**CHAPTER I**

**THE POLITICAL ECONOMIC STRATEGIES OF THE PARTIES FOR HEGEMONIC SURVIVAL ACROSS COUNTRY CASES: HUNGARY, POLAND AND MEXICO**

**Introduction**

The aim of this chapter to present a comparative framework of political economic strategies of different parties whose strategies and practices produce hegemony and let them remain in power with successive election victories. Deep comparative analysis of the political economy approaches of these parties for their hegemonic survival, will help better understand the dynamics of hegemonic survival of the AKP. To this end, this chapter provides a comparative framework by looking at the studies on Hungary (Fidesz), Poland (Law and Justice Party-PiS) and Mexico (Institutional Revolutionary Party-PRI) with a particular emphasis on political economy strategies and practices of these parties have been reviewed.

As contemporary examples of hegemonic (or, to-be hegemonic) parties which have frequently been compared with the AKP, with regards to their democratic tradition, institutional structure and the EU linkages, Hungary (Fidesz) and Poland (PiS) cases will provide illuminating comparative insights. Although the hegemonic party character of the PiS is debatable, as it does not meet the longevity criterion, Fidesz can be characterized as hegemonic party based on the criteria discussed in the hegemonic party literature.

The rest of the chapter is structured as follows: The first section begins with an overview of Hungary and Poland cases as contemporary examples. This section will continue by elaborating Hungary and Poland cases separately within a comparative perspective focusing on their financial system, renationalization efforts, development strategies, fiscal, monetary and social policies. The second section will focus on Mexico case as an example of long-lived hegemonic party which provides insights for both hegemonic survival mechanisms and hegemonic demise.

**I.A. Hungary and Poland in Comparative Perspective**

**General Overview**

The literature reached a consensus on democratic backsliding in both Hungary and Poland and try to explain the transformation undergone in these countries (Agh, 2016; Diamond, 2020; Kornai, 2015; Levitsky and Way, 2020; Przybylski, 2018; Scheiring, 2019 and Stanley, 2019). The subsequent electoral victories of Fidesz in Hungary and PiS (Law and Justice Party) in Poland and the consent from different classes despite the democratic backsliding, have taken growing attention in the literature. Hungary and Poland cases have frequently been discussed together with their converging and diverging areas and Fidesz and PiS have often been treated as the populist parties in Central Eastern Europe (CEE). Both countries have frequently been demonstrated as the cases of ‘populism in power’. In this respect, many explanations have been brought regarding the change in formal political sphere. On the other hand, political economy approaches of these parties have also been elaborated in order to understand the parties and their hegemony in a holistic manner.

Along with the country specific features, politic economic models in these countries have been developed against the backdrop of structural factors shaping their transformation such as their past post-socialist economic transitions and its severe economic consequences, their dependent mode of integration into the global economy, regional and global crises affecting regional and global competition and imbalances. During the post-socialist transition period, these countries have adopted neoliberal reforms, massive privatization and they came into prominence with their openness to FDI. Related to this structure, the banking, energy and manufacturing sectors were dominated by the transnational companies (TNC) and led to dependent growth model of these countries.

One line in the literature tend to link the current transformation and populist reaction in Hungary and Poland to the liberal transformation, massive privatizations and increased dependencies of the post-socialist transition period. Following 2008 financial crisis, dried up western capital pouring into CEE countries and austerity measures which brought grievances to the citizens, diminishing leverage of international financial institutions (IFI) and European Union (EU) conditionality and alternative capital sources coming from Russia and China have been among the headings covered in the literature to explain the authoritarian turn in Hungary and Poland. Building on these structural factors, the policies adopted by the Fidesz and PiS have been embraced by the majority and enable them to remain in power successively.

The politic economic transformation underway in these countries have been characterized with renationalization of some strategic sectors such as banking and energy, the pursuit of industrial policy guided by the state and a new welfare regime blended with conservative ideology with family and motherhood emphases. Though Fidesz adopted more workfarist and anti-poor social policy agenda, both built a more conservative social policy encouraging family values, maternity and working. The PiS and the Fidesz have been addressed as the pioneer of this transformation in the CEE countries with their ‘conservative-nationalist’ and ‘developmentalist’ approaches, emphasizing the role of the state in economy (Appel and Orenstein, 2018; Bluhm and Varga, 2020; Bohle and Greskovits, 2019; Bugaric and Orenstein, 2020; Jasiecki, 2019; Johnson and Barnes, 2015 and Toplisek, 2019). The features of the era before Fidesz and PiS came to power and the parties’ pledges along with their important attempts and characteristic features are summarized in Table 1.

**Table 1. Fidesz and PiS Party Promises and Their Important Attempts**

|  |  |  |
| --- | --- | --- |
| **Fidesz and PiS’s Coming to Power** | | **Fidesz and PiS Rule** |
| **Before Fidesz/PiS** | **Party Promises** | **Important Attempts/Features** |
| -foreign-denominated mortgage loans  -austerity measures  -TNC dominated structure  -FDI-dependent growth  -foreign capital domination in many sectors | -neoliberal critique  -anti-austerity  -defying IMF, EU and IFI’s and international finance  -financial nationalist agenda  -role of the state in economy  -national development  -support local enterprises | -renationalization in banking, energy and telecommunication  -nationalist/developmentalist agenda  -privileging domestic capital against international finance  -heterodox socio-economic policy combining unorthodox measures with neoliberal practices  -still encouraging FDI in manufacturing sector, through tax incentives |
| -unfulfilled promises of welfare,  -increased inequalities | -welfare pledges | -workfarist social policy built around conservative moral values |

Some part of the scholars of political economy focusing on state-market dichotomy, have interpreted the transformation that Hungary and Poland have been going through with several concepts such as ‘market-constraining state interventionism’, ‘conservative populism’, ‘state capitalism’, ‘centrally planned capitalism’ ‘counter- neoliberalisation’. While some others within the external-internal duality, highlighting the reconfiguration of the capital structure shifting from foreign capital to national capital and discuss these countries with ‘developmental state’, ‘financial nationalism’, ‘economic nationalism’, ‘ordonationalism’ or ‘national neoliberalism’concepts.

On the other hand, their practices combining several development strategies and political economy practices stretching from developmentalism to neoliberalism, financialization to financial repression led scholars question the true nature of their political economy approaches. For example, their populist character has been opened to debate, and their populist practices, in essence blended with non-populist traditions, interpreted as developmentalism blended with neoliberalism (Bluhm and Varga, 2020). Similarly, their heterodox policies that emerges from the combination of both orthodox and unortohodox practices have been draw attention (Toplisek, 2020).

A group of scholars tend to focus on the essence of the economic logic and they mainly argue that the continued neoliberal framework has only been modified by populist-nationalist conservative parties (Bohle, 2020 and Shields, 2019). In line with this thinking, reconfiguration of capital structure and power bloc within the ongoing neoliberal paradigm has been one approach to Fidesz rule (Scheiring, 2018, 2020). Continued reliance on Western FDI in some sectors (Bohle and Greskovits, 2019 and Scheiring, 2020) and the EU funds for investments have also been emphasized in order to underline continued dependent structure, hence to question the nationalistic discourse of the parties. Indeed, both Fidesz and PiS even before they come to power, were not challenging neoliberal orthodoxy and they even adopting advanced neoliberal approaches (Orenstein and Bugaric, 2020: 4 and Ost, 2018).

The aim of the chapter is neither differentiating between the ‘neoliberalisms’ operating in the world, nor discussing whether the nationalist/developmentalist economic strategies of these parties can be deemed as ‘divergence from neoliberalism’. In other words, identifying whether unorthodox practices challenging neoliberalism push a country out of the neoliberal framework or detecting ‘the new form of neoliberalism’ that has been emerging in the country, is out of the scope of this study. Rather, the focus will be on the strategies and sophisticated economic policies of political parties to sustain their hegemony within the boundaries determined by structural factors, their mode of integration with the global economy and their dependencies.

**I.A.1. Fidesz of Hungary**

Hungary had long been narrated as an exemplary case for successful post-communist transition. However, towards the end of 2000s, economic indicators began to be deteriorated. Hungary turned out to be an indebted country (debt/GDP ratio was 79% in 2009) with steadily increasing current account deficit that reached €5.8 billion in 2006 and 10% unemployment in 2010. Contrary to Poland case, Hungary was among the countries to be bailed out after 2008 crisis, which resulted in austerity measures dictated by the IMF and the EU. As the Hungarians suffered much from austerity measures, Fidesz presented itself as the savior of the country against the IMF and the EU conditions.

Against this backdrop, economic approach of the Fidesz that positioned itself as the defender of the ordinary citizen and well-being of Hungarians against the austerity measures and transnational capital and emphasized national economic freedom and financial sovereignty have been indicated as the key factors behind the Fidesz’ success (Johnson and Barnes, 2015; Orenstein and Bugaric, 2020; Schultz, 2020 and Toplisek, 2019). These antagonisms constituted important dimensions of Fidesz populism.

Since it came to power with super-majority and won two-thirds of parliament seats necessary to make legislative amendments (with its satellite alliance Christian Democratic People's Party) in 2010, Fidesz Government and its political economy approach have been identified with various concepts such as ‘authoritarian populism’ (Rogers, 2019), ‘authoritarian state capitalism’ (Scheiring, 2018), ‘accumulative state’ (Scheiring, 2019, 2020); ‘national neoliberalism’ (Scheiring and Vasile, 2021), ‘financial nationalism’ (Schultz, 2020 and Johson and Barnes, 2015); ‘illiberal hegemony’ (Scheiring and Szombati, 2020); ‘ordonationalism’ (which reflects the nationalistic character of a post-neoliberal regime) or ‘post-neoliberal hegemony’ (Geva, 2021); ‘developmental statism’ (Orenstein and Bugaric, 2020); ‘conservative developmental state/‘conservative neoliberal statism’/economic nationalism’ (Bluhm and Varga, 2020); ‘state capitalism’ (Fabry, 2019; Karas, 2021); ‘authoritarian neoliberalism’ (Fabry, 2019), ‘crony capitalism/post-communist mafia state’ (Magyar, 2016), ‘Orbanomics’ (Johnson and Barnes, 2015); ‘patronage corporatism’ (Olejnik, 2020); ‘electoral autocracy’ (Varieties of Democracy Institute, 2020),‘competitive authoritarianism’ (Bozóki and Hegedűs, 2018; Diamond, 2020 and Levitsky and Way 2020). The ruling party Fidesz has been classified as a ‘hegemonic party’ in a few studies (Agh, 2018 and Lancaster, 2019).

A great number of studies have focused on the political transformation Hungary has undergone since Fidesz has come to power. Altering electoral rules and heavily gerrymandered electoral map, integration of the party with the state apparatus, repression of the opposition, mobilization of the elite hostility and the suppression of the civil society (Diamond, 2020; Levitsky and Way, 2020 and Scheiring, 2020), tightening control over public media and facilitating the expansion of right-wing media oligarchs (Geva, 2021; Puddington, 2017 and Scheiring, 2018, 2020), taking-over universities and culture sector (Geva, 2021), the prevailing conservative intellectuals, think-tanks and media outlets (Buzogany and Varga, 2021) were among the topics regarding the formal politics discussed in the literature explaining durability of Fidesz Government and the political transformation in Hungary. Curtailing authorities of the constitutional court, weakening of separation of powers and oversight bodies with the new constitution which came into effect in 2012 and shrinking of the judicial independence have also been studied in the literature on political transformation in Hungary (Bugaric, 2019; Kelemen, 2020 and Scheiring, 2018).

On the other hand, studying strategies and practices of Fidesz Government from political economy perspective also gives important clues to understand hegemony of the Fidesz Party. Concrete political economic factors in a historical manner should be considered to understand Fidesz’s right-wing turn and its hegemony.

Beginning from late 1990’s, Hungary was characterized with slow economic growth, privatizations, FDI-led dependent structure, transnational companies (TNC) dominated sectors, foreign dominant banking sector privileging TNC’s and foreign dominant financial system rendering small and medium enterprises (SME) in need of finance, enlarging service and financial sector, hence de-industrialization and credit-fuelled consumption, ‘privatized Keynesianism’, unfulfilled promises of welfare system, tight economic conditions of international financial institutions (IFI) and austerity measures. Thus, Fidesz electoral campaigns organized around strong anti-austerity measures, growth promises, national sovereignty-based welfare pledges, financial nationalist agenda, supporting SME’s instead of TNC’s, positioning itself on side of ordinary citizen and local enterprises against austerity measures and TNC’s, defying IFI’s and the EU, appealed to the voters and constituted the center components of Fidesz hegemony (Johnson and Barnes, 2014; Fabry, 2019; Scheiring, 2019, 2020; Schultz, 2020 and Toplisek, 2019).

Financial independence and economic freedom/self-rule emphasis of Fidesz, which often labeled as ‘financial nationalism’ or ‘monetary sovereignty’, has widely been underlined as the source of ongoing support for the party (Geva, 2021; Johnson and Barnes, 2015; Orenstein and Bugaric, 2020; Schultz, 2020). This strategy included critique of the IMF, World Bank and the EU, empowerment of domestic currency, levying on foreign capital in some sectors, protectionist measures for domestic industry and re-nationalization of strategic sectors.

Another line in the literature predicates the hegemonic project of Fidesz Government on its efforts for controlling domestic capital accumulation through capturing the ‘state’, labor flexibilization and workfarist policies, intensifying marketization, financialization of citizens and supporting consumption as a source of social reproduction (Geva, 2021; Fabry, 2019; Scheiring, 2019, 2020, Schultz, 2020). According to Geva, reasserting autonomy from global neoliberal institutions and empowering domestic capital groups against the foreign ones in terms of capital accumulation strategies constituted the components of the post-neoliberal hegemonic project of Orban ruling (2021). Partial neoliberalization, clientelism, racist and patriarchal nationalism and authoritarianism are listed as the features of the post-neoliberal hegemony established by the Orban government (Geva, 2021: 2). Within a neo-Gramscian analysis of Fidesz’ hegemonic strategy, Scheiring and Szombati (2020) argue that, ‘blue-collar workers, post-peasants and sections of domestic capital’ have been incorporated into the ‘illiberal hegemony’ in Hungary.

In order to examine hegemonic survival mechanisms exercised by Fidesz, following sections include investigation of Hungary's financial system, renationalization efforts, state-business relations, fiscal, monetary and social policies since 2010.

**I.A.1.a Financial System**

Financialization in the global markets during 1980’s and search for higher profits of financial enterprises, rendered post-socialist economies of both Hungary and Poland profitable destinations for Western European banks. Besides, Hungary’s policies were shaping around ‘catching up with the West’ idea. These culminated in foreign capital flood into financial sector of Hungary and by 2005, foreign ownership in the banking sector reached 82% of total assets (Bohle, 2014 and Schultz, 2020). Since during the transition period in 1990s, most of the Hungarian banks were acquired by the West European conglomerates within the framework of privatization efforts, effects of 2008 crisis were deeply felt in Hungary (Orenstein and Bugaric, 2020 and Schultz, 2020).

As the mortgage loans swept the Europe, Hungary also experienced housing credit bubble dependent growth model, especially between 2002 and 2010. These hosing credits were extended in foreign currencies, given the high foreign share in banking sector and high interest rates in ‘forint’ loans (Scheiring, 2020 and Schultz, 2020). Most of the housing loans were denominated in Swiss francs and low interest rates (Schultz, 2020). Household debt between 1999 and 2006 increased more than ten times (Scheiring, 2018: 5). By 2007, the average outstanding loans amounted to 94 % of the annual household income (Scheiring, 2018: 5 and Bohle, 2014).

Increased mortgage and car loan bills due to the exchange rate volatility, and subsequent bankruptcies following 2008 crisis were utilized by the right-wing (Schultz, 2020). After Hungary was rescued by 25 billion $ loan package by IFI’s (Tooze, 2018: 230), austerity measures doubled to control the national debt, which prepared the ground for the right-wing economic nationalist parties (Schultz, 2020).

Fidesz pledged to alleviate the fragilities led by the dependent financial structure and subordinate financialization (Ban and Bohle, 2020: 2-4). Indebtedness of households was strongly and significantly associated with the political support for Fidesz during 2010 election (Scheiring, 2018). After Fidesz came to power, a new approach has been adopted in order to alleviate the burden of foreign currency mortgages on households (Ban and Bohle, 2020; Bohle, 2014; Johnson, 2016 and Schultz, 2020) which had been deteriorated after financial crisis in Europe.

To this end, Fidesz forced the banks to convert the foreign currency non-performing mortgages to national currency (forint) (Bohle, 2014; Geva, 2021 and Toplisek, 2019). Some of the mortgage debtors have been given opportunity to repay their loans in a fixed rate which was lower than the market exchange rates; the losses had to be embraced by the foreign banks (Bohle, 2014 and Geva, 2021: 13). The government has strongly pressured the courts to approve its plan to convert foreign-currency mortgages to forints at ‘highly favorable exchange rates, with foreign-owned banks swallowing the difference’ (Johnson, 2016 and Scheppele, 2014). Hence, between 2009 and 2018, indebtedness of households has significantly decreased (Scheiring, 2020: 285).

These mechanisms, which were defined as ‘financial nationalism’ by some scholars, *‘a specific version of economic nationalism emerged as a reaction to 2008 financial crisis; reflecting an economic strategy to receive greater playing field for government in financial matters and to ‘selectively reward economic insiders*’ (Ban and Bohle, 2020; Johnson and Barnes, 2015 and Schultz, 2020) contributed to increasing public support of Fidesz especially from lower income segments (Bohle, 2018) and led Orban to be treated as a populist hero (Geva, 2021: 13). Another facet of this transformation was that the Fidesz Government fostered financialization of citizens to boost consumption and encouraged them to be involved in credit mechanisms by pushing the interest rate cuts (Geva, 2021). Due to the credit expansion enabled by interest rate cuts, Hungary has become the country where house price index has increased the most since 2015 among CEE countries (Karas, 2021: 16).

Indeed, the banks were not central for financing the real sector within FDI-led growth regime of Hungary. Hence, putting pressures on foreign banks, and nationalization of banking sector was not much costly for Hungary (Ban and Bohle, 2020). Besides, transnational banks preferred to fund corporate firms and households instead of non-financial firms and SMEs (Ban and Bohle, 2020; Bohle, 2018; Bouyon and Gangliardi, 2018), which were indeed supported by the Fidesz Government. Thus, Fidesz government preferred to alter the transnational structure of the banking sector and to take more robust steps to control financial system (Ban and Bohle, 2020).

Fidesz has introduced the highest bank levy in the world, and special taxes were levied on insurance companies and other financial services, mostly affecting the large foreign-owned institutions (tax on foreign financial capital) (Ban and Bohle, 2020 and Toplisek, 2019). These moves served to a broader agenda of reconfiguration of capital structure of the banking sector and transformed the financial system into a domestically owned one (Ban and Bohle, 2020). By the end of 2017, the foreign ownership of the banking sector decreased from 80 % to just below 50 %, which was the official objective within ‘Magyarization Agenda’. Two-thirds of the domestic share in the banking sector was owned by the state (Ban and Bohle, 2020). By 2020, domestic control of the banking sector reached to 58,6% , yet state control decreased (European Banking Federation, 2020). After 2015, when the ownership in financial sector has dominantly shifted from foreign to domestic, Fidesz began to lower the tax levy imposed on foreign banks (Ban and Bohle, 2020: 17). This process of increasing domestic control over formerly foreign owned financial institutions has been defined as ‘financial repression’ by some accounts (Ban and Bohle, 2020).

These re-nationalization efforts and taxing practices in banking sector served specific priorities of Fidesz, such as more government leverage and control on Hungarian banks, budget revenues and easy access by domestic firms to finance opportunities (Ban and Bohle, 2020: 12). This strategy of preventing the foreign currency dominated loan structure of the banking sector, supporting the domestic debtors and attacking the high foreign ownership of the banking sector contributed to the support of Fidesz.

On the other hand, empowerment of the domestic capital in non-financial sector by re-nationalization efforts, and growing funding need of the SMEs increased the role of domestic banking sector gave Fidesz more motivation to control the financial sector. These controlling efforts started with re-nationalization of the banks and then culminated in privatization of two thirds of them and delegation to the Fidesz-affiliated groups or Orban’s close friends (Oellerich, 2019). Thus, considerable part of the support has been mobilized through the banks, credit mechanisms, loyal capitalists.

**I.A.1.b Re-nationalization Efforts and State-Business Relations**

***-Re-nationalization efforts***

The key pillars of Fidesz’s economic policy have been identified as re-nationalization of strategic sectors such as energy, banking and domestic labor force activation (György, 2019), which have been interpreted as workfarist social policy by some scholars; (Geva, 2021 and Toplisek, 2019).

During the post-socialist transformation era in Hungary, rapid and extensive privatization process was finalized. Major publicly-owned companies in the energy, manufacturing, food processing and chemistry sectors were privatized in the 1990s (Fabry, 2019; Scheiring, 2019 and Toplisek, 2019). Direct control of the state over economic enterprises has decreased significantly in Hungary between 1998 and 2013. By 2008 financial crisis, Hungary’s scale of state ownership was smaller than the EU average (when compared to the new EU member states in CEE) (Scheiring, 2018).

When 2008-2009 financial crisis hit the Europe, due to the dried-up privatization revenues and low taxation of capital to maintain a competitive environment for foreign investment (the lowest tax among Eastern European countries), fiscal deficits and public debt has reached a critical level in Hungary (Scheiring, 2018: 4). Hence, Orban government has also adopted tailor-made strategies to offset the state expenditures and counter-balance the public debt given the privatized structure of enterprises, and limited funds (Scheiring, 2018). For example, higher education has undergone privatization gradually, which has been reflected in an increase in private tuition fees, especially university tuition costs (Geva, 2021). Orban regime’s more aggressive approach to re-nationalization of privatized companies can be understood as part of its monopolization of state resources efforts.

Fidesz Government increased the state control of the domestic energy sector, which had been dominated by the foreign companies such as ENI and EON before (Isaacs and Molnar, 2017 and Toplisek, 2019). Furthermore, Fidesz nationalized big or small companies in other sectors such as small air transport companies, a mass transportation company (Pécsi Közlekedési Zrt) and the telecommunications company (Antenna Hungaria), small firms in the meat industry, and an automotive company (Toplisek, 2019). In order to facilitate this shift of ownership from TNC’s to domestic companies, Fidesz imposed a ‘crisis tax’ on large businesses in banking, retail, telecommunications, and energy sectors which were dominated by foreign investors (Johnson, 2016).

While these re-nationalization efforts are identified as ‘state capitalism’ by some scholars (Fabry, 2019 and Karas, 2021), or ‘conservative developmental statism’ (Bluhm and Varga, 2020); other define this strategy as ‘national neoliberalism’ underlying its difference from orthodox ("globalist") neoliberalism despite its ongoing neoliberal character (Scheiring and Vasile, 2021).

These re-nationalization attempts have been legitimized with a ‘nationalistic and developmentalist’ outlook and exercised within ‘national economic freedom war’ discourse against the Europe and TNC’s. These attempts, along with the steps taken within the ‘financial nationalism’ contributed to the support of Fidesz and mobilized the masses around this nationalistic approach.

Similar to re-nationalization efforts in financial sector, the ownership in the media sector has been reshaped through the nationalization of foreign-owned media outlets and privatizing them to the Fidesz loyalists (Puddington, 2017 and Scheiring, 2020: 295). The first step of this transformation was putting pressures on foreign-owned media outlets (U.S., German, and Swiss companies), through levying heavy tax burden and forcing them to leave the Hungarian market (Przybylski, 2018: 63). Hence, through the punitive taxes, several foreign owned media outlets exited the Hungarian market (Scheiring, 2020: 276). This practice facilitated the control of the media, political agenda and national communication which enable Fidesz to consolidate its ruling.

***-State-Business Relations***

Instead of statist, top-down approach, Scheiring has brought an explanation to these nationalistic exercises within a Poulantzasian ‘Power Bloc’ approach (2019, 2020). He argued that new domestic capitalist groups, which had been sidelined during the post-socialism transition period when MNC and foreign capital had been prioritized in strategic sectors such as banking, energy and telecommunication, have come to the fore and included into the ‘power bloc’. Fidesz has addressed interests of these new domestic capitalist class by enabling them to be involved in these strategic sectors and facilitating their activities by providing them cheaper labor (Scheiring, 2020). The interest of this nationalist capitalist bourgeoisie has been treated superior to those global capitalist groups (Szelenyi, 2016). Hence this ‘broader social bloc’ was the proponent of the Hungarian ‘national-neoliberalism’ (Scheiring and Vasile, 2021). Scheiring associates emergence of ‘authoritarian capitalism’ in Hungary with the consent and active involvement of this new economic elite (2018: 5). These national capitalists have chosen not to voice criticism and exhibit passive or active loyalty which brought massive accumulation opportunities in return (Scheiring, 2020: 277).

Another facet of this transformation is the enrichment of the new group of capitalists which have close ties to Fidesz or Orban directly. The vacuum arisen by the withdrawal of the foreign private capital has been filled either by the state or this new group of loyal domestic capitalists/national oligarchic dependents by taking over those sectors (Geva, 2021; Rogers, 2019 and Szelenyi, 2016) such as banking, telecommunication and energy. In some sectors state-owned assets are sold to domestic loyal capitalist group which have close connections to Orban and Fidesz. It was reconfiguration of the ownership from foreign capital to national loyalists (Voszka, 2018; Magyar, 2016 and Geva, 2021).

The corrupt nature of the empowerment of domestic entrepreneurs have frequently been discussed (Magyar, 2016 and Puddington, 2017). Leading international media outlets/research centers have reported on high-profile corruption in Hungary, shedding light on the enrichment of Orban’s closest relatives and friends by misusing EU funds (Schering, 2018) and by granting the public procurement contracts to them (Scheiring, 2020). For instance, embourgeoisiement of Orban’s own son-in-law occupied center of the political debates for some time. The son-in-law’s company Elios frequently received EU funds and won public tenders (Geva, 2021). The enrichment of Fidesz/Orban affiliated groups bu the Eu funds has been interpreted as ‘funding autocracy’ (Kelemen, 2020: 490). In the same vein, sale of Hungarian agricultural lands to foreigners was limited by 2013 Land Reform Law. Yet Gonda’s study revealed the massive sale of state-owned lands to oligarchic families which intensified in 2015. For example, in one county 70% of agrarian lands were sold to 27 people close to Fidesz (2019). ‘Crony capitalism’, has been frequently used as the terminology corresponding to the transformation taken place in Hungary (Diamond, 2020 and Puddington, 2017).

Fidesz-affiliated business groups have been empowered and become wealthier through manipulation of laws, tax concessions and procurement contracts. Fidesz have also capitalized on these loyal capitalists by organizing them to financially support its political campaigns, consolidating party supporters within patronage networks and to control the media-outlets. Thus, the enrichment of these loyal capitalist groups has served to the party dominance as well (Diamond, 2020; Magyar, 2016 and Puddington, 2017).

The empowerment and capitalisation of this new group of Hungarian companies contributed to both economic growth and employment. In 2017, investment increased by 17% (Scheiring, 2020: 280). Unemployment began to decrease in particular after 2016 with the help of EU subsidies (Scheiring, 2020:296). The explicit partnership of Orban with Hungarian Chamber of Commerce and Industry to manipulate public procurement tenders and EU funds in order for promotion of local businesses (Naczky, 2021), and increasingly coercive attitude towards the non-allied businessmen (Bohle and Greskovits, 2019 and Scheiring, 2020) has served to the empowerment of selected domestic capitalist group in symbiosis with Fidesz. Punitive taxes, legislation specific to some sectors, utilizing right-wing media for propoganda, excluding some group of businesses from public procurement or state subsidies have become the tools of the transformation Hungary has undergone (Scheiring, 2020: 276).

Thus, ‘the competition state’ of the liberal period, has been replaced with the ‘accumulative state’ which has prioritized the empowerment of the national bourgeoisie, in particular close to Fidesz and Fidesz has supported their accumulation through material benefits or institutional setting. Yet, at the same time in technological sectors, the transnational capital has been encouraged (Scheiring, 2020: 277).

Hence, the new power bloc included political class, political capitalists, national bourgeoisie including the co-opted and emerging ones and transnational capital in particular from German automotive sector (Scheiring, 2020: 294). According to Scheiring, hegemony of this new power bloc has been maintained through ‘authoritarian populism’ and ‘authoritarian institutionalism’ which reflects tilting the political playing field to the benefit of ruling party through election rules, destroying checks and balance, control of media and pressure on judiciary (Scheiring, 2020: 296).

In sum, it’s plausible to argue that, while rise of domestic oligarchic class was dependent upon Fidesz (or Orban), in return this business group became one of the important components of Orban’s supporter base to fortify the hegemonic rule (Geva, 2021: 4).

**I.A.1.c. Development Strategies and Openness to FDI**

FDI-led export-oriented industrialization constituted dependent developmental path of Hungarian economy. 2008 Global crisis led Western capital inflows, which were pouring into Central East European countries until the crisis, dried up and led these countries search for alternative sources; such as domestic capital (public/private) or new FDI route from Russia and China (Buzogany and Varga, 2021; Orenstein and Bugaric, 2020 and Toplisek, 2020). On the other hand, incentives to attract Western FDI remained as the major priority, in strategically selected sectors, such as manufacturing sector, despite the reversals in financial sector (Ban, 2019; Ban and Bohle, 2020:6 and Bohle and Greskovits, 2019). Rather than trade and production, ‘Orbanomics’ gave priority to financial nationalist policies (Johnson and Barnes, 2015: 536).

Yet still, foreign investments significantly decreased between 2009 and 2018, in particular compared to other countries in Central East Europe. New accumulation strategy engineered by Fidesz, enabled Hungary’s growth model become less dependent on transnational capital inflows (Scheiring, 2020: 287-288). Yet, 50% of public investments have been made possible by the EU funds. Besides, most of the total exports have been generated by transnational companies (Scheiring, 2020: 289).

During 1990s and the first decade of 2000, along with the privatizations, service sector and financial sector enlarged and led to de-industrialization of Hungarian economy. This structure also motivated the re-industrialization efforts of Fidesz (Schultz, 2020). Fidesz Government, while on one hand, has taken measures in order to alleviate the Western capital dependent structure of Hungarian economy and has taken bold steps to re-balance the capital structure by re-nationalization efforts, on the other hand, it has continued to encourage competition for new industrial FDI through tax incentives (Ban and Bohle, 2020; Geva, 2021 and Schering, 2020). Contrary to foreign bank capital, which mostly engaged in carry-trade and channel the liquidity to unproductive but profitable instruments such as mortgages, FDIs have brought advantageous to the growth of CEEs embracing FDI-led growth models. Thus, in Hungary, after Fidesz coming to power, FDIs in banking sector have steadily decreased, while in manufacturing, considerably increased (Ban and Bohle, 2020:8-10). Orban bolstered Hungary’s role as a platform for assemblies of technological TNC’s (Scheiring, 2020: 280).

For attracting FDI, the Fidesz Government introduced generous investment incentives, in the form of tax incentives. In this regard, the government lowered the corporate income tax (from 19 to 9 %) in 2017, which was the lowest rate in the EU (Geva, 2021 and Schering, 2018). Besides, advantageous loans with low interest rates, cheap land opportunities along with some extra subsidies for investments greater than 10 million Euro were among the efforts of Fidesz to attract FDI.

These incentives were strategically selected in particular to attract foreign investors that create jobs in Hungary, especially high-skilled manufacturing jobs, in line with the government’s workforce activation prioritization (Orenstein and Bugaric, 2020) and that helps re-industrialization (Toplisek, 2019). For example, FDI coming from German automotive sector has been strategically incentivized (Kelemen, 2020 and Toplisek, 2019). Hence, German capital, R&D activities and technology intensive investments have been supported through incentives in line with the government’s innovation and industrial development ‘Irinyi Plan’. Yet, share of high-tech products in total exports almost halved during Fidesz Government between 2010 and 2016 due to the high share of cars and automotive parts in exports (Scheiring, 2020: 290).

Aside from dependency on Western automotive sector, Hungary also became dependent on China’s commodities and Russian energy (Geva, 2021: 16). The portion of FDI coming from China and Russia has been increased in line with Hungarian ‘Eastern Opening’ strategy aiming at reducing economic dependence on Western European investors. This rapproachment with Russia and China has been legitimized with balancing the reliance on Western capital and presented as serving to the national interests of the Hungarian economy. ‘Thickening of populist practices’ in CEEC has often been linked to the FDI opportunities coming from the Eastern countries such as Russia and China. It has been indicated that CEEC populists have sought to develop a national capitalist class, while balancing reliance on Western capital through closer economic relations with authoritarian countries (Orenstein and Bugaric, 2020.) These alternative sources have provided an upper hand for Fidesz government as well (Jacoby and Korkut, 2016 and Toplisek, 2020).

**I.A.1.d. Fiscal and Monetary Policy**

***-Fiscal Policy***

Fidesz government has embraced fiscal discipline, yet defended a fiscal discipline in their own national path, rejecting the conditionality of the IMF. The government has followed a ‘Structural Reform Programme’ between 2011 and 2014. Consequently, sovereign debt ratios decreased considerably from 79.7% in 2011 to 73.9% in 2016 and 70.9% in 2019 (György, 2019: 216–218). Following to pandemic, it increased to 80.4 % in 2020 (Trading Economics, 2022).

Fidesz government has introduced a flat income tax of 15% and VAT of 27% in 2012 which is the highest in the Europe, enabling the government to receive revenues from consumption (Bluhm and Varga, 2020; Geva, 2021:13). Government budget deficit has been sustained at a level below 3 % of GDP and has roughly halved between 2010 and 2018. Between 2010 and 2018, growth has almost quadrupled and Hungary recorded 2.5% growth rate per year, though it was lower than the Poland’s growth figure (3.6%). Export-oriented manufacturing TNC’s increasing assemblies in East Central Europe contributed to this growth figures (György, 2019: 216–218 and Scheiring, 2020: 279).

Flexibilization of the labor market was also another factor attracting the FDI (Geva, 2021 and Schering, 2018). Given the limitations on migration into national borders, ‘native’ (white) labor has been flexibilized (Gagyi and Gerocs, 2019), which consequently led to out-migration of Hungarian labor force to the EU and labor shortages in Hungary (Scheiring, 2020; Geva, 2021). This labor shortage led to wage increases in particular after 2016. The increase in the real wages have been enabled through the tax cuts in income tax and taxation of foreign capital. The government has also broadened the tax base, causing an additional %2.5–3.0 of GDP to flow to the household sector (György, 2019: 216–218).

On the other hand, both health and education expenditures decreased between 2009 and 2018. Public healthcare expenditures decreased from 5.2% of GDP in 2009, to 4.7% in 2018, which is the lowest level in Central Eastern European countries (Scheiring, 2020: 270-271). Withdrawal of resources from education and health indeed decrease the capacity of developmental state (Scheiring, 2020: 294).

In fiscal policy realm, another attempt providing a larger playing field to the government has been the elimination of the independent ‘Fiscal Council’ responsible for overseeing budgetary policy, and replacement it with a new council under Fidesz control (Puddington, 2017).

***-Monetary Policy***

One advantage of Hungary has been staying outside the Eurozone, which has left the Fidesz more room for policy making. Yet Hungary was still taking the advantage of the EU membership such as receiving EU funds. Thus, Fidesz managed to avoid from the requirements of the monetary union and capitalized on the EU funds. Fidesz government managed to maintain 3% medium-term inflation target, during the period when diminishing liquidity glut has brought dire economic conditions and the Eurozone has been experiencing an economic crisis.

Despite many criticisms from the European Commission, Fidesz Government undermined independence of the National Bank of Hungary (MNB) from government (Ban and Bohle, 2020; Schering, 2018 and Schultz, 2020). From the very beginning, Andras Simor, the previous governor of the MNB had been criticized for allowing foreign currency loans and hesitating to reduce the interest rates and for not taking bold initiatives such as ‘quantitative easing’ to stimulate the economy. As the initial step, Fidesz changed central bank legislation paving the way for selection of four external members to the MNB Board by the parliament instead of the MNB itself.

The next step was replacing Simor with György Matolcsy in 2013, who was Orban’s Government Minister of Economy, and had an explicit monetary easing agenda, emphasizing the centrality of ‘forint’ and an explicit anti-euro stance, in line with Orban’s nationalistic monetary policy (Schultz, 2020; Scheiring, 2020 and Geva, 2021). The ‘expansionary monetary policy’, diminishing interest rates for cheap loans and weak forint to encourage exports, have been facilitated by the appointment of Matolcsy as the governor of Hungarian National Bank (MNB) after 2013. The key interest rate has gradually been reduced from 7 % to 1 % in 2016. These developments have encouraged lending and stimulated the economy (Scheiring, 2020: 268).

Since, most of the Hungarian businesses are SMEs, (Scheiring, 2020: 291), MNB under Governorship of Matolcsy introduced policies like ‘Funding for Growth Program’ and the ‘Market-Based Lending Scheme’ which have included monetary stimulus measures to support SMEs in access to credit opportunities. Based on these programs, the MNB granted loans to commercial banks with zero interest, and then the banks extended credits to the SMEs with %2,5 rates (Toplisek, 2020; Ban and Bohle, 2020; Scheiring, 2020: 269; Johnson, 2016). This has reversed the sharp squeeze of loans to SME’s due to the credit crunch triggered by the global crisis and contributed to new investments in Hungary (Ban and Bohle, 2020). With these developments MNB has moved away from its original price stability mission and transformed into an investment supporter organ, thus a development agency (Sebök, 2018). Hence, the role of the MNB in credit mechanisms has been redefined.

A study by Ban and Bohle (2020) focusing on ‘the effects of economic nationalism on lending to SME and sovereign bond spreads’ has revealed that share of SME loans in total business loans has increased 12.9% between 2010 and 2018 and interest rate on SME loans has decreased 72.6% (OECD Financing SMEs and Entrepreneurs, 2014 and 2019).

Within the public debt monetization program (Self-Financing Scheme), foreign denominated debt of the government was replaced with domestic debt. The MNB forced the domestic banks to fund the government through purchasing state bonds and T-bills, with lower interest rates. 10-year sovereign bond yield decreased 58.6% between 2010 and 2018 (Ban and Bohle, 2020: 12-18).

On the other hand, net financial assets of the households increased by almost 65% between 2009 and 2017 yet with a deteriorated income inequality. While the lower groups only had bank deposit or cash, 88% of bonds, stocks and derivatives were held by top income group and value of securities significantly increased compared to the value of bank deposit or cash. Hence, the wealth of top 10% of income group has significantly increased, which reflects that only upper classes utilized the mechanisms of the accumulative state. Scheiring describes these as ‘socialism for the rich and capitalism for the poor’ (Scheiring, 2020: 293).

**I.A.1.e. Social Policy**

Fidesz period has been characterized with its workfarist agenda flexibilizing the labor market. The social policy of Fidesz has been reshaped through encouragement of working and motherhood. Despite Fidesz’ pledges to end the austerity measures and reinforce the welfare implementations, the practice was supporting the working and deserving segments of the society, yet hitting the ‘undeserving and unskilled’ (Bohle, 2014, 2018; Szikra, 2014, 2018 and Scheiring, 2020: 294).

With 2011 amendments in constitution, the reference to social rights was replaced with various conservative references, such as reference to citizens’ moral responsibility to work (Scheiring, 2018). In line with its workfarist agenda, the retirement age was increased and school-leaving age was reduced (Scheiring, 2020: 279).

In line with its social policy prioritizing ‘working group’, unemployment insurance has been reduced and compensation paid to low-income groups was eliminated. Instead, ‘public works programme’ has been introduced with eligibility criteria for social assistance and increased employment rate of low-educated people in particular for the first few years of Fidesz government (Scheiring, 2020: 278). Active labour market policies have been replaced with a public works programme, which pays at 70% of the national minimum wage and is tied to eligibility for social assistance (Scheiring, 2018 and Vidra, 2018). According to World Bank data (2020), labour force participation rate 10% increased between 2009-2017. Partly due to the ‘public works program’, total number of employees considerably increased between 2009 and 2019 (Scheiring, 2020: 277-278).

On the other hand, the minimum wages have been increased considerably (19% in the first two years of Fidesz ruling). Mostly due to the labor shortage led by out-migration (Scheiring, 2020:281), net real wages increased by %59 between 2010 and 2018 (György, 2019:216–218). As another remedy to the labor shortage caused by out-migration, through the amendments to the previous Labor Code, Fidesz considerably increased the maximum yearly working hours per person and allow companies to postpone payments up to three years (Scheiring, 2020: 275). These amendments have been called as ‘slave law’ and led to protests (Gagyi and Gerőcs 2019 and Scheiring and Szombati, 2019).

Fidesz government’s workfarist approach has been associated with ‘redistributing welfare benefits to economically and biologically ‘productive’ families, and withdrawing support from ‘unproductive’ citizens’ (Szombati, 2018 and Vidra, 2018). This social policy selectivity indeed complies with its commitment to empower upper-middle class, instead of poor segments of the society. Though, it is claiming to represent all social classes, the measures of Fidesz were benefited by the big businesses, while poor segments and working class were alienated (Scheiring, 2020:294). Hence, the income inequality has steadily increased in Hungary between 2009-2018 (Eurostat-2020, Scheiring, 2020: 281).

On the other hand, its anti-poor stance has found its expression in the criminalization of homelessness in Hungary in 2012 (Geva, 2021: 13). Besides, in 2018 a legislative amendment was passed in the Parliament which criminalized living in public spaces (Fabry, 2019 and Geva, 2021). According to OECD 2016 report, poverty has increased in Hungary. Public health expenditures per capita in Hungary corresponds to only half of the EU average (Geva, 2021: 12).

Instead of supporting the poor segments of the society within social policy realm, Fidesz has prioritized commodifying them in the market (Fabry, 2019 and Geva, 2021). Orban’s consumer price interventions made the consumption very cheap for rural-peasant workers which contributed to support base of Fidesz (Geva, 2021 and Szombati, 2018).

The workfarist social policy of Fidesz prioritizing ‘working and producing’, has been blended with its conservative nationalist approach encouraging Hungarian families to have more children, which would provide domestic labor force instead of immigrant workers (Orenstein and Bugaric, 2020). There have been steps to alleviate the tax burden for working families with two children. Lifetime exemption from personal income tax for women who bear and raise four or more children, ‘childbearing’ loan at discounted rates for marrying women according to the number of children they have, seven-seat automobile for larger families, benefits for grandparents taking care of children, subsidized childcare places have been the incentives for Hungarian families to have more children. As an example of a financialized social policy practice, ‘baby bonds’ opportunities have been granted to the Hungarian citizens having a baby with a reel interest rate of 3%. Marrying under 40 and having children have been promoted through loan opportunities and ‘progressive loan reduction’ or cancellation with the *third child* with 2017 amendments (Geva, 2021: 14).

**I.A.2. Law and Justice Party (PiS) of POLAND**

Poland’s post-communist governments in 1990s and 2000s consistently embraced economic reforms and adopted various political/institutional changes for gaining eligibility to become a member of Western structures such as NATO and the EU. Hence, it became member of NATO in 1999 and the EU in 2004. While on one hand, appreciable economic growth figures had been recorded at the beginning, growth rate slow downed in the average to 2.6 % during 2012-2015, (following 5.5% growth record between 2004 and 2009); and a sizable portion of the Polish people suffered from painful economic reforms. Although GDP per capita significantly increased in the post-communist decades, the income inequality deteriorated especially between 2004 and 2015 (Przybylski, 2018 and Shields, 2019).

Pro-Western and liberal center-right party Civic Platform (PO) had been the dominant force in the Polish politics and remained in power between 2007-2015. Party leader Donald Tusk served two consecutive terms as Prime Minister and was elected as president of the European Council in 2014. Yet, increasing economic grievances of the Polish people due to economic hardships that were aggravated by the effects of 2008-09 financial crisis led the liberals lose the support of the working class and those who felt bypassed by globalization (Przybylski, 2018). Law and Justice Party (PiS) capitalized on this popular discontent.

PiS was founded in 2001 as a ’[centrist](https://en.wikipedia.org/wiki/Centrism" \o "Centrism) [Christian democratic](https://en.wikipedia.org/wiki/Christian_democracy" \o "Christian democracy) party’, however in the following years it leaned towards a conservative right-wing line. Similar to Fidesz, PiS with its ‘conservative’, ‘nationalistic’ approach was critical of neoliberal transition period and emphasized the ‘Polish’ traditions and values instead of liberal democracy and secularism (Bill and Stanley, 2020 and Shields, 2019). PiS won the Presidential and Parliamentary elections in 2005 and assumed power in a coalition until 2007 with Self-Defence and the League of Polish Families parties which were critical of Poland’s neoliberal transition (Shields, 2019: 10).

PiS came to power again in October 2015 with a parliamentary majority by receiving 37,6 % of the votes and 235 seats over 460, in lower house of Polish Parliament (Sejm). It also guaranteed 61 seats over 100 in the Senate. The election results yielded a simple legislative majority for the PiS in the parliament which paved the way for the PiS to make institutional and legislative changes. In 2019 elections, PiS secured the second term of ruling by receiving 43.6 % of the vote. Though it can’t be classified as a ‘hegemonic party’ since it has not fulfilled the longevity criteria discussed in the hegemonic party literature, in various aspects hegemony of PiS in Polish politics has been discussed and frequently compared with Fidesz rule.

Jaroslaw Kaczynski, the leader of the PiS, and who was the Prime Minister of Poland between 2006 and 2007, when his twin brother Lech Kaczynski was President, adopted an unusual way of leadership in controlling the politics, without assuming a governmental position during the PiS ruling between 2015-2020. His influence and control power over the cabinet and Prime Minister Syzdlo (2015-2017), continued behind the scenes and duality in power structure became the new normal of Polish politics. His leadership in Poland was accepted by various countries such as Germany and the US through official visits and meetings in an unusual protocol (Przybylski, 2018: 57-8). In 2020, he assumed the role of deputy prime minister covering a portfolio that includes defence, justice and interior.

Majoritarian understanding of democracy with a ‘sovereign democracy’ emphasis, weakening checks and balance mechanisms through curtailing the power of the legislative assembly and political intervention to the judiciary bodies, assigning PiS appointees to the parliamentary and judiciary bodies, curbing parliamentary debate and avoiding public consultation, adopting legislation after actually breaching it, centralization of political power, more centralized control over local governments, exceptional party discipline, unusual control power of the party leader, reversal of educational reforms (Przybylski, 2018 and Puddington, 2017), creating social-cleavages and polarization injected in a rather un-fragmented society in a top-down manner (Tworzecki, 2018) have been discussed regarding the way of ruling of the PiS Government.

Many authors have argued that Poland draws inspiration from Hungary and mirroring its policies (Bohle, 2018; Orenstein and Bugaric, 2020 and Puddington, 2017) and with PiS government Poland too, has been under significant transformation through legislative and institutional changes (Przybylski, 2018 and Puddington, 2017). In terms of controlling the political scene, PiS resorted many practices such as directly appointing members to the Constitutional Tribunal, exerting pressure over courts and media outlets, repressing the opposition and critical intellectuals, empowering security apparatuses of the state and appointing party loyalists to key positions at security services, controversial anti-terror law. These steps taken by the PiS in order to consolidate its rule have been criticized as culturally conservative and politically illiberal moves (Puddington, 2017: 37-38).

On the other hand, political-economic policies and practices of PiS in order for maintaining and sustaining its hegemony, as the main subject of this chapter, will be discussed in the following. Similar to Fidesz case, the model the PİS government built was identified with several concepts such as ‘conservative developmental statism’ (Bluhm and Varga, 2019 and Orenstein and Bugaric, 2020); ‘illiberal state’ (Buzogony and Varga, 2021); ‘managerial developmentalism’ (Naczyk, 2021); ‘heterodox economic strategy (Toplisek, 2019); ‘patronage corporatism’ (Olejnik, 2020); ‘state capitalism’ (Fabry, 2019); ‘authoritarian neoliberalism’ (Fabry, 2019); recombinant populism/neoliberal hegemony (Shields, 2019); ‘financial repression’ (Ban and Bohle, 2020); ‘conservative redistributionism’ (Bill and Stanley, 2020). PiS Government like Fidesz, has been frequently discussed in the literature as an example of ‘populism in power’ (Buzogany and Varga, 2021 and Toplisek, 2020). The populist reaction in Poland was often tied to the inequalities and extreme form of neoliberal shock therapy of transition period (Shields, 2019).

The very frequent debate on both Poland and Hungary has been the role of the state in economic activity. This has been discussed from various aspects stretching from ‘market interventionism’ and ‘statism’ to ‘the market enforcing role of the state in capitalism’. Mateusz Morawiecki, who was the Minister of Development between 2015 and 2017 and has been serving as Prime Minister since 2017, clearly stated that, rather than statism, they believed in the role of the state in ‘promoting economic modernization’ and took the Asian Tigers as model (Morawiecki, 2016; as cited in Naczyk, 2018).

It is argued that, with PiS, Polish capitalism has been reconfigured around the discourse of ‘Solidarism’. Prime Minister Morawiecki, himself underlined the ‘solidarism’ and ‘social capitalism’, which is pro-social and pro-capital simultaneously, and combines renewed welfare system that includes wider social groups with economic development pioneered by domestic investors (Shields, 2019). With these emphases, he underlined the difference of his economic model from the liberal past though keeping its capital friendly and competitive character. For PiS, it became the means of establishing cross-class alliances and enlarging electoral base.

The pillars of the new growth model developed in Poland, similar to Fidesz’s Hungary, are based on ‘conservative nationalism, family values-sensitive-social policy, workforce activation, taxation of certain foreign businesses, economic sovereignty and welfare chauvinism’ (Orenstein and Bugaric, 2020). Nationalistic, anti-immigrant, Euro-sceptic approach of PiS Government which emphasizes the ‘national sovereignty and economic freedom’ has also demonstrated parallels to the Fidesz of Hungary.

Central components of the PiS policies are conservative political program focusing on moral values based on Christianity of rural Poland (Bluhm and Varga, 2020; Puddington, 2017 and Shields, 2019), effective social policy which targets the wider social groups including both lower and middle income (Ost, 2018; Orenstein and Bugaric, 2020; Rae, 2020 and Shields, 2019) and redirecting the public revenues to social policy programs through taxes, especially for the smaller towns and cities where PiS voters are mostly concentrated (Orenstein and Bugaric, 2020). These policies were crafted to protect the Polish sovereignty and national economy and to cement support for the PiS Government.

PiS support base has been composed of voters in poorer regions and in rural small towns in the southeast, who were neglected and wounded by economic liberalism during the transition period (Ash, 2017 and Przybylski, 2018). Contrary to PO, which received votes mostly from urban areas in the northwest, PiS supporting constituencies were generally small and medium-sized towns of southwest of socioeconomically divided Poland. On the other hand, similar to Fidesz, the middle class was an important part of the electoral base of PiS.

PiS developed and executed economic policies and practices for their support base with the mottos of ‘promising to protect ordinary people from liberal elites’ and ‘economic self-rule’. Its stance against IMF and the EU as the representatives of the neoliberal globalization (Johnson and Barnes, 2015) have appealed to voters. Besides, boom cycle of the economy with high growth rates, rising wages and decreasing unemployment with the help of renewed social policy has contributed to the support of the PiS.

**I.A.2.a Financial System**

Poland which avoided recession after the global financial crisis, among the CEE countries, is said to have more robust economy (Piatkowski, 2018 and Puddington, 2017). Yet still, due to the foreign dominated structure of its financial system, Poland has its own vulnerabilities. Foreign bank ownership was much higher in Poland (75 %) than Hungary (65%) in 2007 (Fabry, 2019: 313 and Hunter 2018) before PiS. This structure makes them more sensitive to boom-bust cycles of the global economy (Appel and Orenstein, 2018 and Shields, 2019). As a response, PiS tried to alleviate the vulnerabilities of the Polish financial system through ‘Re-Polonization of foreign-owned banks’ in Poland.

Besides, debt burden on Polish households increased rapidly after 2008 crisis, due to high share of foreign denominated mortgage loans. Mortgage debt as of GDP corresponded to %12 and %13 in Poland and Hungary respectively in 2007 (Bohle, 2018 and European Mortgage Foundation). The foreign currency denominated mortgage credits had triggering effect on the debt burden of the borrowers. Polish citizens who had to repay their mortgage credits in Swiss Francs experienced financial hardships due to the sudden revaluation of Swiss Franc in 2015 (Ahlquist, Copelovitch, Walter, 2018: 6 and Appel and Orenstein, 2018). Before the 2015 general elections, PiS pledged a bailout plan for foreign currency denominated mortgage debtors. These mortgage debtor citizens were added to the loyal core voter group of PiS and together carried the PiS to the Government. Thus the PiS Government owed to ‘Franc Shock’ and its timely promises for the bail-out for its coming to power. Yet, instead of Fidesz’s radical approach forcing the banks to convert the foreign currency denominated loans into ‘forint’, PiS only introduced ‘new mortgage relief fund’ which facilitated repayments of the debtor Polish citizens to banks (Toplisek, 2020).

Similar to practice of Fidesz, PiS has also introduced a levy on banking sector and insurance companies in 2016, which have been dominated by the large foreign-owned institutions at that time (Toplisek, 2019: 7). State-owned insurance company PZU and the Polish Development Fund together took over Milan-based UniCredit’s subsidiary in Poland (Poland’s second largest bank) in 2017 (Naczyk 2021: 10). By the help of levies and other enforcement, state control in the banking sector has increased from 30% to over 50%, which has been dubbed as ‘Re-Polonization of the banking sector’. By 2020 over 43,6 % of the banks were dominated by foreign capital (2.7% less than 2019) (European Banking Federation, 2020).

Naczyk (2021) highlights the pivotal role of the comprador bankers in re-polonization of foreign-owned banks through the co-optation of state. This re-polonization process, which has been defined as ‘developmentalism’ by some group of scholars, has reshaped state-capital relations through the pivotal role of ‘comprador bankers’ as ‘the central pillars of the social-bloc’. These comprador bankers were the Polish top-managers at Polish subsidiaries of foreign-owned banks before PiS, and they had the ability and channels to influence the government and policies. For example, Jan Krzysztof Bielecki, chief economic adviser to previous Prime Minister Donald Tusk, was the CEO of Poland’s second largest bank Pekao. Most importantly, Prime Minister Mateusz Morawiecki was a former CEO of a very large bank (Bank Zachodni WBK) between 2007 and 2015 (Naczyk, 2021: 10). The central role they played in the re-polonization process, have led some scholars question labeling this transformation as ‘financial nationalism’ (Naczyk, 2021).

**I.A.2.b Re-nationalization Efforts and State-Business Relations**

Similar to Hungary, Poland too has given particular importance to empowerment of the domestic, national capital against foreign capital. The economic program, developed by Prime Minister Morawiecki, was based on five pillars which are: 1. re-industrialization of competitively advantageous sectors, 2. supporting innovation, 3. supporting export, 4. Social regional development, 5. Capital expenditure (Shields, 2019: 10).

Though it was less aggressive compared to Hungary, under ‘the Morawiecki Plan’, the privatization agenda ended and re-polonization efforts have begun to reshape the economic transformation. Within economic agenda of the PiS, along with the banking sector, some strategic sectors such as energy was taken under state ownership (Toplisek, 2019).

For example, the state-owned PGE took over shares of energy sector which was previously owned by EDF (France capital), hence the ownership in the domestic energy sector has been reconfigured. PiS also introduced a turn-over based tax on the retail sector, which was dominated by big foreign-owned supermarket chains. Besides, PiS nationalized 25% assets of private pension funds and the rest of the assets were transferred into new mutual funds (Toplisek, 2019: 7).

Introduction of new taxes for the sectors where the foreign capital has operated, such as retail, banking and energy sector while excluding the German dominated automotive sector was almost same with what Fidesz formulated for the renationalization project in Hungary. This reindustrialization and repolonization strategy have also been formulated as a remedy to middle-income trap (Toplisek, 2019: 6).

On the other hand, the central role that the comprador bankers played in ‘re-polonization process’ were not limited to the banking sector. They also directed and influenced the re-polonization of foreign-owned companies and played important role in establishing developmental institutions (eg. Polish Development Fund) and pushing policies beneficial for domestic enterprises in order to support their growth. Moving forward this background, Naczyk (2021) labels the Poland case as ‘manegerial developmentalism’.

In sum, the transformation that Poland has been going through, which has been seen as ‘national developmentalism’ on the surface, and supposed to address to the losers of the liberal transition period, on the contrary has been guided by the winners of the post-communist transformation period, namely, ‘comprador bankers’. It has constituted one of the paradox of ‘conservative-nationalist PiS’ (Naczyk, 2021).

PiS also has taken steps to reduce foreign ownership of media-outlets which lay the groundwork for the media-control of the PİS government (Puddington, 2017; Przybylski, 2018) through the legal changes targeting “de-concentration of the media” and entrusting them to the ‘strategically selected’, certified “Polish capital” (Przybylski, 2018: 60).

It is argued that both in Hungary and Poland, there are the corruption and the lack of transparency, according to international index. (Puddington, 2017, Diamond, 2020). Yet, contrary to Hungarian case, Poland is less corrupt according to both international index and corruption perception. For instance, while Hungary ranked 66th according to 2017 corruption index, Poland’s level was around 96th (Przybylski, 2018: 61). While Hungary ranked 44th according to corruption perception indexes Poland reached to 56th level in 2020, both ranking higher Turkey’s level at 40th (Transparency International, 2020).

**I.A.2.c. Development Strategies and Openness to FDI**

By 2016, over half of manufacturing sector was dominated by foreign capital. The FDI dependent structure of Poland have rendered many strategic sectors such as mining, ship building and steel weak, when there was not FDI inflows into these sectors, they were not produced by domestic groups and the state did not intervene (Shields, 2019: 10). Through ‘Responsible Development Strategy’, designed within Morawiecki Plan, the production of innovative and high-value added products’ has been supported (Naczky, 2021; Shields, 2019 and Toplisek, 2019).

To this end, the Polish Development Fund has been established in 2016, as a state-owned development agency in order to support developmental companies and economic growth. The Polish Development Fund, has been equipped with authorities such as financing start-ups, providing long-term financing to listed companies via the management of pension funds, monitoring ‘vertical’ industrial policies defined in the 2017 ‘Strategy for Responsible Development’ (the ‘Morawiecki Plan’), and, eventually, managing anti-crisis measures during the COVID-19 pandemic (Naczyk, 2021 and Shields, 2019). To this end, through special economic zone (SEZ) created by the pandemic emergency environment, which has also been introduced in Hungary, an exemption from income tax have been granted for specific companies for a period of 10 or 15 years (Toplisek, 2019).

In the framework of ‘Morawiecki Plan’ which prioritizes the domestic capital, similar to Hungarian case, foreign capital has not been totally sidelined. It has been indicated that, there has also been efforts to attract FDI, in particular in high-value added sectors, strategic for state-owned enterprises (Toplisek, 2019 and Naczky, 2021). Compared to Hungary, in Poland, foreign investment penetration decreased less radical and Poland remained one of the most FDI attracting countries in terms of FDI per GDP ratio, among the Central European Countries (Scheiring, 2020: 288).

Export-driven growth models of both Hungary and Poland, which have been established upon FDI-dependent manufacture sectors have made these countries dependent upon European FDI inflows. Thus, after the crisis, their recovery also relied upon the recovery of the Western members of the EU, unless they seek alternative capital inflows and development paths (Bohle, 2018). Thus, both in Hungary and Poland, aside from the renationalization efforts, there have been attempts and incentives to attract Eastern foreign capital such as China and Russia which reshapes their development strategies as well (Orenstein and Bugaric, 2020). The portion of FDI coming from China and Russia has been increased in both countries. China’s largest trade partner in the CEE region was Poland by 2016 and Poland was the first European country issuing government debt in the Chinese bond market (Kuo 2017 and Toplisek, 2020).

Thus, one aspect of these rapproachment with Russia and China in the forms of either FDI or bond purchase was to balance the reliance on Western capital. Drying up of Western foreign capital since 2008 crisis and foreign capital opportunities coming from authoritarian Eastern countries has precipitated adoption of more statist, developmentalist approaches, and ‘thickening of populist practices’ in both Hungary and Poland (Orenstein and Bugaric, 2020). This transformation has frequently been debated within ‘drifting away neoliberalism’ and that neoliberal economic reforms have been replaced with populist economic policies.

**I.A.2.d. Fiscal and Monetary Policy**

PiS period since 2015 has been characterized with booming economy with high growth rates, rising wages and low unemployment (Shields, 2019:12). Poland’s GDP per capita exceeds Greece and has been approached to Portugal’s figures (Shields, 2020: 11).

Following 2008 crisis, reduced level of FDI, and inadequate financial stimulus packages in the aftermath of the crisis have led budget and public deficits in both Hungary and Poland (Bohle, 2018). A new formulation of reducing the budget deficit through adopting more state capacities has found its expression in Poland as the order of the PiS government state-run companies to reduce or stop dividends payments in order ‘to increase investment and help finance government spending needs’ (Toplisek, 2019: 7).

Although debt/GDP ratio has stayed below 60%, it recorded around 4% rise compared to previous governments’ level, yet later it decreased to 46% in 2019, lower than the previous government figures, and jumped to 57.5% in 2020 after the pandemic (Trading Economics). Despite, the EC report urged Poland, for increasing public spending to fund the election pledges which implies a populist practice, (Toplisek, 2019: 8), fiscal gap remained below the EU target of 3% of GDP both in 2018 and 2019 but reached to 7% in 2020 (Trading Economics, 2020).

Poland too, has experienced the advantage of staying outside the Eurozone, which enabled the PiS more policy room on monetary policy making while on the other hand taking the advantage of the EU membership such as EU funds. A less radical move has taken in Poland with regards to undermining the central bank independence. Yet still, the PiS has appointed Adam Glapiński in 2016 to the central bank NBP as Governor, who previously had assumed former economic advisor to president Lech Kaczyński. Yet contrary to Fidesz, more orthodox monetary policy has been adopted by PiS Government, keeping the key interest rate at 1.5 %, while pursuing the medium-term inflation target at 2.5% (Toplisek, 2019: 8).

**I.A.2.e. Social Policy**

The literature highlights widespread [poverty](https://dailynewshungary.com/the-frightening-reality-of-poverty-in-hungary/" \t "_blank) and increasing inequalities following the establishment of market economies in both Hungary and Poland, and how Fidesz and PiS support financially pressed constituencies within the renewed welfare system and ensure their support (Shields, 2019 and Diamond, 2020).

The PiS government has also taken steps similar to Fidesz in social policy realm in particular with regards to increasing the minimum wages, granting benefits encouraging motherhood and supporting family (Orenstein and Bugaric, 2020 and Toplisek, 2019). Before 2019 elections, minimum wages increased again (Toplisek, 2019). An analogy has been made between practices of PiS and Boris Johnson’s campaign for 2019 elections in terms of their patriotic conservatism, committing additional ‘public spending for social services and higher minimum wage’ (Barber, 2020). Social policy practice granted to domestic citizens yet excluding of immigrants by these populist parties, have also been defined as ‘welfare chauvinism’ (Schumacher and van Kersbergen, 2016).

Toplisek has argued that the PiS government policies has represented more left-wing compared to Fidesz (2019: 2). Morawiecki Plan, emphasizing the ‘social capitalism’ and ‘solidarism’ tried to address the inequalities while keeping Poland competitive and encouraging entrepreneurs (Shields, 2019). His economic model was embodied as ‘Family 500+’ program in social policy realm, which was blended with conservative cultural values.

Similar to Fidesz ‘demographic nationalism’, PiS government too, in compliance with its conservative political program based on creating a culture around family values and building up the Polish nation has introduced ‘Family 500+’ programme which launched in 2016 (Ost, 2018; Shields, 2019; Orenstein and Bugaric, 2020 and Toplisek, 2019). One aspect of the program was addressing to those left behind by the neoliberal program of the previous governments. Another aspect was to find a solution to the labor shortage of Poland due to the low birth rate, which was the lowest in the Europe.

Within the Family 500+’ programme, 500 zloty monthly child benefit has granted to families with more than two children and low-income families with one child (Orenstein and Bugaric, 2020; Ost, 2018; Shields, 2019 and Toplisek, 2019). Family allowance of $144 (500 Zloty) a month per child granted to families and it was amount to 40 per cent of minimum wage (Shields, 2019: 12 and Toplisek, 2019: 8). The program mostly targeted to those families who had to emigrate due to the low wages (Ost, 2018) and significantly reduced ‘child poverty’ (Shields, 2019: 12; Rae 2020: 99). These policies which led wider social groups including those from middle class experience a concrete well-off in their welfare has consolidated the PiS support (Szczerbiak, 2017).

The program was meant ‘state intervention’ and ‘higher spending’ for some accounts. The revenue for this social policy initiative has been collected through the taxes levied on banks and companies dominated by foreign investors (Orenstein and Bugaric, 2020), which have implied as the redistribution policy which improved the well-being of the poor segments of the society, yet without strengthening the labor and its bargaining power. According to Shields, the program has helped to overcome the crisis of neoliberalism, hence it was a necessity for neoliberal hegemony (2019).

Reducing the retirement age (60 for women, 65 for men), contrary to the practice of Fidesz (Toplisek, 2019: 8) and introducing income tax exemption for workers younger than age 26 targeting to reduce the youth out-migration, while on the other hand ‘curbing the use of atypical work arrangements’ and tight labor market conditions have been among the attempts of PiS government in social policy realm (Orenstein and Bugaric, 2020). Olejnik (2020), who defines Hungary and Poland systems as ‘patronage corporatism’, indicates both populist Fidesz and PiS co-opted with ideologically close trade unions while attacking the dissidents with its allies.