2008	2009–2019
Monetary Policy				
Short-term real interest rate (in %)	2.79	0.37	5.11	1.13
Long-term real interest rate (in %)	1.26	1.95	3.86	2.30
Long-term real interest rate minus real GDP growth, in percentage points	–2.29	0.02	–0.27	–1.29
Wage Policy				
Nominal unit labor costs, annual growth (in %)	6.65	–0.04	4.16	–0.06
Inflation rate (HCPI) (in %)	6.36	2.65	3.54	1.74
Labor income share (in %)	50.11	46.55	52.39	48.23
Change in labor income share from previous decade (percentage points)	0.48	–3.56	–5.90	–4.16
Fiscal Policy				
Cyclical adjusted budget balance (CBR) (as percentage of potential GDP), annual change, in percentage points	–6.97	–2.49	–3.85	–3.72
Output gap (as percentage of potential GDP), annual change, in percentage points	2.92	–1.63	–0.18	0.18
Number of years with pro-cyclical fiscal policy	7	2	4	8
Public investment in % of GDP	4.09	4.53	4.09	4.53
Open Economy				
Change in real effective exchange rate, vis-à-vis 37 industrial countries (in %)	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); author's own calculations and presentation; based on Hein/Martschin (2021).

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 countercyclical in all years except in 2018 and 2019. The high public-investment–GDP ratio has remained the same though. 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).

With regard to economic openness, the importance of foreign trade for the Hungarian economy has increased significantly (Table 4). Hungary had experienced a small

*Table 4 Macroeconomic policy regimes 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

*Notes:*

MP: Monetary Policy

+ Negative real long-term interest rate-real GDP growth differential

– Positive real long-term interest rate-real GDP growth differential

WP: 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

FP: 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

OE: 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); author's own calculations and presentation based on Hein/Martschin (2021: 23).

depreciation of its currency in the period between 2009 and 2019. This improved the competitiveness of the Hungarian economy in international comparison, which is also reflected in a significant rise in net exports as a share of GDP. Additionally, Hungary's non-price competitiveness was also enhanced (see OEC index, Table 3). While exports became increasingly important, benefiting from improved international prices as well as non-price competitiveness, the impact of the GFC and related austerity measures, such as rising long-term real interest rates and declining labor income shares, have weakened domestic demand.

#### 4.1.3 Growth regime of Hungary

Hungary's growth regime changed significantly after the GFC. The old domestic-demand-led and FDI-dependent model had proven to be no longer sustainable. As shown in Table 2, growth rates in Hungary, which were remarkably high before the crisis, declined significantly in the post-crisis period. Hungary slid into a deep recession of –6.6 per cent in 2009 and experienced a second recession in the wake of the eurozone crisis in 2012. It was not until 2014 that the country was able to return to higher growth

rates (World Bank 2022e). The Hungarian population demanded change and therefore elected a party in 2010 that promised economic and political changes. Fidesz's policies changed the country's macroeconomic policy strategy, as explained in the previous section, which in turn affected the growth model of the Hungarian economy.

As described in Section 4.1.1, Hungary increased state intervention in some areas and, at the same time, made labor and tax laws more flexible and liberalized them. Favorable taxes for certain companies in certain sectors and low wages promoted the country's international competitiveness and export performance. Through its own independent monetary policy, it was able to devalue its currencies, providing additional support for the export sector. As Table 2 shows, Hungary was thus able to turn its high current account deficit and private sector deficit into a surplus and also reduce public sector deficits. The contribution of domestic demand, especially private consumption, continued to be significant for economic growth but became less important despite the focus on economic nationalism, as only part of the Hungarian population really benefited from the policies of the right-wing populist party, i.e., the national bourgeoisie. At the same time, the importance of the balance of goods and services has increased significantly (Table 2). Hungary can be therefore classified as an export-oriented mercantilist regime in the period between 2009 and 2019.

## 4.2 Poland and PiS

In 2015, significant political change also began in Poland, with a change in the ruling party and in the presidency (Marcinkiewicz 2016: 464). Although the centrist-liberal Civic Platform (PO) had led Poland through the economic crisis quite smoothly, many people were dissatisfied with its policies and felt abandoned (Orenstein/Bugarič 2020: 10). With its new political vision, PiS won the two major elections of 2015. In May, PiS candidate Andrzej Duda overthrew PO-backed candidate Bronisław Komorowski in the Polish presidential election. PiS then won 37.58 per cent of the vote in the October parliamentary elections, giving it an absolute majority in the Sejm (Szczerbak 2016: 409, 415–417).

PiS had already governed in 2005 in a coalition of nationalist and agrarian populist parties, but it broke apart as early as 2007. Thereafter, the party's program and rhetoric became increasingly nationalistic and populist, which was particularly well received by the rural and small-town population (Gromadzki et al. 2022: 6). The party skillfully combined generous social promises with national pride-based rhetoric and the clever use of social media. The promised income-independent child benefit was very important, but the refugee crisis also became a theme of their campaigns (Marcinkiewicz 2016: 465–466, 474).

Moreover, the treatment of around 575,000 households that had mortgages denominated in Swiss francs was an important issue in the election campaign. Following the Swiss National Bank's decision in January 2015 to revalue the franc, these households had suffered substantial losses. Ahlquist et al. (2020) see this as a purely exogenous shock, as trade and financial linkages between Poland and Switzerland are generally very low. The right-wing PiS advocated generous bailouts, which meant that voters with foreign currency loans were more likely to vote for the PiS than those without Swiss franc loans (Ahlquist et al. 2020: 904). Ahlquist et al.'s paper illustrates the relationship between international shocks, voters' policy preferences and decisions, as well as changes in party programs as shown in the framework of Rodrik (2021). The interplay of various globalization shocks (GFC, refugee crisis, and Swiss franc revaluation) supported the rise of populism in Poland.

#### 4.2.1 *The economic politics of PiS since 2015*

In many respects, Poland has followed Hungary's path since 2015, but unlike Hungary, Poland focuses less on redistribution from the bottom up (Scheiring 2021: 184). In economic terms, PiS policies focus on re-industrialization and 're-Polonization' of the economy (Miszterak/Rohac 2017; Toplišek 2020: 393; Akcay/Jungmann 2022: 16–20). While Poland's Prime Minister Morawiecki dismisses Statism himself, he aims to reduce Poland's dependence on foreign investors and criticizes sheer reliance on free-market strategies (Morawiecki 2016: 10; Naczyk 2021: 5). The most important part of the Polish growth strategy is the 'Responsible Development Plan' of 2016, which focuses on a 'national capitalism' and aims to make the Polish growth model more sustainable and the distribution of income fairer (Morawiecki 2016: 10; Ministry of Investment and Development 2016: 6). PiS rejected the old privatization agenda and introduced a levy on the banking and insurance sectors in 2016. It increased state control over the domestic banking sector as well. The domestic energy sector was hedged by the state, with the state-owned PGE buying the assets of France's EDF and then strengthening 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).

In line with its conservative-nationalist goals of protecting the Polish nation and the traditional Polish family and workers, PiS introduced the promised new social program for families (Family 500+) (Orenstein/Bugarič 2020: 10–11). This program was and remains very popular, providing an unconditional monthly payment for children under 18 of about \$125 (Gromadzki et al. 2022: 1–2). It 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 et al. (2022) showed how this cash transfer then also led to a significant increase in the share of votes for PiS in the October 2019 parliamentary elections (Gromadzki et al. 2022: 2).

#### 4.2.2 *Macroeconomic policies regime analysis*

This policy shift has led to some changes in macroeconomic policy regime, comparing the periods of 2000 to 2008 and 2009 to 2019, even if these changes in Poland are much smaller than in Hungary.

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 National Bank of Poland (Narodowy Bank Polski) is price stability, which it intends to achieve through direct inflation targeting (NBP 2022). Inflation in Poland has fallen on average since 2008 and was even below the target of 2.5 per cent 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 per cent (Toplišek 2020: 395).

Furthermore, Poland recorded declining income shares of the labor force. The Polish wage policy was contractionary in the period from 2009 to 2019, as in the previous period. The fiscal policy continued to be expansionary, although no longer mainly counter-cyclical, but predominantly pro-cyclical (Tables 3 and 4). 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 in this respect (Toplišek 2020: 395).

The biggest changes could be observed regarding the openness of the economy. 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 have been 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).

#### 4.2.3 *Growth regime of Poland*

As in Hungary, the GFC had triggered many changes in Poland. Although the country did not slip into a post-crisis recession, average real GDP growth fell to only 3.59 per cent (Table 2; World Bank 2022d). PiS began to reform the Polish economy after its election victory in 2015, as shown in Section 4.2.1. The impact of these policies was less dramatic than in Hungary, as the orientation did not change in all areas, as shown in Section 4.2.2. No major changes could be identified in monetary, wage, and fiscal policies compared to the pre-GFC period. Only the openness of the economy changed significantly (see Tables 3 and 4). PiS policies supported domestic companies in the export sector in particular. In addition, monetary policy, which devalued the country's own currencies, had a positive effect on the development of the export sector.

As a result, Poland reduced its current account and public deficit. The private sector even went into a surplus. As Table 2 shows, private consumption continues to be very important in Poland. The PiS's chauvinist welfare program, especially the generous child benefit program, has provided many households with a substantial increase in income. As a result, domestic demand remains strong, and Poland is now classified as a WEL despite the growing importance of the export sector (Tables 2 and 3). It is important to note that this development was already evident in the last years of the previous Civic Platform (*Platforma Obywatelska*, PO) government, so PiS policies cannot be held solely responsible for these changes. However, this party has been a particular driving force behind the economic changes.

## 5 CONCLUSION

As a catalyst for change, the GFC brought forward new economic and political ideas (Barber 2015). As Rodrik explained in his framework from 2021, this economic dislocation has led to changes in the political landscape of Hungary and Poland through various channels. On the demand side, large parts of the electorate were dissatisfied with the status quo after the global economic crisis had exposed the weaknesses of the old growth models in both countries. In addition, the refugee crisis around 2015 had a particularly strong impact in Poland in the cultural identity sphere, further strengthening right-wing populist tendencies. On the supply side, the two right-wing populist parties moved their party programs further to the right and offered voters convincing alternative answers to their grievances.

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, both parties made a remarkable and successful U-turn. They developed new economic policy programs that focused more on economic nationalism and strengthened the role of the state (Orenstein/Bugarič 2020: 2; Toplišek 2020: 393). Especially in strategically important sectors, they continue to pursue

the goal to reduce foreign influence. In other sectors, however, they encouraged further FDI and liberalized and flexibilized labor and tax systems in particular. In addition, the persistence of relatively low wages and a monetary policy that devalued the countries' own currencies strengthened their international competitiveness and export sectors.

Economic policies in the two countries after the GFC subsequently 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 (Sections 3 and 4). Since then, net exports have generally gained importance as a growth factor in both countries. Hungary can be classified as an ELM regime in the period between 2009 and 2019, while Poland is a WEL regime, as private consumption remains important. The right-wing populist regimes in Hungary and Poland have been able to impose major changes in the social, economic, and political spheres. So far, while the consequences have been somewhat more pronounced in Hungary than in Poland, the crisis has also hit the former harder, and in the latter, PiS has been in power only since 2015.

Nevertheless, both countries continue to operate within a global, largely neoliberal system and are members of the EU. This binds them to certain economic and political prescriptions that have halted some authoritarian and anti-democratic developments. This became clear recently in respect to the Covid-19 pandemic, as the European Commission tied the disbursement of financial aid to the implementation of certain conditions (Europäische Union 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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