Political Agency in Dependent Market Economies
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The effect of partisan competition on economic and social policy reforms in four Central and Eastern European countries between 1990 and 2014

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Rafael Labanino, University of Bern

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Chapter 1. The unexplained variance in post-communist reform trajectories – structural constraints and the importance of political agency

Introduction

Did partisan competition have any tangible effect on economic and social policy trajectories in post-Communist Central and Eastern European (CEE) countries? According to the most important accounts describing the transformation process and the resulting welfare and production regimes and growth models neither party politics nor class politics (power resources, with the possible exception of Slovenia) did play a decisive role, if anything at all (Appel & Orenstein, 2018; Åslund, 2012; Marer, 2013; Myant & Drahokoupil, 2011; Nölke & Vliegenthart, 2009; King, 2007; Schedelik et al., 2021; Bohle & Greskovits, 2019; Bohle & Regan, 2021; Bohle, 2021). Even the seminal book of Bohle and Greskovits (2012), 'Capitalist Diversity on Europe's Periphery', which is the theoretically most innovative and grounded study of the emerging capitalist regimes, gives the biggest role to political agency at the outset of the transition process. The emphasis, however, is rather on the constraints of the initial conditions and political opportunity structures (such as the industrial, fiscal, political legacies of the Communist system, or whether elites enjoyed the legitimacy of a nation building project or had to rely solely on the output legitimacy of the economic and political transition) than on partisan competition. The theoretical and analytical framework of the book rather explains why political agency is so much more limited in every post-Communist capitalist regime type than in Western democratic capitalist regimes. As Mair (2013) emphasised, during the last three decades even in mature democracies it has been increasingly difficult for parties to bridge the gap between responsible and responsive governance in the context of eroding societal support and legitimacy of party governance and the demise of the post-War embedded liberal economic model, which renders more and more crucial policy areas to independent regulatory agencies (such as an independent central bank) and/or to supranational intergovernmental organisations (such as the EU, or IFIs in case of a crisis). This dilemma between responsibility and responsiveness affects every democracy, but it has affected the transition economies of Central and Eastern Europe in need of foreign capital arguably much more than Western economies. The overall research question of the dissertation is thus how party government affected crucial social policy and economic reforms under the adverse context of the transition process. With a globalised economy, liberalised financial markets, and in the Eurozone a constrained room of manoeuvre for fiscal and economic policies for nation states, the experience of post-communist transitions has a general relevance. Although the analysis presented in this book finds evidence for the strength of the constraints, it nevertheless argues that the functional pressure for liberalisation – be it external or domestic – is moderated by the party system. In other words, for the politics of liberalising (and deliberalising) social and economic policy reforms it is of crucial importance how major parties and (potential) competitors interact.

The chapter continues with an overview of capitalist regime typologies and growth models of CEE dependent market economies (or FDI-driven export-oriented growth regimes). In section 2 I demonstrate with the help of the Liberalization Database 1973-2013 (Armingeon et al., 2019) that these elaborate political economy models notwithstanding there is an unexplained variance in the liberalisation trajectories of these countries regarding the timing and intensity of these policy changes. Even within countries with very similar growth regimes there is a large variance in their liberalising reform paths. The last section introduces the reader to the structure of the book and briefly summarises the main argument of the book and each of the following 6 chapters.

1.1 Varieties of dependent development in Central and Eastern Europe – regime typologies and growth models

There were several attempts to introduce the Varieties of Capitalism (VoC) framework based on the seminal work of P. A. Hall and D. W. Soskice (2001) to the emerging capitalist regimes of the former Soviet Bloc and Soviet Union. The VoC framework was developed to explain the differences of comparative advantages between the core capitalist economies of Western Europe, North America and Japan. According P. A. Hall and D. W. Soskice (2001) there are two ideal types of developed capitalist regimes, Coordinated Market Economies (CMEs), most notably Germany, which rely on incremental innovation patterns, whereas Liberal Market Economies (LMEs), most notably the USA and the UK, rely on radical innovation as far as their core industries are concerned. P. A. Hall and D. W. Soskice (2001) trace these differences to the nature of the relationship firms can establish both internally, with their own employees and externally, from suppliers through trade unions to governments. There are five spheres of relationships where coordination problems arise and must be resolved (both on the micro, that is, the level of the firm, and macro, that is, at the national level): industrial relations, vocational training and education, corporate governance, inter-firm relations, and coordination problems *vis-à-vis* their own employees.

In LMEs firms rely primarily on market coordination, whereas in CMEs non-market relationships also play an important role. In LMEs firms coordinate their activities primarily via hierarchies and competitive market arrangements; market relationships are characterized by the exchange of goods and services in a context of competition and formal contracting; actors adjust their willingness to supply and demand goods or services primarily in response to price signals; equilibrium outcomes of firm behaviour are usually given by demand and supply conditions in competitive markets. In contrast in CMEs firms depend more heavily on non-market relationships to coordinate with other actors and to construct their competencies; contracting is more relational or incomplete, that is, network monitoring is based on the exchange of private information inside networks, there is more reliance on collaborative relationships to build the competencies of the firm; equilibrium outcomes of firm behaviour are more often the result of strategic interaction among firms and other actors.

A strand of the literature although emphasizing different distinguishing characteristics of the post-Communist environment stayed within the LME and CME dichotomy (McMenamin, 2004; Lane, 2005; Knell & Srholec, 2007). Some studies concentrated on the two absolute antipodes among the front-runner group of transition economies – that is, those 11 countries that eventually joined the European Union (EU) in 2004, 2007 and in 2011 – Slovenia and Estonia (Adam et al., 2009; Buchen, 2007). Again, while highlighting differences from the LME and CME archetypes, such as the worker co-ownership of firms in Slovenia, or the absence of the shareholder model of Estonia, these studies nonetheless identified the former as a CME, and the latter as an LME. McMenamin (2004) for his cluster analysis of 22 OECD states only had three Central and Eastern European countries, Poland, the Czech Republic and Hungary. He emphasized the importance of the extraordinary level of dependence of these countries on foreign capital but did not theorize on this. Other studies, however, made this external dependence and the position of these economies' export sectors in global production chains of central importance to their analyses (Nölke & Vliegenthart, 2009; Myant & Drahokoupil, 2011; Bruszt & Greskovits, 2009; Bohle & Greskovits, 2012; Bohle & Greskovits, 2007; King, 2007).

Borrowing from the seminal contribution on dependent, foreign-owned development in Latin America by Cardoso and Faletto (1979), Nölke and Vliegenthart (2009) categorises the Czech Republic, Hungary, Poland, and Slovakia as a new, distinct variety of capitalism, Dependent Market Economies (DME). The common feature of these countries is their dependence on investment decisions by transnational corporations (TNCs). DMEs have a skilled population with comparatively low labour costs. The central coordination mechanism is the hierarchy within transnational corporations, which substitute both the market and networks. The rules of corporate governance are of secondary importance, as TNCs exert direct control over their local subsidiaries. The primary means of raising investment is foreign direct investment and foreign-owned banks, not domestic ones or capital markets. TNCs do not have any stake in a neo-corporatist industrial relation system, or even branch level agreements. They resort to company-level collective agreements, but they are interested in keeping their labour force relatively content. As innovation and product development are made in the TNCs headquarters, TNCs are perfectly satisfied with limited expenditure on education and vocational training (they train their own employees if needed). Consequently, transfer of innovation is constrained to within transnational enterprises. DMEs comparative advantage thus the assembly of semi-standardised goods. The authors emphasise that the DME model leads to a substantial update of the industrial base and constitutes an important transfer of know-how and skills. Moreover, the DME model leads to higher and more sustainable growth rates than almost any other model of post-Communist capitalism, including the Baltics. The contrast is sharpest with the Russian, Ukrainian and other post-Soviet countries, which King (2007) calls patrimonial capitalisms, characterised by client-patron relationships and increasingly diminishing state capacities, and with the in-between models of Romania and Bulgaria.

The other most common form of international integration of Central and Eastern European post-Communist economies – leaving aside commodity export and remittances typical for post-Soviet countries – is financialisation. Myant and Drahokoupil (2011) define financialisation as “the dependence on the financial account from outside the country” (p9). The main distinction between FDI and other type of capital inflows is that

“FDI is less likely to be pulled out quickly, does not reach maturity date after which it needs refinancing and, in addition may contribute to export potential.” (ibid p9)

As Duenwald et al. (2007) warned, the investment booms of the first half of the 2000s in Bulgaria, Romania and the Ukraine were driven by domestic demand and the bulk of the capital inflows were realised in non-tradable sectors (finance, construction, and real estate), which in turn led to ballooning current account deficits (for which the price had to be dearly paid after 2008). Myant and Drahokoupil (2011) found that although countries with liberalised financial markets and fixed exchange regimes were most susceptible to financialisation, these characteristics by themselves could not explain the importance of financialisation in a country. Financialisation affected to the largest degree countries with limited export potential and limited domestic deposit base to cover the demand for domestic credits, but at the same time good international reputation based on progress in free market reforms and democratisation as guarantees for the creditors for repayment. The three main kinds of recipients of financialisation were the state, households and private businesses. The latter two in most of the region overlapped as the bulk of investment often went into construction and real estate development. Another source of financialised growth was the financing of state budget deficits (ibid pp. 11-13).

Bohle and Greskovits (2012) gives the most extensive account of the emerging transnational capitalist regimes of Central and Eastern Europe. Their framework leaves VoC and puts the inherent contradictions of democratic capitalism at the centre – exacerbated by the context and conditions of the economic, political and often national transition process, and external dependence – and starts the analysis from there. Based on Polanyi’s (2001) triadic scheme of politics, protection, and market, they develop a hexagonal scheme where every corner represents a regime characteristic of democratic capitalism at its best or worst. The corners are the quality of government (accountability vs state capture), the quality of democracy (representation vs ungovernability), the level of marketisation (efficiency vs commodification), the level of macroeconomic coordination (stability vs straightjacket on development), the characteristics of the welfare state (protection vs pauperisation), and the nature of corporatism (mediation vs rent seeking) (Bohle & Greskovits, 2012, pp. 17-25). Every democratic capitalist regime has its respective trade-offs between these features measured by the authors with the help of different indices (of policy outcomes). They identify four regime types, the neoliberal regimes of the Baltic states, the embedded neoliberal regimes of Czechia, Hungary, Poland, and Slovakia, the belatedly liberalised, neoliberal but weak and corrupt states of South-eastern Europe, and the neocorporatist regime of Slovenia.

The embedded neoliberal regimes are characterised by comparatively extensive welfare effort, moderate levels of unionisation and coordination, thoroughly liberalised economies, although Slovakia between 2002 and 2006 moved towards a clearly neoliberal direction, as did Hungary, particularly in labour market and social policies since 2010. The Visegrad countries all possess high value added, complex export sectors (manufacturing and electronics).

The Baltic states provide much more limited welfare entitlements – although compared to Latin-America all CEE welfare states are relatively extensive (see Haggard and Kaufman 2008, 2009) – Estonia and Latvia excluded most of the Russian minority from citizenship, and they are champions of policies right from the neoliberal textbook (i.e., flat tax, currency board regimes in Estonia and Lithuania, liberalised labour markets etc.). They rely on financialised growth and were not able to update their complex industrial base (e.g., typically Estonian manufacturing occur in the lowest segments, such as assembly subcontracting).

Slovenia is the closest to the ideal typical Western, neocorporatist small state. The unionisation was high until the mid-2000s but has been rapidly falling recently. Nevertheless, the collective agreement coverage rate is still high (although also rapidly falling) (Visser 2015). Employers are highly organised as well. Slovenia has the most extensive welfare state, and the complex export sector has a high share of total exports similarly to the Visegrad group.

Romania and Bulgaria suffer from belated transitions, such crucial reforms as price and financial liberalisation or privatisation were thoroughly implemented only after a second transition shock in 1996 and 1997, respectively. Both countries have low state capacities and struggled with the implementation of policy reforms (e.g., both needed extensive external help in implementing privatisation under strict IMF and World Bank conditionality). Significant social policy and labour market reforms were also only implemented in the late 1990s. Both countries tried to move towards a neoliberal direction, but similarly to the Baltic states, they were not able to update their complex industrial sectors. They were also behind in attracting foreign capital and were only able to enjoy high inflows in the 2000s until the Great Recession. Cernat (2006) calls the Romanian political economy “cocktail capitalism”, that is, an incoherent stop and go process of reforms of neoliberal and of coordinated market economy orientation with equally poor implementation (the same can be said about Bulgaria).

In the past decade, however, a new research programme has emerged in comparative political economy, which does not seek to build regime typologies. The growth model framework of Baccaro and Pontusson (2016, 2018) brings the demand side back into the centre of the analysis instead of focusing on the supply-side and the institutional equilibria as the VoC literature. This necessitates a macroeconomic perspective to complement the prevalent microeconomic reasoning. As the different types of capitalism are interconnected, understanding the interplay between various growth models, especially between export- and consumption-led economies, is vital. Because growth models are not stable (as opposed to the assumption of the rigid institutional equilibria of the VoC framework), politics are central in shaping them. However, it is not electoral or interest groups politics, but the 'quiet politics' (Culpepper, 2010) of dominant 'social blocs' that supports a specific growth model. Now, 'social blocs' are understood in a neo-Gramscian fashion, that is, these elite coalitions are subject to political – even electoral – pressures, thus, they must be maintained politically and changed or reconstituted if necessary.

Baccaro and Pontusson (2016, 2018) describe that historically a wage-led growth model was dominant in Western capitalist economies in the postwar era, in which a rising wage share was positively associated with GDP growth. However, since the late 1970s onward the wage-led growth model gave way to the consumption- and the export-led growth models. A large financial sector is a necessary condition for the credit-financed consumption-led model. Although high household consumption tends to produce current account deficits (as debt replaces insufficient demand), which in turn usually necessitates exchange rate devaluation or internal devaluation, but global financial flows can relax this constraint (e.g., in case of the

US or the UK) (Baccaro & Pontusson, 2016, pp. 185-186). An export-led growth model has different effects on the wage-share in the economy based on the structure of the export sector. The German export sector is manufacturing-based and must keep domestic costs down; hence consumption has been repressed for decades. Sweden in contrast exports high-end manufacturing and high-end services, which are less vulnerable to price competition, thus, household consumption also contributed to growth (Baccaro & Pontusson, 2016, pp. 191-192).

The growth model framework was applied to CEE economies (Schedelik et al., 2021; Bohle & Regan, 2021; Bohle, 2021). Bohle (2021) argues that in CEE two growth models can be distinguished: an FDI-led export-driven growth model – typically in the Visegrád-countries – and a consumption-led one based on dependent financialisaton – archetypically, the Baltics. These dependent models also serve as integration mechanisms for these economies, which comes with different constraints but also opportunities. Indeed, e.g., during the Great Recession, the Visegrád-countries benefited from the German recovery, whereas the Baltic states externalized the saving of their banking sectors to their mostly foreign owners (Bohle, 2021).

Bohle and Regan (2021) highlight the mutual dependency of multinational corporations and domestic governments. The former might support the know-how and capital but the latter is needed for the "competitive edge" (regulation, skill formation, corporate taxation) (Bohle & Regan, 2021, p. 81). They emphasise that it is the quite politics of business-state elite interaction, which is the more important for the political foundations of growth regimes than the "noisy" organised interest or electoral politics. However, that this does not mean that electoral politics would be unimportant in determining growth regimes. Though industrial-enterprise policies are resistant to change, they shape winners and losers among companies and social groups, prompting political expression through elections and informal and formal networks (interest intermediation, lobbying, protest). Thus, within the same growth model, diverse coalitions can form. For example, in export-oriented growth models, a cross-class coalition for competitive wages isn't inevitable. A country can pursue a sustained export-oriented path while adjusting the weight of more consumption-oriented sectors over time. Despite the persistence of growth model features, political parties need broad societal support, leading to changes in government spending and social policy priorities due to electoral dynamics. Thus, fluctuations in political landscapes often influence spending and social policy priorities (Bohle & Regan, 2021, p. 82).

1.2. Unexplained variance and missing political agency in reform trajectories in Central and Eastern Europe

1.2.1 Unexplained variance in reform trajectories

It is an indisputable fact that neoliberal reforms were the norm throughout the region, decommodifying reforms were few and rare between (Appel & Orenstein, 2018). However, as the review of the literature on different VoC typologies and growth regimes showed, there was a variance between countries in the timing and intensity of liberalisation. However, these accounts are not able to explain the differences between the liberalisation processes of countries within the different regime clusters and cannot account for the timing or the intensity of individual policy changes but for the general direction of the reform process. Why did for example the Slovak neoliberal restructuring occur in the first place? Why did the country move beyond the policies adopted by the anti-Mečiar rainbow coalition between 1998 and 2002? These policies were in line with the Visegrad-style embedded neoliberal model and proved more than enough to secure large FDI-inflows and the EU accession of the country in the first 2004 round. Why and when did some governments implement de-liberalising reforms? The framework of Bohle and Greskovits (2012) is arguably the most detailed and sophisticated typology to date, and it allows for variance also within countries classified as belonging to the same regime. However, it gives domestic political agency the most important role in the initial choices and strategic decisions. From there reform trajectories and political strategies are seen as largely path dependent. To be more precise, it identifies with every regime a set of economic, social and political constraints (and possibilities) that predict to a large enough degree the change in the individual countries. The growth model framework gives domestic political agency a central role, though, the focus is rather on the quiet politics of social blocs rather than electoral politics.

There are accounts that show differences between countries belonging to the same regime cluster as identified in Bohle and Greskovits (2012) by showing either divergence or convergence (which of course means that there were differences in the first place). The analysis of Duman and Kureková (2012) points out the differences between Hungary and Slovakia in the period 1990 and 2010, without questioning their classifications as embedded neoliberals. Hungary chose foreign-led reindustrialisation already at the outset and opened its economy to foreign capital as soon as the command economy collapsed. However, it had a statist development strategy both in industrial, and education and vocational policy. Although subsequent governments implemented austerity measures, and partially privatised the pension system, many measures, including the pension reform was partially or completely reversed. Slovakia after the Velvet Divorce from Czechia in 1993 under the different Mečiar governments turned towards an insider oriented and corporatist model. For example, the voucher privatisation programme was stopped, and the foreign participation in privatisation practically became non-existent. The unions, in contrast to Hungary, played a more active role under the illiberal rule of Mečiar, as well as in ending it and the subsequent U-turn after 1998. After Mečiar was ousted in 1998, and particularly between 2002 and 2006 Slovakia turned towards the foreign-led model of Hungary, but with different means. The state was withdrawn and relied on regulation, the welfare state was liberalised also to a much greater degree and more consequently than in Hungary. Slovakia by 2010 in spite of some, minor reversals after 2006, had a more coherent, and markedly neoliberal model in comparison to Hungary.

Drahokoupil (2009) writes about a convergence in the models of the Visegrad countries, focusing on Czechia. Although where Duman and Kureková (2012) see diverging paths towards the same foreign-led, export-oriented model, Drahokoupil (2009) analyses the same phenomenon, which he calls the emergence of the competition state. The fact of neoliberal restructuring in the Czech Republic after 1997 entails that originally there were greater differences in the transition strategies to begin with. However, the Czech turn towards a foreign-led export sector model was incremental, whereas Slovakia implemented a radical and comprehensive reform package.

O'Dwyer and Kovalcík (2007) are also concerned with this change in reform trajectories. They find that the reform laggards of the first decade of transition became the champions of the second. Countries like Slovakia, Romania or Bulgaria implemented such neoliberal policies as the flat tax, offered aggressive investment incentives, reduced welfare commitments and the power of organized labour. But there is also divergence in the "cocktail capitalisms" (Cernat, 2006) of Bulgaria and Romania. The two countries reacted differently already in 1996 and 1997 in handling their financial crises. Their paths diverged further in the aftermath of the Great Recession. Since 2009 Romania embarked on a more liberal path than Bulgaria. Slovenia in contrast with the other cases lacked any major change in its institutional setup. Policy change was incremental, attempts at larger liberalisations failed, although EU accession and subsequently the adoption of the Euro as a currency made the Slovene model more liberal than it was before. These changes clearly induced a new wave of liberalisation; however, the Slovene model was rather updated than changed.

1.2.2. Post-communist reform trajectories

A new database of liberalising reforms

How to make sense of this variance? Is it unexplained by the extant theories? I visualise the reform trajectories of the 10 post-Communist EU-member states that joined the EU in 2004 and 2007, respectively, with the help of the Liberalisation Data Set 1973-2013 (Armingeon et al., 2019). The database contains information on 12 policy fields: non-employment benefits, employment protection legislation, active labour market policies, industrial relations, pensions, health care, education, personal and corporate income taxes (social security contributions included), corporate governance, financial market regulation, competition policy, and privatisation. The time frame spans from the first oil crisis, 1974 or the date of democratic transition (that is, in the case of Central and Eastern Europe from 1989-1990-1991) to 2014. The sample is composed of 38 OECD and EU countries (the Latin-American OECD members are excluded, but Japan and South-Korea are included).

The database contains policy outcomes, that is, legal changes, regulations, not policy consequences such as the social expenditure level of a country. The unit of analysis is at policy changes, the smallest possible level, and not laws, agreements or reform packages. That is, if a given legal change implements several policy changes, even if it is in within one policy field but affects different subfields or target groups, all the changes are coded separately. For example, in the case of a law affecting unemployment insurance, the changes in eligibility, duration, replacement rate are all coded separately. It is coded even more to the detail, if the eligibility rules are different across target groups (e.g., school-leavers face different criteria than unemployed near retirement age).

There is a set of dichotomous variables in the database, which makes it possible to identify the direction and scope of a policy change. The impact of the measures is coded with the help of the policy change dimensions conceptualised by Hall (1993), and whether they are status quo disruptive or not as conceptualised by Baumgartner (2013). That is, following Hall (1993) first order changes are changes in settings, second order changes are changes also in instruments, and third order changes are changes also in goals (paradigm changes). Baumgartner (2013) argues that significant policy changes can also be implemented by a first or a second order policy change. He suggests assessing policy changes on the basis of whether they break up the status quo or not. Following Baumgartner (2013) the status quo disruption is coded as an additional dimension and treated independently from the policy change dimensions of Hall (1993).

The direction of the change – i.e., liberalising or deliberalising – is also coded with the help of a dichotomous variable. In short, a policy change is coded as liberalisation if it enhances market coordination, and deliberalisation, if it is decommodifying or enhances political or bureaucratic control in the given policy field. It is important to note, however, that liberalisation is not defined as the withdrawal of the state or deregulation, as often liberalisation very much entails the strengthening of liberalisation. Polányi (2001) pointed out that liberalisation is inherently paradoxical: while it is aimed at establishing a society where free markets are the main coordination mechanism in every social sphere and subsystem without state (that is, political) interference, in order to establish these very free markets, massive state interference is needed (and must be maintained). As Polányi famously formulated, lassez-faire was made.

The Liberalisation Dataset 1973-2013 meticulously record labour market and social policy, and financial market liberalisations, which all need active and continuous state intervention. Liberalisation, that is, does not necessarily mean that the state or the bureaucracy is withdrawn, on the contrary. Just to give a few examples: In the case of competition policy, new legislation and authorities were needed in order to ensure market competition and the breaking of monopolies. Privatisation also needed the expansion of bureaucracies and state control to break the manager class of state-owned enterprises and their unionised workforce (in some cases it involved active intervention of international financial organisations that even sent foreign managers in charge of the due completion of the privatisation programme). Independent central banks, the cornerstone of financial market liberalisation, gained more power and jurisdiction, they received stricter regulation and active control measures to ensure the functioning of the supposedly free financial market.

What all these changes are implementing thus is not a withering away of the state for a self-organizing, self-governing market to take its place. No, liberalisation indeed shelters financial, product, and labour markets from political, that is, democratic control. This is true for every regulatory agency. For active labour market policies, which increasingly serve as the stick in non-employment benefit system as eligibility conditions for the right to receive benefits (the carrot), the establishment and the maintenance of costly public employment services is needed, which actively "police" the unemployed. All of this serves the further liberalisation of labour markets. That is, the rule, when deciding whether a policy change is liberalising or not, is not whether it "withdraws the state" but its intended goals even if it means larger state control such as enhanced powers of regulatory agencies. Does it enhance market competition, market coordination? Does it commodify labour, that is, increasingly exposes wage earners to markets? Does it apply market principles, market coordination in social policy, healthcare even without necessarily implementing privatisation? Does it reduce the generosity of passive social policies? Does it sever eligibility conditions? Does it reduce redistribution? Does it withdraw the state from direct or indirect economic activity? Does it reduce political, that is, democratic control over an economic sphere and renders it to independent regulatory agencies? If the answer is yes, the measure is coded as liberalising.

Our research group of the University of Bern and the University of Geneva used a set of standard international sources to build the Liberalization Data Set 1974-2014. These were the OECD Economic Surveys, the OECD personal and corporate income databases, IMF country reports, the IMF Financial Reform Dataset, EurWork articles on labour market, welfare state and industrial relations policies and developments, and Labref, the labour market policy and labour taxation database of the European Commission. The main problem was in the case of post-Communist countries that not all of them are OECD members or joined the OECD only recently. The country groups, which was covered by all datasets and reports was the Visegrad 4 (that is, the Czech Republic, Hungary, Poland and Slovakia) from 1989-1990 on. Although Slovenia and Estonia are OECD members, they only joined the club in 2010, consequently the data and information provided by the organisation is still scarce. Latvia joined the OECD in 2016, Lithuania was in the final steps of its accession process in 2018, that is, on these countries the OECD only provide a few years of statistical data and descriptive analysis. Romania and Bulgaria are not members, consequently both countries were covered by two OECD surveys only. The two South-Eastern European country also joined the EU later than the other countries in the sample, which means that Labref also started to cover them later. In the case of the Baltic states, Slovenia, Romania, and Bulgaria much ingenuity was needed to get the necessary data. We also used country experts — native researchers, with a research focus on the political economy of their country — who exclusively relied on local, mostly primary sources (that is, the texts of the laws). However, the expert surveys could not completely remedy the shortcomings of the original data gathering process.

Nevertheless, the most important policy developments are covered by each of the databases in such detail that no other database provides for the whole timeframe, nor for so many policy fields. However, this unevenness of the sources resulted in some countries — e.g., Slovenia or Bulgaria - having considerably less policy changes documented than the other countries in the sample. This is important to know for the right interpretation of the graphs.

One must therefore bear in mind that the country liberalisation databases, even those with the best quality sources, are not containing the same set of finite policies, as for example the dataset on environmental policy convergence in Europe analysed through the chapters of Holzinger et al. (2008). The dataset does not contain information on levels of liberalisation in the respective policy fields either. That is, one should rather analyse the trajectories in the data than compare the absolute number of weighted policies across cases. However, the magnitude of changes also gives valuable information, particularly about the variance of reform activity within one country through time. But countries can also be cautiously compared with one another also on this measure (bearing in mind the above-described quality differences of the data sources).

Visualising post-Communist reform trajectories

I visualise the changes in liberalisation and deliberalisation activity in 10 post-Communist countries between 1989 and 2014 with the help of a pondered liberalisation index, which is an additive and weighted index, and measures reform activity (not levels!). The status quo change is given a weight of 1, a first order change is given a weight of 1/3, a second order change is a given a weight of 2/3, and a third order change is given a weight of 1. The indices are collapsed through all policy fields for every liberalising and de-liberalising measures per year, respectively. The result is an overall pondered liberalisation and de-liberalisation index for every year between 1988 and 2014. The graphs show 5-years moving averages of the pondered liberalisation and de-liberalisation indices, because showing centred moving averages maps trends more accurately than the row scores would (which are more susceptible to large back and forth swings and “white noise”, thereby graphs based on them would make the interpretation much more difficult). This is admittedly a crude measure, but it makes descriptive inference about the overall policy reform trajectories possible. The purpose is to see whether there is indeed variance in the reform trajectories of countries within and across regime clusters.

Let us look at the policy reform trajectories of the 10 post-Communist EU member states clustered as they were by Bohle and Greskovits (2012) to see whether there is a variance within the regime clusters. Are there different trajectories? Are there countries in a given regime cluster, whose reform trajectories resemble more of a country in another regime cluster? Based on the CEE capitalist regime literature we would expect similar reform trajectories in countries belonging to the same cluster. Or at least we would expect bigger differences across than within regime clusters. E.g., we would expect a Baltic, neoliberal trajectory, a Visegrad, embedded neoliberal one, and a rather inchoate stop and go trajectory in Romania and Bulgaria (and the least liberalising one in Slovenia). The growth model framework would allow for a larger variance as growth regimes – or better put their supporting coalitions and institutions, policies – are contested politically. Still, we would expect to see some similarities countries with similar growth regimes. Yet, the timing and intensity of liberalising and deliberalising reforms – that is, their patterns – do not show similarities within clusters. The patterns are in fact independent from political economy models.

Figure 1.1 Policy reform trajectories – Estonia 1989-2013

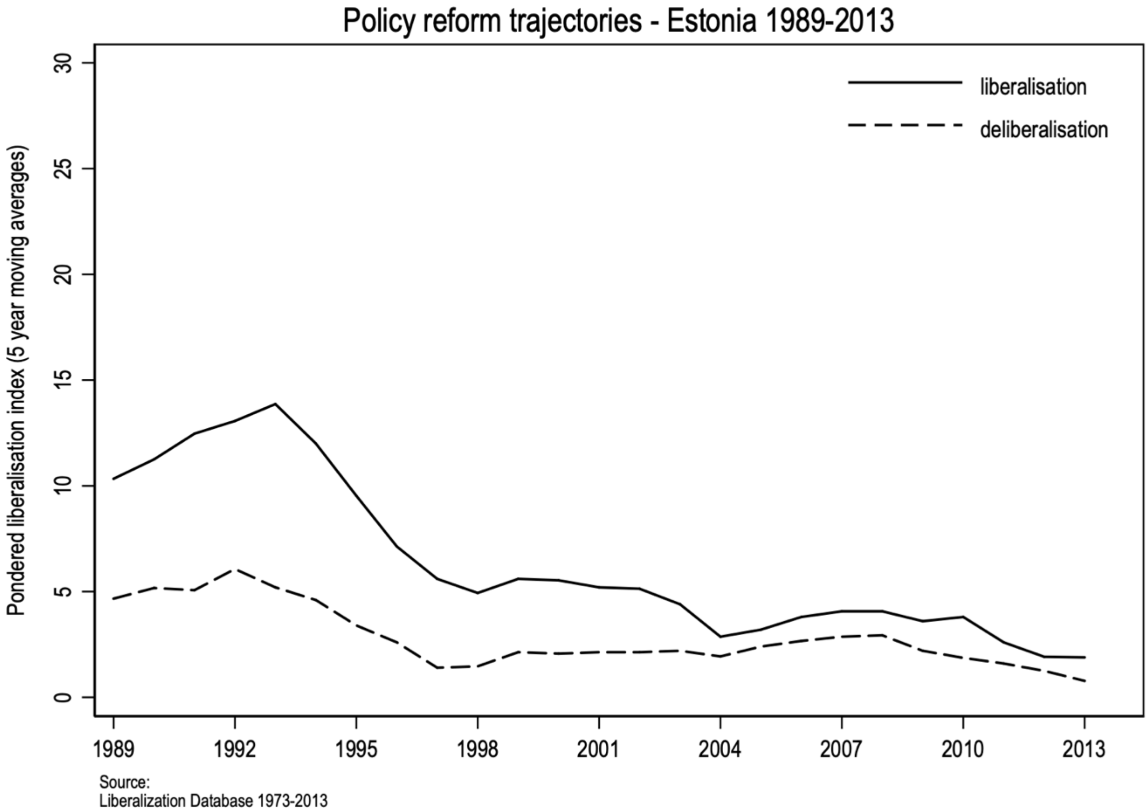


Figure 1.2 Policy reform trajectories – Latvia 1989-2013

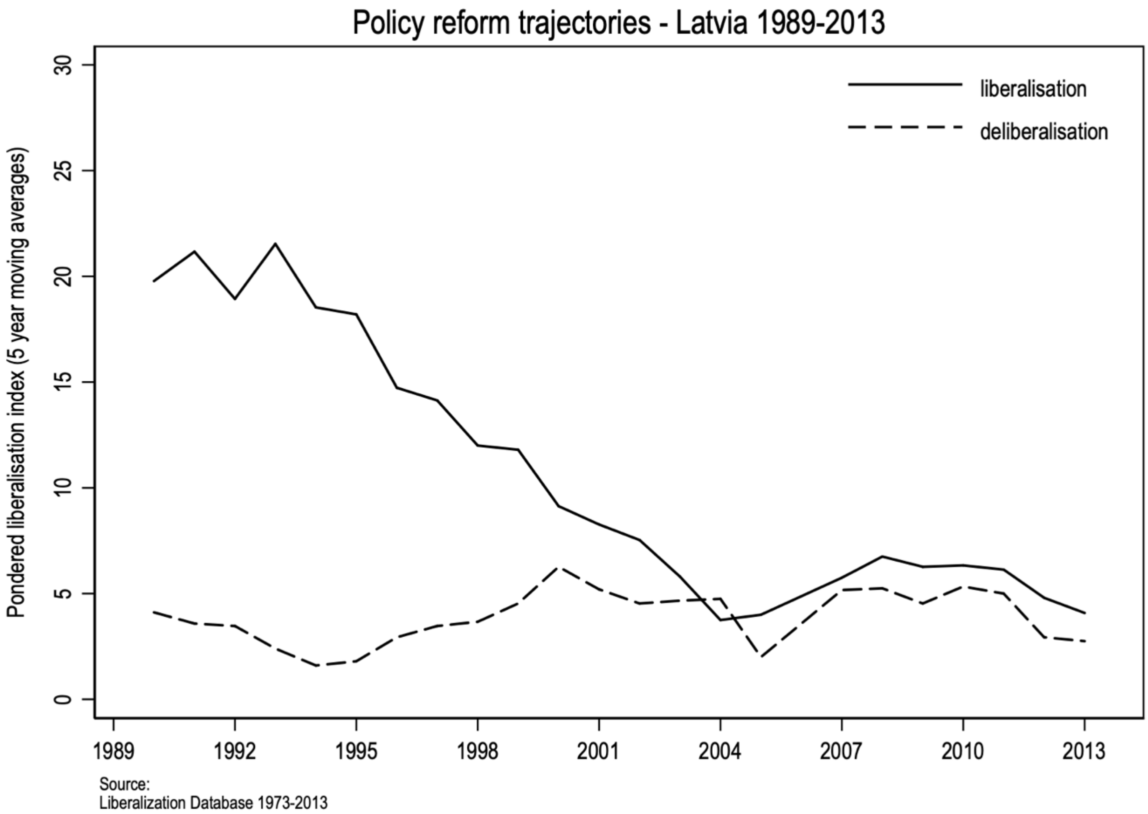
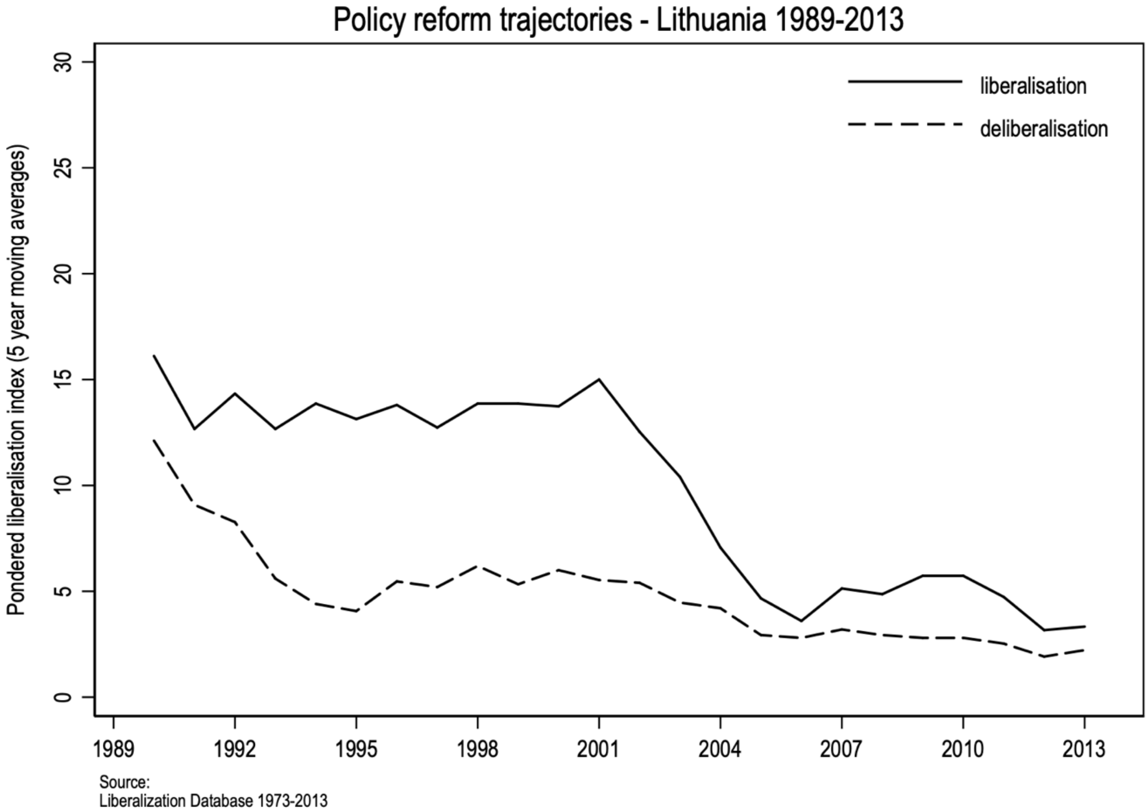


Figure 1.3 Policy reform trajectories – Lithuania 1989-2013



Figures 1.1, 1.2, and 1.3 depict the reform trajectories of the Baltic, neoliberal cluster. There are significant differences in their reform trajectories and activities. As far as liberalising reforms are concerned, Estonia and Latvia display similar patterns with a big, decisive wave at the outset of transition. Although there are significant reforms later, there are no other waves. However, in Latvia there were more deliberalising reforms as in Estonia. Moreover, the timing of deliberalising reforms is also different. Estonia implemented more social policy measures at the outset of the transition, Latvia implemented more in the mid-90s, and Estonia implemented significant deliberalising social policy measures again only at the early 2000s. In spite of their reputation, both countries boast relatively generous — in fact, the most generous among post-Communist countries — unemployment insurance regimes (Estonia even implemented a social assistance scheme), which were reinforced during the

2009 crisis. This is what mostly can be seen on the graphs, and of course state interventions during the 2009 crisis, which were deliberalising, although mostly temporary measures (partial pension reform reversal, financial market interventions, etc.). Nevertheless, deliberalising reforms are minuscule compared to the magnitude of liberalisation. The Lithuanian reform trajectory is different from the other two Baltic states, and as we will see, shows much more similarity with the Polish and the Hungarian one. Instead of a big, founding wave, we see a protracted and quite active period with another peak at the end of the 1990s, from then on liberalisation activity dissipates. Deliberalising measures follow the same trajectory as liberalisation, which indicates at least some compensations for economic liberalisation.

Figures 1.4, 1.5, 1.6, and 1.7 show the trajectories of the Visegrad 4, Czechia, Hungary, Poland, and Slovakia. This is the most colourful regime cluster. In spite of their similarities, these four countries show a great variance in their reform activities. Czechia resembles Estonia and Latvia. Behind this similar trajectory one finds of course very different regimes. Czechia has one, big founding wave at the outset of the transition, without having any subsequent waves. This is not to say that there were no later adjustments or significant reform periods, but clearly no other reform period is as significant as the founding one. However, the Czech reform trajectory is in stark contrast with the Hungarian, Polish and the Slovak ones, which in turn also differ from one another in several important respects.

Hungary, Poland, and Slovakia all experienced at least a second significant wave of liberalisation (Hungary had three). The Slovakian second wave outweighs even the founding wave, which is a similarity, as will be shown below, with Romania. All three countries also have significant deliberalising waves, which together with the subsequent liberalising waves show that policies were more contested, there was less consensus, and possibly more policy learning. In these countries policy change was more enabled than Czechia. However, both in Poland and Slovakia after the second wave, policy change became more incremental, whereas in Hungary there is a third wave of liberalisation and also significant deliberalisations took place. The Hungarian and the Polish reform patterns diverge during and most interestingly also after the Great Recession. Some of it is of course explained by the fact the Poland never sunk into recession, whereas Hungary was the first country to turn to the IMF for a bailout in the region. However, after the crisis was over, the divergence was due to other factors.

Figure 1.4 Policy reform trajectories – Czechia 1989-2013

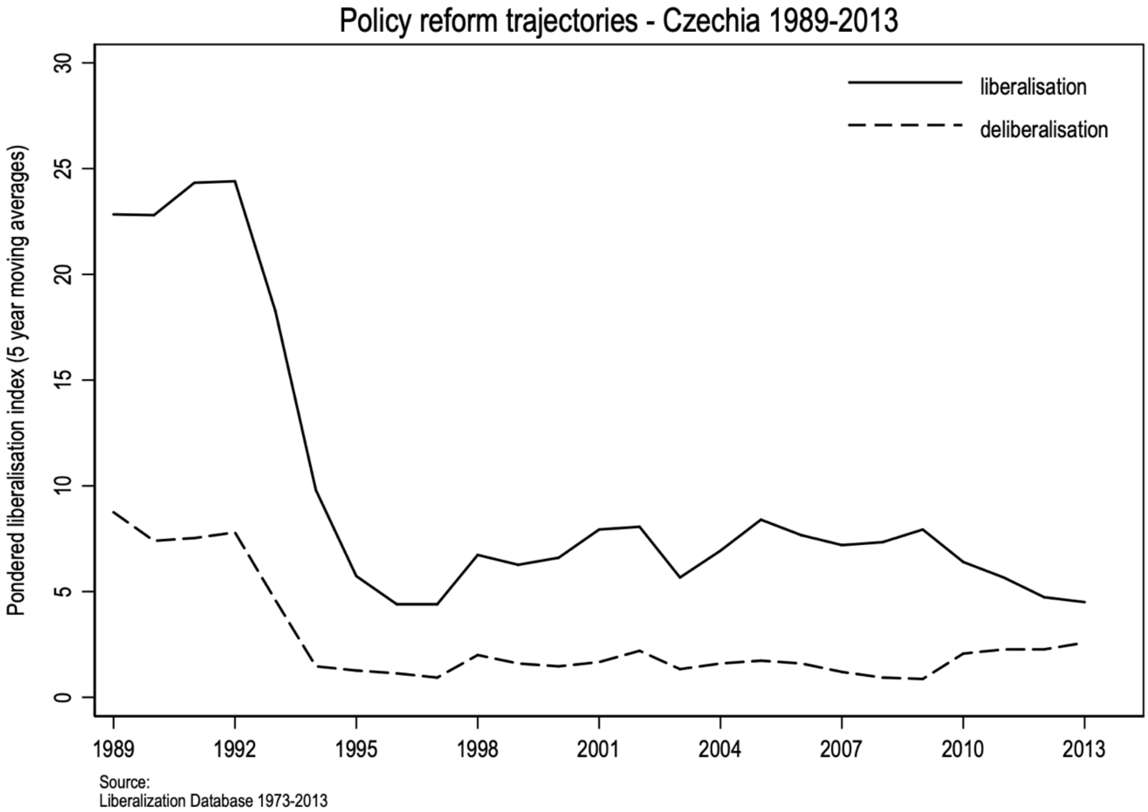


Figure 1.5 Policy reform trajectories – Hungary 1989-2013

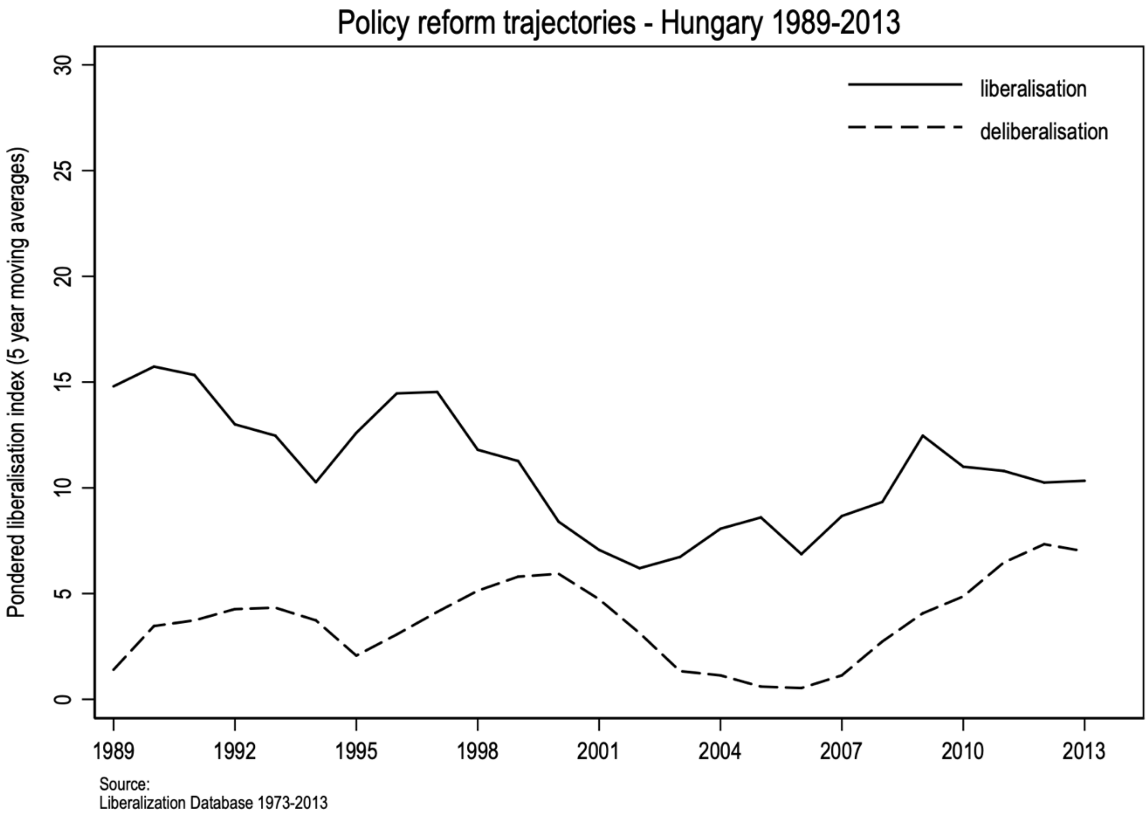


Figure 1.6 Policy reform trajectories – Poland 1989-2013

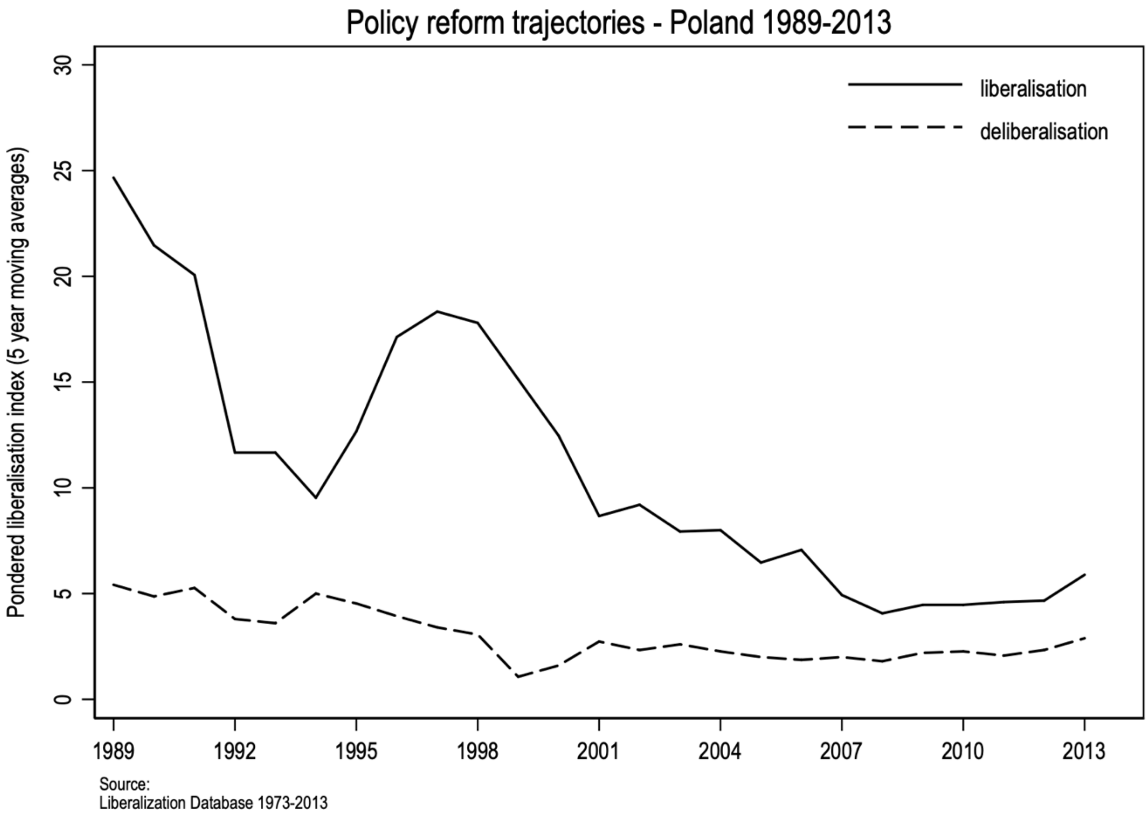
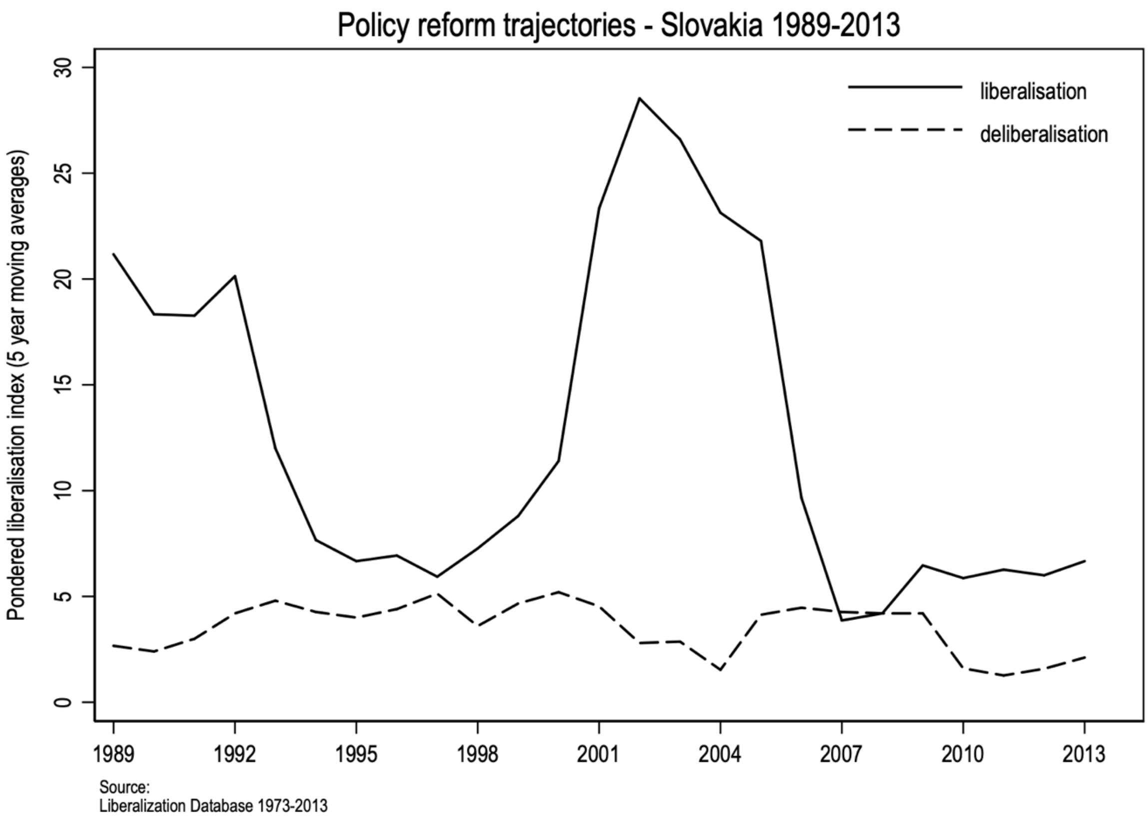


Figure 1.7 Policy reform trajectories – Slovakia 1989-2013



Three distinct reform paths can be distinguished: an incremental, an oscillating, and a restructuring path. The incremental path is the trajectory of the Czech Republic, Estonia, Latvia and Slovenia. After a significant, initial wave of decisive reforms the institutional setup of the capitalist regime is not seriously altered. This does not mean that no relevant subsequent reforms were implemented. The change to a foreign-led reindustrialisation (which meant also a change in the privatisation model) and the implementation of financial market regulations after the 1997 crisis in the Czech Republic is a case in point. However, even these changes are dwarfed by the subsequent reform waves in the countries with oscillating or restructuring paths. Distinguishing between the oscillating and restructuring paths based only on the graphs presented above is difficult. The clearest example for restructuring is Slovakia, a great, restructuring second wave followed by an incremental path, and for the oscillating path is Hungary, where subsequent liberalising waves follow each other. Bulgaria, Lithuania, Poland, and Romania are cases in between the two. The picture is even more complex as there is an observed variance in the reform trajectories within cases.

What remarkable about these reform patterns, that is, the trajectory of reform activities — the timing and magnitude of both liberalising and deliberalising reforms — is that they are independent from the level of liberalisation, and the elaborate and theoretically thoroughly founded post-Communist capitalist regime categories and growth models. That is, the observed variance in reform trajectories is independent from the type and the importance of the export sector, the importance of domestic demand to growth, the type and volume of foreign capital inflows, the type and the level of vulnerability of the financial sector, and the size of the public sector and the welfare state. Crisis plays a role in many of the subsequent big reform waves, but not all of them. E.g., Slovakia's post-Mečiar reforms between 1998 and 2006 can be separated into two distinct phases, as opposed to Duman and Kureková (2012), who do not make this differentiation. The first one had many crisis-induced changes, both economic and political (because of Mečiar Slovakia was behind of its neighbours in the EU accession process). But between 1998 and 2002 significant de-liberalising changes also took place (for example in the labour code), which do not fit the narrative of a clear neoliberal restructuring. The complete turn towards a coherent neoliberal strategy between 2002 and 2006 cannot be explained by the 1998-1999 crisis alone. Slovakia was growing again, FDI inflows were increasing, and it had been granted a place in the first EU accession round already.

Figure 1.8 Policy reform trajectories – Bulgaria 1989-2013

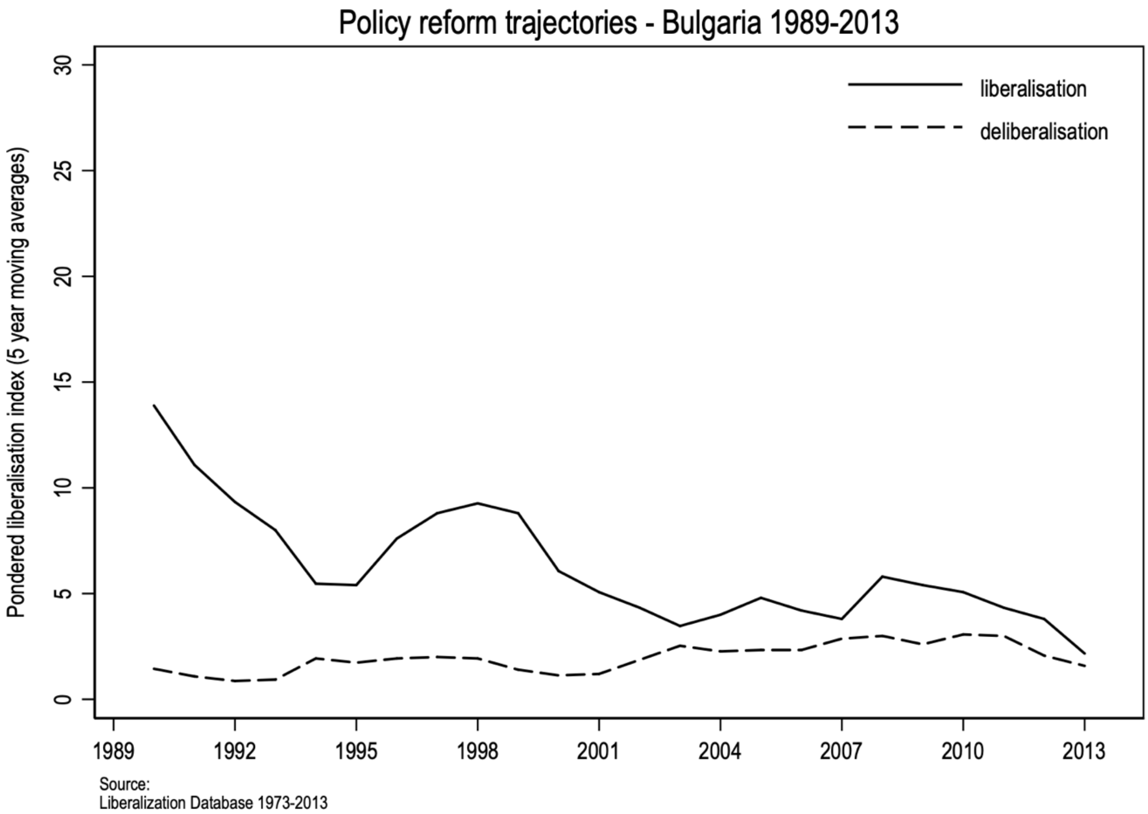


Figure 1.9 Policy reform trajectories – Romania 1989-2013

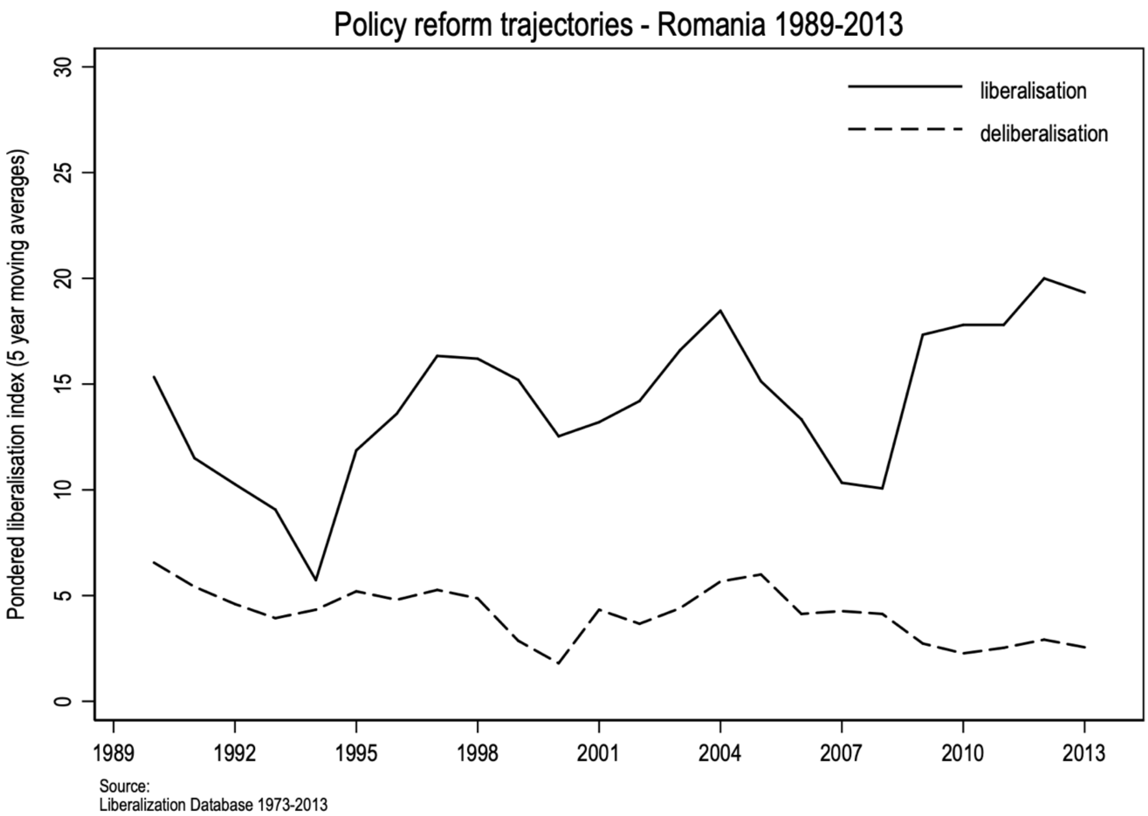
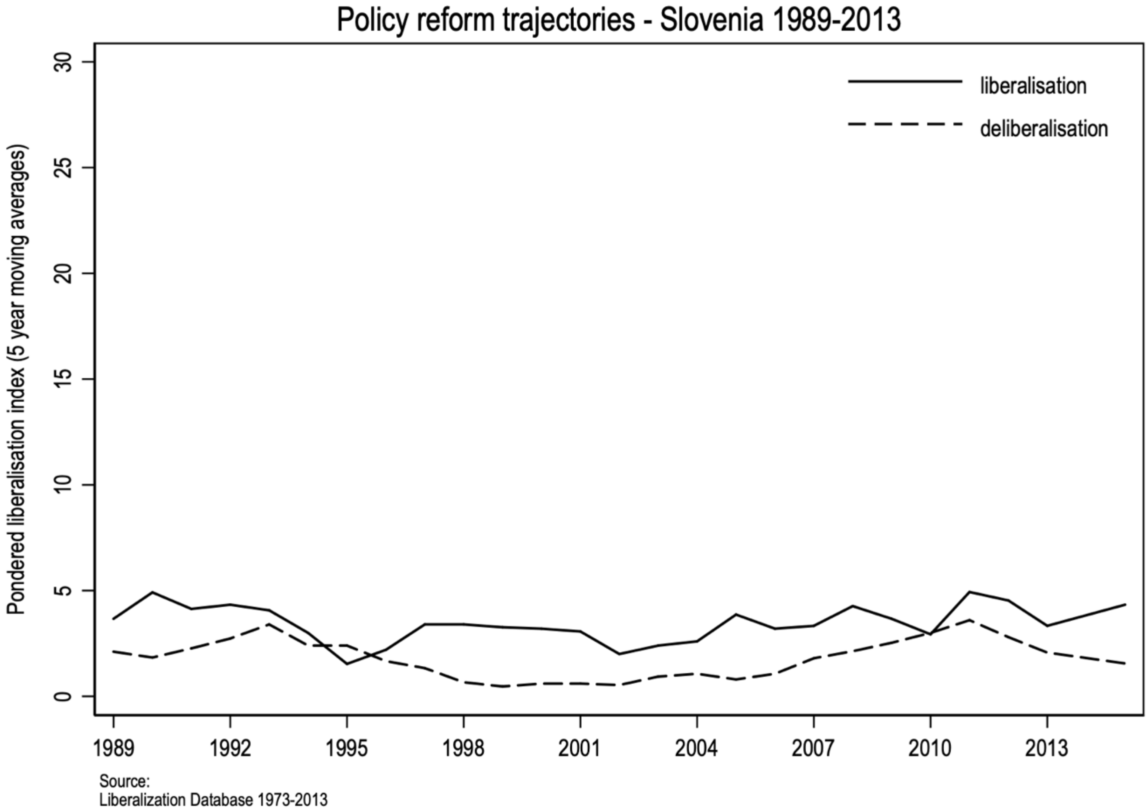


Figure 1.10 Policy reform trajectories – Slovenia 1989-2013



What explains this variance in the reform trajectories across and within post-Communist capitalist regimes? Some countries are more susceptible to policy oscillations, whereas in others incremental change is the norm. What allows for a major turn in a country's institutional setup? What are the factors of maintaining a certain institutional setup? There are some important notes that must be made here. The similarities in reform paths, that is, either the incremental, the oscillating, or the restructuring path mask very important differences. Namely, the overall level of reform and the coherence of the changes. For example, do we see in an oscillating trajectory a "muddling through", stop and go process, or policy learning and the constant updating of a distinct institutional regime?

Nevertheless, this typology helps to identify what variables facilitates policy change and determine its direction and impact, and that is the research question of the present study. Moreover, incremental change can lead to substantial change in the long run, and substantial policy changes do not necessarily prove to be decisive as their impact is subject to implementation (state capacities) and the systemic importance of the institution subject to the reform. Also, a stable overall reform trajectory does not mean that it is due to a lack of trying to implement substantial changes. The question is then what hindered the implementation of visible, significant reforms?

1.2.3. Political agency in social and economic reform in Central and Eastern Europe: the importance of party system properties

The dissertation argues that to explain the differences in reform trajectories that exist even among CEE countries within regime clusters or with similar growth regimes, political agency has to be brought back in. Many studies argued that in spite of the constraints of transition, party politics, namely partisan control of government played a role both in individual reform outcomes and reform trajectories in Central and Eastern Europe. However, these studies led to contradictory findings: some scholars found right-wing and/or anti-Communist parties to be the driving force behind liberalisation (Fish, 1997; O'Dwyer & Kovalcík, 2007; Makszin, 2013) and left-wing parties to spend more on social policies and education (Careja & Emmenegger, 2009), whereas others found left-wing dominated governments to be just as or even more neoliberals (Cook & Orenstein, 1999; Tavits & Letki, 2009). The main reason for the contradictory findings lays in how partisanship is conceptualised in these studies. Moreover, these studies did not control for the structural constraints of the dependent development in Central and Eastern Europe.

It is widely accepted that in studying social policy change there is a "dependent variable problem", which is not merely a question of data but of theoretical conceptualisation (Green-Pedersen, 2004). Depending on what social expenditure data is used as a dependent variable, studies lead to very different findings. Furthermore, even if the same data are used as a dependent variable, how they are interpreted before any analysis has taken place can lead to contradictory conclusions. E.g., overall social expenditure levels continued to grow in most mature welfare states in spite of the overall trend of austerity, retrenchment and liberalisations. Yet, many scholars do not find this paradoxical as without retrenchment there would have been a much larger expansion, they argue.

However, just as the brief review above demonstrates the study of partisan effects on social and economic policy equally suffers from independent variable problem as well. Just as in the case of the measurement of social policy change, how partisanship and party system properties are conceptualised bears on the findings. The traditional approach to partisan effects on policy change assumes that right-wing and left-wing parties hold *ceteris paribus* contrasting positions on welfare and economic policy. These positions are posited to be independent from electoral change, party system properties (party competition and its configuration, and electoral institutions), and the linkages between parties and the electorate as noted by Häusermann et al. (2013) in their review article of party politics and the welfare state. The present analysis instead assumes that policy positions of governing parties are contingent on the dynamics of party competition. Most importantly the spatial configuration of the party system, the credibility and coherence of the policy alternatives represented by the opposition, and whether party competition is structured around a socio-economic, redistributive or a socio-cultural cleavage.

The book continues as follows, Chapter 2 lays the foundations for the framework of analysis of the book by critically reviewing alternative explanations of CEE liberalising reforms that seek validity across the entire universe of post-Communist cases for one main explanatory variable or mechanism. Namely, political institutionalist explanations, studies built on partisan theory, and studies assessing the role of international financial organisations and the EU. Political institutionalist arguments emphasise the role of the level of insulation of the executive – that is of veto players – in economic reform in the immediate transition to market economy in the wake of the collapse of communist command economies. There are two competing strands: those studies that argues that an insulated and strong executive is beneficial for liberalising reforms and those that argue for the importance of inclusion and multiple veto players in successful economic transitions. Studies based on partisan theory are similarly contradictory, there are studies that identify left-wing political parties behind neoliberal reforms in CEE and ones that emphasise the role of centre-right parties. The literature of the influence of external actors in turn suffers from a clear causal mechanism of exactly how this influence manifests itself in domestic policy decisions. Finding all these literatures wanting in explanatory power, Chapter 2 introduces the party agency and party competition framework bringing together partisan theory and political institutionalist reasoning in policy reforms. Chapter 3 draws up the framework of analysis, states the hypotheses, and provides the research design, sample and data used, as well as the operationalisation and measurement of variables. The main argument is that functional pressure for liberalisation is mediated and through and constrained by party competition. Chapters 4, 5 and 6 contain the empirical analysis as comparative case studies of the selected four countries, the Visegrád states, that is, Czechia, Hungary, Poland and Slovakia. For the dependent variable, that is economic and social policy liberalisation 10 policy fields are selected from the Liberalization Database 1973-2013 (Armingeon et al., 2019). The time frame is 1990 to 2014 and it is divided up to three time periods based on the EU accession process of these countries, thereby controlling for the main external influence on the politics and policy trajectories (Vachudova, 2005, 2008b) and the main enabler of growth models (Bohle & Regan, 2021; Bohle, 2021) of these countries: Chapter 4 from the collapse of communism in 1989-1990 to 1998-1999, when they became EU candidates, Chapter 5 from 1998-1999 to 2004, the year of EU accession, and Chapter 6 from 2004 to 2014 as EU members and the years of the Great Recession and economic recovery. Every empirical chapter consists of four identically structured analyses per country: the functional pressures are analysed by statistics of a standard-set of variables (GDP growth, public debt, government deficit, inflation, and unemployment) and other sources evaluating the economic situation (e.g., OECD economic surveys). This is followed by a concise analyses of party politics (patterns of competition, the salient issues, government policy, opposition strategies, etc.) based on Manifesto project data (Lehmann et al., 2023) and qualitative sources such as the Political Data Yearbook of the European Journal of Political Research. Subsequently, liberalising and deliberalising economic and social policy reforms are analysed in the context of functional pressures and party competition. Every case study is then concluded by a short discussion and summary of the analysis with a focus on the main finding. Every chapter is concluded by a concise comparative analysis of the case studies (with a focus of the main findings and hypothesis testing). Chapter 7 sums up the main arguments of the empirical chapters and provides a theory driven analysis of the findings.

Chapter 2. The importance of party competition in policy change

Introduction

As shown in the previous chapter, while the ideal typical models of post-Communist capitalist variance are successful in explaining the broad characteristics of the different countries' economic and welfare systems, they fail to explain the variance in the reform trajectories within and — as in the case for neoliberal restructuring — across the different clusters. Therefore, for the sake of building a theoretical framework for the dissertation, studies also must be reviewed that do not seek to build regime clusters based on mostly functionalist reasoning of comparative advantages and institutional complementarities but seek validity across the entire universe of post-Communist cases for one main explanatory variable or mechanism, or in case of qualitative case studies, are based on such theories. There are such three broad literatures explaining the political determinants of economic reform in general and in the post-Communist cases in particular: political-institutionalist explanations, studies built on partisan theory, and studies assessing the role of international financial organisations and the EU in reform progress.

2.1. Political-institutional explanations

Particularly, studies explaining the variance in early stage or first phase reforms – that is, the Washington Consensus reform agenda (Williamson, 2004) – based their analysis on the political-institutional setup of a country. The main themes of this literature are the related problems of the role of veto players (Tsebelis, 2002) and the time-inconsistency of reforms (Przeworski, 1993; Rodrik, 1996; Fernandez & Rodrik, 1991).

Przeworski (1993) argued that economic reform was mostly a temporal problem, namely of time-inconsistency. That is, the consequences of reforms follow a J-curved shape: the costs appear immediately, and the benefits follow only later. The more radical the reform, the heavier the costs, but the recovery might also be faster. The dilemma is that under democratic conditions governments might not survive the deepening of the crisis because of popular backlash. The losers of reforms can simply vote reformers out of office and the whole transition process might crumble. The first debate among political economists was about how to best overcome this: with swift and decisive reforms (Balcerowicz, 1995; Åslund et al., 1996; Sachs & Woo, 1994) or gradualist, sequenced reforms (Dewatripont & Roland, 1992a, 1992b, 1995; Przeworski, 1993). Fernandez and Rodrik (1991) find that because of individual uncertainty of the distributional effect, policies that would be supported by a majority *ex post* are often blocked *ex ante*, even if the net gain is certain. According to the model, compensation might not be the solution to overcome the gridlock, as losers rightly assume that once the reform is implemented the *ex ante* commitment of compensation is not credible *ex post*. The war of attrition model of Alesina and Drazen (1991) states that the timing of stabilisation (due to exogenous shocks) is endogenous and cannot be understood as viewing the policy maker as a benevolent planner maximising welfare. There is a disagreement between socio-economic groups about how to share the distributional consequences of policy change. A rational heterogeneous agent, that is, delays stabilisation. Stabilisation is implemented only when the costs of delay become too high to one of the opposing groups to bear them and it finally gives in. A political implication is that political systems with fewer veto points might stabilise earlier.

Standard veto player theory predicts that the more (institutional and partisan) veto players in a political system, the more the bias for the status quo will be.

“Veto players are individual or collective actors whose agreement is necessary for a change of the status quo.” (Tsebelis, 2000, p. 446)

Tsebelis (2002) distinguishes between institutional and partisan veto players. Institutional veto players are the legislation, the presidency or a constitutional court, whereas partisan veto players only matter when they represent a credible division within an institutional veto player (for example in the case of a coalition government). The main argument of Tsebelis (2000) is simple, the more veto players needed for a certain decision, the more likely it is that the status quo prevails (or the result will only be incremental change).

In line with the J-curve hypothesis, Sachs and Woo (1994) based on experiences in Poland and Russia, stated indeed that swift and far-reaching reforms must be implemented to quickly overcome the status quo and to lock in net gains. This can only be done by a stable and strong executive, as in the midst of a deep economic crisis there is simply no time and room for compromise and for building democratic majorities for reform. Similarly, Nelson (1993) also found that reform progress in Eastern Europe relied on the insulation of (often technocratic) executives from political and societal pressures. This was largely helped by the political and institutional disarray in the immediate aftermath of the collapse of the Communist party state. Nevertheless, this window of opportunity, or honeymoon period was closing rapidly, she warned. Leszek Balcerowicz (1995), who as a finance minister was the architect of the Polish shock therapy of 1989-1991, made a similar argument emphasising the importance of the “time of extraordinary politics” at the very outset of transition as the moment for the implementation of a decisive and swift reform agenda.

However, other studies on early-stage reforms in the post-Communist context found that political openness and large number of veto actors facilitated reforms, and insulation, the concentration of power in the executive led to partial reforms or non-reform. Fish (1997) found that the most important determinant for the progress in liberalization (prices, financial markets, currency convertibility, trade, and entry barrier for new businesses) and privatization as of 1995 was the outcome of the initial elections. Where anti-Communist forces were able to oust the post-Communists, reform progressed rapidly. However, in countries where former Communists stayed in power reform progress ranged from slow to almost non-existent. Because of the short time frame of his study Fish (1997) only tentatively generalised his finding. He stated that reform trajectories might change in countries where political competition is relatively open and there is a chance for pro-reform forces to seize power.

Hellman (1998) also found that political openness was critical to the success of economic reform. However, the most important finding of his study is that it is not losers but early winners, who are the threat to reforms. Partial reform, that is, the liberalisation of some parts of the economy, while keeping other parts more or less unreformed creates ample rent-seeking opportunities for politically well-connected and well organised groups. These early winners do not block the initiation of the reform process but rather its further progress in order to preserve their net advantages, which are based on the market distortions of a partially reformed economy. The partial reform equilibrium is explained by the openness of the political system. Countries with higher levels of democratic quality were able to avoid the concentration of power in the executive and consequently were less susceptible to state capture by powerful rent-seeking interest groups.

M. Orenstein (2001) analysed the different early reform trajectories of the Czech Republic and Poland. The Czech Republic, as also shown by the graphs based on the Liberalization Database 1973-2013 had a more coherent reform path than Poland. Both countries implemented a shock therapy between 1989 and 1991, but Poland changed course. For example, Poland experimented with different models of privatisation, it was a complicated and slow process of trial and error. In contrast the Czech Republic stuck by its voucher-based privatisation program, which was soon mired in a web of shady cross-ownership of privatised firms, state-owned large banks and insurance companies, which created privatisation funds. It in fact prolonged state ownership. The lack of an adequate regulatory regime for voucher privatisation, and weak corporate governance led to corruption. The Czech welfare system was also much more resilient to change than the Polish one. M. Orenstein (2001) argues that the less stable Polish political system gave room for democratic alternation and generally unstable governments. Whereas in the Czech Republic the centre-right ODS was in government, with Vaclav Klaus as prime minister between 1992 and 1997 (Klaus was the finance minister already in the first democratic government, which was a coalition of all anti-Communist forces, that is, he and his political allies had already a tremendous influence on the initial economic policy choices). The political alternation in Poland facilitated learning. Erroneous policies were more likely to be updated, reversed and changed than in the Czech Republic. The findings of the European Bank for Reconstruction and Development’s 1999 Transition Report (EBRD, 1999) on the politics of economic reform arrived at conclusions in line with the argument of Hellman (1998) and M. Orenstein (2001). The report found that in contrast with the conventional wisdom, economic reform progressed fastest in countries with weak executives and broad coalition governments

(EBRD, 1999, pp. 102-114). Furthermore, multiple veto players found to be positively associated with the rule of law by Andrews and Montinola (2004).

O'Dwyer and Kovalcík (2007), however, analysing the political determinants of second generation reforms find that insulation from opposition and lower number of veto actors explain the progress of these policies. They find that the level of party system institutionalisation — generally lower in Central and Eastern Europe in comparison with Western European countries — is a powerful predictor of neoliberal restructuring. In weakly institutionalised party systems, the opposition is not able to block aggressive liberalising reforms, and it is politically also much less risky for the government to implement them.

Frye (2002) questioning both the arguments for insulation, strong executives, the importance of relations to international financial organisation, and the arguments for multiple veto players finds that it is political polarisation between anti-Communist and post-Communist parties that hampers economic performance. Frye (2002) builds the argument on the war of attrition model of Alesina and Drazen (1991). According to Frye (2002) political polarisation impedes the consolidation of different political actors on similar policy ends. He adds, that polarisation also exacerbates the problem of credible commitment because it increases the probability of sharp changes in economic policy (it undermines the trust of economic actors). His analysis confirms that the level of political polarisation between anti-Communist and post-Communist political parties increases economic volatility and negatively affects growth.

2.1.1 Critique of political-institutional explanations

There are two main contradictory strands: those studies that argue for strong executives, or at least insulation from public pressure, and those that argue for inclusion and multiple veto players. According to Gehlbach and Malesky (2010) this might be because of the different political logics behind first and second generation reforms. They introduce an actor absent from standard veto player theory, special interests that do not have formal veto power themselves but can effectively lobby and influence institutional and partisan veto players. In direct reference to Hellman (1998) they hypothesise that with multiple veto players the power of special interests is more limited. Special interests must compensate each veto player to overturn the status quo in a way that favours them. With multiple veto players this becomes costly, and less attractive. That is, the presence of multiple veto players in a political system decreases the likeliness of outcomes that benefit only narrow groups. As far as the initial reform agenda of broad efficiency-enhancing reforms are concerned, their findings confirm the argument for multiple veto players. When the status quo is no reform or partial reform the number of veto players are positively and statistically significantly associated with the movement towards full reform: one standard deviation increase in the number of veto players increases reform progress with 4.09 on a 100 points scale. The number of veto players also decreases the likeliness of reform reversals. However, as the status quo level progresses as measured by the EBRD transition scores, for values close to the mean the effect loses significance. On the other hand, at the highest level of the status quo (86.7% achieved only by Hungary as of 2004) one standard deviation increase in the number of veto players is estimated to decrease the movement towards full reform by 3.61 points. Gehlbach and Malesky (2010) refer to the findings of O'Dwyer and Kovalcík (2007) that their qualitative study provides evidence consistent with this finding. The second phase reform agenda is politically more contested, as these reforms have large distributional consequences, many of them are social policy and labour market reforms (retrenchment, eligibility tightening, and privatisation of social services, health care, and pension systems).

The finding of Frye (2002) refutes both positions and identifies the level of political polarisation between anti-Communist and post-Communist parties as significantly and negatively related to economic growth (a 10-point rise in the polarisation index is associated with a 2.6 percent decrease in growth). Polarisation is not only linked to growth but also to policy volatility. Countries with higher levels of polarisation experiences higher levels of policy volatility, that is, volatility in their World Bank Liberalisation Index. This volatility does not reflect policy learning but rather a cycle of reforms and reversals. The time frame of the study was 1990 and 1998, that is, the finding might lose its relevance on a bigger time frame or for second generation reforms. The inclusion of the reformed Communist parties of Hungary, Lithuania, Poland, and Slovenia does not change the direction and the significance of the results only mitigates the effect but not substantially. Åslund et al. (1996), however, explains the gradualist Hungarian strategies not only with its early mover advantage, i.e. that already Communists governments started the process of liberalisation, but also with the nature of the first conservative-nationalist government, which won against liberal opponents that were in favour of a more liberal reform agenda. Similarly, the nationalist government in Lithuania focused initially rather on privatisation than liberalisation or price stabilisation, they argue. This leads us, however, to partisan explanations, which are discussed below in detail.

Appel and Orenstein (2018), however, point to the fact that the debate about “shock therapy” vs gradualist strategies and the underlying theoretical assumptions were falsified by how the liberalisation process eventually unfolded in the post-Communist universe of cases. Liberalisation proved to be “the only game in town” pursued by governments of every colour and every country, regardless of the institutional characteristics (that is, whether the constitutional system produced inclusive or insulated governments). To explain this phenomenon, they introduce the notion of competitive signaling, a theory from international relations. They argue that post-Communist countries were so heavily dependent on foreign direct investment, foreign capital (for their financial systems) and technology transfer (also in skills, that is, how to run capitalist firms and markets) than no other developing region in history. In this environment, neoliberal reforms served as a credible commitment mechanism for reforms and capitalist credentials of governments towards investors and international financial markets. Neoliberal reforms meant that the country was serious about doing the right thing. The impetus for reforms only halted with the Great Recession. However, considering the unfolding democratic regression in most of the CEE EU member states, particularly in Hungary, Poland and Romania, the jury is still out whether the Great Recession signalled an end to the neoliberal era or just a beginning of a more heterodox, politically authoritarian version of it (e.g., Scheiring, 2020b; Bohle & Greskovits, 2019) or even that it proved the resilience of neoliberalism **(Šitera, 2021)**.

2.2. The role of international financial organisations and the EU

The EU had the greatest role in the economic reform process in Central and Eastern Europe by far among international organisations active in the region. Mrak and Rojec (2013) demonstrates this by mapping the averages and the standard deviations of EBRD reform indices between 1989 and 2010 for three group of post-Communist countries: nine new EU member states (NMS), seven formal and informal candidate countries (CC), and the three

European Commonwealth of Independent States (CIS) countries, Belarus, Russia, and the Ukraine. The authors also distinguished between stage one reforms, that is, price liberalisation, trade and foreign exchange system, and small privatisation, and stage two reforms, that is, large scale privatisation, enterprise restructuring, competition policy, banking reforms and interest rate liberalisation, securities markets and non-bank financial institutions, and infrastructure reform. Mrak and Rojec (2013) states that stage two reforms are those that represent the core of the transition process, the complex and difficult part of it. NMS countries have a substantial lead in the overall reform index over CC and CIS countries, they are close to the level of what is the standard in advanced market economies. They are followed by the CC and CIS in this order. Separating stage one and stage two reforms makes it clear that real difference between NMS and CC countries is in stage two reforms (although the average score of NMS suggest that they too have still some way to go), in stage one reforms there is only a minuscule difference between the two groups as of 2010. In turn, the difference between CC and CIS countries is due to the lead of CC over CIS in stage one reforms.

Regarding stage two reforms there is not much difference between the two non-EU groups. The NMS countries also progressed much faster than the CC and CIS countries. The reform process of the new EU members was also more even, there was much more variance within the CC and CIS group. In case of NMS the timing of and the trend in reduction of the standard deviations both for stage one (sharp) and stage two reforms (gradual and slow) clearly show the influence of the EU. The same can be said about the candidate group just later in time, which again confirms the influence of the EU. Whereas there is not much convergence in stage one reforms in the three European CIS countries, and in stage two reforms they show the highest within group variance.

Through which mechanism does the EU influence reform outcomes? And which reforms?

Vachudova (2005) distinguishes between the passive and active leverage of the EU. Between 1989 and 1994 the EU exercised passive leverage. Domestic political actors had a large autonomy in implementing economic reform and in adhering to democratic principles. During this period the EU did not apply conditionality criteria in its agreements and financial assistance programs. The EU signed the Trade and Cooperation Agreement with countries like Romania or Bulgaria, although both countries were stuck in partial reform and had increasingly illiberal leaders. The EU also signed the EU Agreement with both countries in 1993 (Vachudova, 2005, pp. 98-103). This strengthened the illiberal leaders in these countries and possibly prolonged their reign. On the other hand, in countries with democratic governments the same programs helped to speed up and reinforce economic reforms and the democratisation. From 1994, however, as conditionality for democratic principles and the rule of law, and economic reforms were applied, the EU exerted more direct influence on domestic elites. This pressure also sent a clear message for electorates that with illiberal leaders and partial reform their countries will be left out from EU accession, thereby contributed to the electoral defeat of illiberal incumbents. Active leverage also helped to bring together groups opposing the rule of illiberal leaders (e.g. the rainbow coalition that ousted Mečiar in Slovakia in 1998). Conditionality also gave incentives for governments to adapt their policies with that of the EU, and other intergovernmental organisations such as the Organisation for Security and Co-operation in Europe (OSCE) or the Council of Europe. Vachudova (2008b) calls this an outsourcing of EU influence. Compliance with the rules and recommendations of these organizations served as screening for the EU Commission in evaluating the adherence to the Copenhagen Criteria for EU membership (adopted by the European Council in June 1993). Also, NATO accession was seen as a step towards EU membership.

Regarding economic policy, the EU with a demand for adopting laws and a progress with reform lengthened the time horizon of politicians and helped different parties to converge on similar policies. The progress in the accession process also served as a “credible commitment device” making reversals less likely and costly (Vachudova, 2005, p. 185). The EU Commission often relied on the evaluation of such IFIs as the IMF or the World Bank when assessing the economic policy of a candidate country (Vachudova, 2008b). In social policy, however, the EU played a much smaller role, although it did influence reform outcomes and priorities to an extent (Ferge & Juhász, 2004). But in pension policy for example it was the World Bank that played the largest role in the region with the promotion of its partially privatised model (Orenstein, 2008). The World Bank also influenced health care and social safety net reforms as part of lending agreements (Cerami, 2006). After the accession, in many countries the compliance with the rule of law and democratic rules faded (e.g., Ganev, 2013; Csaky, 2020, 2021). However, the EU through the Maastricht criteria continued to exert influence on fiscal policy (Greskovits, 2007, p. found this pressure for convergence destabilising for the region). Another major IFI in Central and Eastern Europe has been the IMF, which promoted privatisation and liberalisation. TNCs also played a role in policy outcomes. Drahokoupil (2009) describes how the Czech premier, Vaclav Klaus was forced to realise during negotiations with investors that they do not share his views about Czech exceptionalism, which contributed to the country’s turn towards the competition state.

2.2.1 Critique of the external influences' framework

What are the mechanisms of the interaction between external and domestic actors? Jacoby (2006, 2008) distinguishes between three modes of external influence: inspiration, coalition, and substitution. Inspiration is when domestic actors emulate foreign reforms without much interaction with external actors. Substitution is when external actors either build constituencies in a country for their policy initiative or implement it by force. But the most common form, argues Jacoby, is coalition, when external actors build coalition with domestic "minority traditions". The external influence of a powerful actor, as for example the EU accession process demonstrate or the building of reform networks, and the financial and technical assistance of the World Bank in case of pension reforms, can be decisive for a certain model of policy reform to be implemented. But as Vachudova (2005) also emphasises, domestic actors have a large degree of autonomy, and in the end, they make the decision and implement the reform. Also, the need for reform often arises from domestic circumstances and earlier policy decisions not merely from economic crisis. The Polish and the Hungarian pension reforms for example were on the agenda because of the "abnormal pensioner boom" of compensating workers for mass unemployment caused by collapse of the Communist industrial sector with early and disability pensions, which led to a mass exit from the labour market and put the countries' pension systems and budgets under a very huge pressure (Vanhuysse, 2006b). Even in this context, the Hungarian pension reform was almost immediately partially reversed and never fully implemented, which is again explained by domestic politics, namely that the reform process was not consensual as in Poland (Guardiancich, 2013). Even in a deep recession, governments might choose sovereignty in fiscal policy and finance the deficit on international financial markets much more expensively than with the lower rate IMF loan as the Hungarian government chose in 2011. Appel and Orenstein (2018) is equally critical about the explanatory power of studies emphasising the effect of international organisations on the reform process in Central and Eastern Europe as with political-institutionalist accounts. In fact, as they show, the neoliberal reform agenda implemented in most transition countries went far beyond the requirements of the EU accession or IMF conditionality agreements. In the case of pension liberalisation or particularly the flat personal income tax regimes, liberalising reforms were even implemented against EU recommendations.

This study will concentrate on domestic agency and treat external influences as coalitions between foreign and domestic actors. External influence cannot be treated as a constant. It must be discussed where it is appropriate. But external influence is contingent on the willingness of the domestic actors to engage with the external actor and the constraints and opportunities domestic actors face (whether constitutional, political, economic, social, etc.). As Kitschelt (2001) emphasised, conditions external to the party system 'were mediated by politicians' strategic calculations contingent on party system structure' (p. 282).

2.3. Partisan effects on social and economic policies in Central and Eastern Europe

2.3.1 The politics of permanent austerity

The political science literature on social and economic policy liberalisation, which was developed in Western context is based on the two assumptions that since the first oil crisis in 1973 the welfare state expansion stopped or increasingly slowed down, and instead a retrenchment took place in every mature welfare states. The debate is about its scope, significance and speed. Secondly, that the period roughly between the end of World War II and the 1980´s is significant not merely because of the expansion of modern welfare schemes, but because of the politics of welfare state expansion, which created important political, societal and business vested interests in favour of the welfare state.

As shown in the literature review about the varieties of post-Communist capitalism and growth models, governments in the region had to deal with volatile growth, cyclical economic crisis, and extreme external pressure both from investors and IFIs (first and foremost the EU both during and after accession). If Paul Person (1996) famously dubbed the social and economic policy context of mature welfare states since the 1980s as the period of permanent austerity, one can certainly apply this to Central and Eastern Europe since 1989. What seems not to be present in Central and Eastern Europe, however, is the "golden age" of welfare capitalism. In Western Europe and North America during the period of welfare state expansion — roughly from the end of the Second World War to the first oil crisis in 1973 – costly welfare programmes were institutionalised, which all created their own constituencies, and not just among the beneficiaries. The large state bureaucracies that were set up to administer these welfare schemes employed an increasing segment of the workforce. As emphasised by P. A. Hall and D. Soskice (2001) in countries such as Germany or Austria entire industries based their business models on a mix of state administered vocational education programmes and unemployment insurance schemes coupled with active labour market policies, which lowered the risk of workers to invest in highly specialised skills (and for firms to train and employ them). State ownership in key industries was widespread, as was the governmental control of financial markets (and with it credit allocation).

To the contrary of common beliefs and popular nostalgia for “state socialism”, Communist welfare states were not at all that extensive. As Szikra and Tomka (2009) show, even the most comprehensive Communist welfare states — such as the Polish, Hungarian or the Czechoslovak, the latter with strong social democratic legacies — only caught up with the pre-World War II social expenditure spending as a proportion of the GDP relative to Western countries by the early 1980s (and in Poland and Hungary this was paid by Western loans). This does not mean that these regimes were more austere than the democratic and authoritarian regimes before the World War II. — however, during the Stalinist period in the 1940s and 1950s they clearly were — but it signals that welfare state expansion was much more limited and slower than in Western Europe. Despite Communist propaganda, the relative distance in the size of welfare provisions was never closed with Western Europe. In fact, Central and Eastern Europe drifted further away from Western Europe in this respect as well. Moreover, many social provisions were provided through labour unions (themselves important organs of the party state) and the workplace. Nevertheless, price subsidies, subsidised housing, free education and health care, pensions (with different rules and entitlements for different occupational groups, often with a possibility of retirement even before the age of 50) were provided by the state. There was no real unemployment (unemployment was also criminalised), although, this meant “concealed unemployment” of redundant workforce within workplaces (Kornai, 2000).

However, one of the main paradoxes of the transition process is that the (radical) economic liberalisation agenda of the transition from a command to market economy contained the simultaneous implementation of modern welfare programmes of contribution-based unemployment insurance, social assistance, and pension systems. Moreover, most of the countries all experimented with some form of tripartite social dialogue structure in the first decade of the transition. Employment protection legislation also had to be implemented with the creation of labour markets. As Inglot (2008b) argues the resulting social policies were of “emergency” in nature. Policy makers were experimenting with different social policies compensating for economic liberalisation (often led by powerful communist era social policy administrations, which stayed more or less intact). Haggard and Kaufman (2009) found that post-Communist welfare states were far more generous than their Latin-American or Asian counterparts, and post-Communist states also employed much more workforce (almost Western European levels). Therefore, the differences between Central and Eastern Europe and Western Europe notwithstanding, the literature on the politics of welfare state retrenchment is a good starting point for a theoretical framework for studying partisan effects in socio-economic policy making in post-Communist democracies.

2.3.2 The new politics of the welfare state and its critics

Paul Pierson (1996) stated that the politics of retrenchment of mature welfare states is fundamentally different from the politics of expansion. Based on the analysis of the cases of the United Kingdom, the United States, Germany and Sweden the article argued that both power resources theory and new institutionalist accounts had only limited success (if at all) of explaining retrenchment. The “new politics of the welfare state” paradigm theorises that mature welfare states created their own constituencies, hence the limited success of liberalising governments even in the face of the increasingly diminishing power of organised labour and dwindling labour party support. Pierson hypothesises that significant retrenchment might appear in the presence of electoral slack, when a government is strong enough to withstand electoral punishment for reform (which might be facilitated by institutional features, such as a majoritarian electoral system). Second, budgetary crisis might constitute a window of opportunity for reform. Third, the likeliness of implementing retrenchment depends on how successfully the reformers can obfuscate their responsibility for cutbacks (for example with compensation for socially well-organised groups, thus, dividing and thereby pacifying different societal groups). Fourth, changing institutions can be very important. Pierson states that for example in the context of European integration:

'If reforms can be presented as legally required or economically imperative because of the single market or moves toward monetary union, national governments may be freed from some blame for welfare-state cutbacks.' (Pierson, 1996, p. 178).

The "new politics" approach received many criticisms. Most famously Allan and Scruggs (2004) and Korpi and Palme (2003) questioned that the retrenchment had been only incremental. These and other studies argue that without retrenchment the growth in social expenditure would have been much higher. Also, "new politics" is based on the idea of salience of social policy. Armingeon and Giger (2008) and Giger (2011) have shown the salience of social policy was far from being universal and conditional at best. Giger and Nelson (2011) only found partisan effect for religious and liberal parties, and these gained votes for retrenchment. Obinger et al. (2014) on a sample of 20 OECD countries found significant partisan effects on privatisation. Left-wing governments were more likely to privatise only in times of economic crisis, whether right-wing governments privatised even in the absence of an external shock.

Economics research also found that the politics of retrenchment was far from being universally unpopular or even politically salient. Throughout the political economy of policy reform literature it is a common assumption that voters distinguish between retrenchment and increase in spending, and might even punish spending and reward cutbacks depending on the social program (Peltzman, 1992; Alesina et al., 1998; Alesina et al., 2011). Buti et al. (2010) test the effects of structural reforms rather than fiscal stabilisation on the re-election probabilities of governments. They find that income tax cuts are rewarded electorally, while employment protection legislation and pension reforms are punished. Reforms of non-employment benefits have positive effect, whereas product market reforms are insignificant. That is, reforms that benefit well-defined groups with low indirect costs are politically rewarding, whereas reforms that hurt the interests of well-organised groups of insiders are costly.

All of this points to the fact that class interests are still an important factor when it comes to electoral reward and punishment for reforms. These findings are in line with the findings on the popularity of welfare schemes (e.g., van Oorschot, 2006) and the literature on how different social policies affect different beneficiaries differently based on their risk profiles (that is, whether the program is aimed at alleviating life course or labour market related risks) (Esping-Andersen, 1999; Jensen, 2012). Blyth (2002) describes liberalisation as the mirror image of the very democratic class struggle that drove expansion before the first oil crisis and the subsequent emergence of neoliberalism. The implication of the “new politics” approach that partisan differences lose their importance in the politics of retrenchment were refuted most notably by Allan and Scruggs (2004).

2.3.3. Partisan effects in Central and Eastern Europe

Regarding partisan effects, the findings on Central and Eastern European cases are contradictory. Several studies identified left-wing parties as the main political force behind liberalisation. Tavits and Letki (2009) in a quantitative study find that left-wing governments are more likely to implement right-wing economic reforms, that is, liberalise in Central and Eastern Europe. They explain this with the characteristic of reformed post-Communist parties that are largely sheltered from popular backlash as their voters choose them for other reasons than economic or social policy (nostalgia for Communism, socio-cultural cleavages, fear from the right), and that these parties re-invented themselves as pro-Western, pro-reform as they did not have other sources of legitimacy (anti-Communism, nationalism, religion, etc.) (see Grzymała-Busse, 2002). Cook and Orenstein (1999) although in their case study on the Polish and Hungarian reformed post-Communist left emphasised that the Polish socialist government also implemented leftist social policies, nonetheless, found that both parties and particularly the Hungarian Socialist Party engaged in liberal economic and social policies.

However, other authors found that the traditional left-right divide in economic and social policy also applies in Central and Eastern Europe. In their quantitative study, Careja and Emmenegger (2009) find left-incumbency to be positively correlated with the change in total public and social expenditure levels. O'Dwyer and Kovalcík (2007) identify in their qualitative study centre and right parties as the main actors behind the neoliberal restructuring in Bulgaria, Estonia, Romania, and Slovakia at the beginning of the 2000s. Schmidt (2012) in several regressions on social expenditure levels on a sample composed of both Western

European countries and post-Communist EU member states identifies two groups of countries within the post-Communist half of the sample. Partisan effect seems to hold only in the Czech Republic, Hungary, Poland, Slovakia, and Slovenia. This group is an overspender on social policy relative to partisan composition of government, proportion of the elderly, and economic wealth, while the Baltic states, Romania and Bulgaria are underspenders.

What is clear from these studies that one must be careful in using the left and right stance of governments as a predictor of economic and social policy in Central and Eastern Europe. However, there were also left of centre parties that engaged in liberalising policies in the Western European context. In Germany the social democratic-green coalition of Chancellor Gerhard Schröder implemented the Agenda 2010 reforms, which (partially) liberalised the labour market and retrenched the unemployment insurance and social assistance systems. In the United Kingdom, the New Labour governments under Tony Blair also engaged in liberalisation and generally pursued a market friendly economic policy. The Swedish social democrats liberalised financial markets during the 1980s and implemented a dual income tax regime in 1991 – where income from capital and labour is separated and the former is taxed on a single tax rate, while the latter is continued to be taxed progressively. Similarly, in Hungary it was a socialist-liberal coalition government that implemented a harsh stabilisation package in 1995, and partially privatised the pension system in 1998. In Poland it was a socialist-agrarian coalition government that accelerated privatisation by implementing a voucher-based mass privatisation program in 1995 and direct sales for (foreign) strategic investors in 1996. In Romania, although blocking reforms when in government between 1989 and 1996, the post-Communist turned social democrats as they returned to power in 2000, did not stop the liberalisation and privatisation process initiated by the former right of centre government. However, caution is advised again. Frye (2002) found that the significance of the negative effect of the level of political polarisation between post-Communist and anti-Communist parties on reform coherence and growth did not change substantially when the reformed post-Communist parties were distinguished from the non-reformed post-Communists.

On the other hand, the finding of O'Dwyer and Kovalcík (2007) holds that it was right and centre governments that initiated neoliberal restructuring, or as they call them “second generation reforms”. Even in Romania and Bulgaria, where parties are generally seen to be clientelist, with incoherent policy stances, and a common drive for state capture (Crowther & Suciu, 2013; Ganev, 2013), the socialists were generally labour friendly, whereas the right was anti-labour and implemented liberalisations to the labour code. On the other hand, while Hungary would fit this pattern, it cannot be generalised, as for example in Poland at least parts of the right are labour friendly (PiS is also pro-welfare). Similarly, the nationalist governments of Vladimir Mečiar in Slovakia until 1997 were also labour friendly, and even then, the ensuing conflict that pulled the biggest trade union confederation to the anti-Mečiar camp was not about liberalisation but the independence of trade unions from government control. Vachudova (2008a) separates illiberal independence right and communist nationalist parties from economically usually liberal and Western-oriented centre right parties (note, her framework puts a group a non-reformed post-Communist parties to the right). The two groups pursued very different policies and had opposing foreign policy goals. However, some formerly centre right parties, most notably the Hungarian Fidesz, became increasingly Eurosceptic and nationalist in the 2000s (particularly after EU accession).

Makszin (2013) instead of assuming a uniform left or right effect on social policy, measures the direction, the coherence, and the distance from the status quo of the policy preferences of governments. Her framework treats the parties of coalition governments as partisan veto actors. She hypothesises that governments with low ideological coherence will resort to incremental or passive changes (whether liberalising or de-liberalising), such as changes in the indexation of benefits, and governments with high ideological coherence will implement substantive, visible changes, such as significant cuts or structural reforms. Her framework allows for technocratic executives to implement significant, visible reforms in incoherent coalitions, as in Central and Eastern Europe coalitions of parties with very different stance on social policy led by technocrats is not unusual.

The framework of Makszin (2013) is promising because it does not assume constant and unidirectional partisan effects along a simple left-right dimension but takes into account the composition and policy preferences of governments. It therefore offers a solution to overcome the contradictory findings of the partisan effects literature on Central and Eastern Europe. Makszin (2013), however, only took into account social policy reforms and left out economic policy reforms, and more importantly, she neither took into account party system properties, nor the structural relations among parties (Kitschelt, 2001).

2.3.4. The role of partisan competition

The framework of analysis of the dissertation brings together partisan and political-institutionalist explanations of the policy reforms in post-Communist countries, and concentrates on partisan competition, that is, party system structure in explaining liberalisations and de-liberalisations in five labour market and social policy fields (employment protection legislation, non-employment benefits, active labour market policies, pensions, and healthcare) and five economic policy fields (industrial relations, privatisation, personal and corporate income taxation, competition and product market policy, and financial market regulation).

Giovanni Sartori emphasised in his seminal essay “From the Sociology of Politics to Political Sociology” that a party system intervenes in the political process ‘as an independent *system of channelment*, propelled and maintained by its own laws of inertia’ (Sartori, 1969, p. 2010, italics in the original). Yet, the traditional partisan politics paradigm posited that goals and choices of parties are ultimately a function of their class constituency (Häusermann et al., 2013, p. 229). However, in political science for the last 20 years alternative approaches that do not assume universal policy preferences of parties based on party family have become ever more prevalent. There are scholars, who treat the party system itself as the most important explanatory variable, conditioning on competition dynamics stemming from different party system configurations (Kitschelt, 2001; Green-Pedersen, 2002; Picot, 2009). In their review article on the new approaches to the role of party politics in welfare state retrenchment Häusermann et al. (2013) differentiate between two perspectives on the role of party competition in policy formation. The first by Herbert Kitschelt (2001) views left-wing competition as a hindrance to liberalising reforms and retrenchment, whereas right-wing competition is seen as enabling. In addition, the ability to enact liberalising reforms and austerity depends on the credibility, organisational flexibility of the opposition, and equally importantly on the salience of socio-economic issues. Häusermann et al. (2013) see the model of Kitschelt as being closer to the traditional approach, and Kitschelt does not theorise why parties implement retrenchment in the first place, he is more concerned by the enabling factors.

The other perspective, which is more fundamental according to Häusermann et al. (2013), has a strategic understanding of party competition (Green-Pedersen, 2002; Picot, 2009). Instead of seeing parties as mere functions of a class or class-coalition, this view states that parties are partially autonomous from social structures and act "in a top-down manner' in order to 'deploy social policy to mobilise electoral support' (Häusermann et al., 2013, p. 231). However, the research question of the "new partisan politics" approach remains the shifts in electoral coalitions behind welfare policies and how these in turn affect party positions. For example, Gingrich and Häusermann (2015) argue that as right-wing parties acquired working class voters, their support for the welfare state increased too even in the case of the far right. In a similar fashion, Arndt (2017) found that as the Swedish conservatives (Moderaterna) gained an increasing share of the social democratic core electorate between 2006 and 2010, their stance also shifted to the left on the welfare state (if only temporarily, one might add in hindsight).

Still, the "new partisan theory" framework allowed for a new focus on the role of partisan competition. E.g., in his study on the politics of German unemployment insurance and social assistance reforms since the 1970s, Picot (2009) found that policies are deliberately employed to appeal to important group of voters. That is, parties are flexible regarding their preferred policies based on the spatial configuration of the party system at the time, and do not necessarily pursue static ideological policy programmes. The higher importance given to party competition and strategic consideration is consistent with the view that parties since the Second World War has become increasingly independent from their historical core voters (Häusermann et al., 2013).

However, Wenzelburger and Zohlnhöfer (2021) go even further and offer an agency-based approach to party politics. As they argue, "new partisan theory" endogenizes party positions as a function of voter preferences (Wenzelburger & Zohlnhöfer, 2021, p. 1057). Following Strøm (1990) they argue that party programs are not necessarily directed at voter's preferences but equally reflect the position of party members, activists or elites. Moreover, electoral constraints can also perceived as context variables rather than the "key force driving policy choices" (Wenzelburger & Zohlnhöfer, 2021, p. 1058). Parties are thus not mere transmitters of voter preferences; e.g., party elites have their own policy preferences and because of time and information overload they are not fully rational decision-makers but resort to heuristics such as their core beliefs (Wenzelburger & Zohlnhöfer, 2021, p. 1059). That is, the core hypothesis of the agency-based framework is that parties advocate different policy options because their member and elites have different core ideologies. Whereas in contrast the new partisan theory hypothesises that the difference between the programmatic positions and policies of parties differ based on the class composition of their electorate (Wenzelburger & Zohlnhöfer, 2021, p. 1060). Nevertheless, Wenzelburger and Zohlnhöfer (2021) do not argue that electoral politics does not matter, but that its effects on the policy-seeking and agency of parties are based on the following conditions. A) High electoral uncertainty makes it more likely for parties to try to accommodate the median voter. B) Electoral competition pressure parties to follow voter preferences rather than their own ideological preferences. C) Mainstream parties are more likely to follow the median voter than niche parties. D) The structure of the party system matters: if a party is less likely to lose power (that is, sheltered from party competition to a higher degree), it is more likely to pursuit its policy positions than follow the median voter.

In Central and Eastern Europe, electoral volatility has been always higher than in Western Europe, particularly punishing governing parties (Roberts, 2008; Enyedi & Casal Bértoa, 2018). Party systems in many countries also become less institutionalised with time since the first democratic elections (Bértoa & Mair, 2012), and party instability on average also more than doubled between the 1990s and the 2010s and is almost three times higher than in Western Europe (Enyedi & Casal Bértoa, 2018). Furthermore, party-voter linkages were never high to begin with and negative party-identifications far-more outweighed positive ones in the first half of the 1990s (Rose & Mishler, 1998), and this low-level of trust and party identification has been characteristics of these polities ever since (Rose & Munro, 2009; Haerpfer & Kizilova, 2014). High volatility, low trust, weak societal embeddedness of political parties, and weak civil societies resulted in a floating system of parties; in new European democracies on average 30 parties contested at least one election, but only two have contested every election between 1990 and 2008 (Rose & Munro, 2009). That is, positing a large autonomy of the party system and conditioning on party system competition dynamics in explaining partisan effects on policy reform outcomes is hardly out of place in the Central and Eastern European context.

The dissertation conceptualises policy positions of governing parties being contingent on party system properties, namely, the structure of party competition (economic vs socio-cultural cleavage), and the alternative policy positions represented by the opposition contingent on the spatial configuration of the party system. In accordance with Kitschelt (2001) the institutional characteristics — e.g. the electoral system, the alternation in government, party system institutionalisation — will not be treated as independent variables, their effects will be measured directly at the level of government and opposition coherence. By doing so also offers a solution to re-examine an earlier debate whether inclusive or insulated governments are better positioned to implement liberalising reforms (Nelson, 1993; Sachs & Woo, 1994; Balcerowicz, 1995; Hellman, 1998; M. Orenstein, 2001; O'Dwyer & Kovalcík, 2007; Gehlbach & Malesky, 2010).

2.3.5. Responsible party governance in Central and Eastern Europe

Is there meaningful party governance in Central and Eastern Europe? Before partisan effects on policy reforms is to be conceptualised and measured, the problem of party governance in Central and Eastern Europe must be addressed. It must be determined if one can even speak about meaningful party governance in the region. Partisan systems in Central and Eastern Europe are much less institutionalised than in Western Europe. In fact, these party systems did not become more institutionalised with time. If anything, they became less institutionalised (Bértoa & Mair, 2012). This is important because institutionalised party systems provide programmatic competition between parties, thereby facilitating for voters to make meaningful choices based on past performance and lengthen the time horizon of politicians (Tóka, 1998; Mainwaring, 1999; Bértoa, 2009). Electoral volatility is also several factors higher than in Western Europe, particularly the cost of governing is very high as shown by Roberts (2008), who called this phenomenon hyper accountability. In Central and Eastern Europe new parties emerge and fade away constantly (Tavits, 2008). Can one even talk about stable cleavages, representation consistency, that is, meaningful party governance in Central and Eastern Europe?

Whitefield and Rohrschneider (2009) and Rohrschneider and Whitefield (2010, 2007) found that despite all of the above, parties in Central and Eastern Europe fulfil the conditions of representational consistency. Party positions on issues are structured in a common and unidimensional way across the region. Issue salience is, however, country specific, which shows that parties successfully adapt to changing political contexts. Whitefield and

Rohrschneider (2009) conclude that ‘party cleavages exist that both reflect the conditions of post-Communism more generally and are specifically relevant to country conditions’ (p. 307). That is, electoral volatility and low level of institutionalisation do not necessarily inhibit a party systems ability to offer consistent choice sets for voters. Rohrschneider and Whitefield (2010) identified three mechanisms through which parties must present voters with consistent choice sets for party government to work effectively: menu consistency, source consistency, and dynamic consistency. Menu consistency refers to the party system as a whole and empirically contains two requirements. First, there must be a ‘similar degree of spread’ over different salient issues over time (Rohrschneider & Whitefield, 2010, p. 59). For the purposes of this analysis, that is, what is important that the distribution of economic and social policy issue stances between different parties is stable in a party system. Second, menu consistency also means that parties that disappear, persist or emerge do not represent fundamentally different policy stances. That is, even in a volatile party system as parties disappear, persist or emerge they do so along similar cleavages and occupy similar issue positions. On the general level source consistency means that comparable parties adopt comparable stances on the same issues over time. However, it is not a coincidence that Rohrschneider and Whitefield (2010) called it source consistency and not party stance consistency, because it ‘focuses on whether the sources of party stances are comparable over time’ (p. 60). That is, factors that form the basis for a stance of a party at a given policy issue t are related similarly to the same policy issue at t+1. This is important to keep in mind to understand the concept of dynamic consistency. As history is not static, under certain circumstances changes in party stances are necessary to uphold representational consistency. However, change in party stances must be a consistent one. Dynamic consistency means that if the factors that define party stances of a given issue at t change systematically then party stances of the same issue are expected to change in line with the systematic change at t+1. That is, if there are changes on stances on a certain issue, 'they should be systematically and predictably related to changes in those factors that in cross-sectional analyses are the strongest predictor of party positions' (Rohrschneider & Whitefield, 2010, pp. 60-61). In a series of articles and a book on different salient issues Whitefield and Rohrschneider (2009) and Rohrschneider and Whitefield (2010, 2007, 2012, 2009) found that Central and Eastern European party systems provide voters with consistent choice sets so defined. That is, CEE party systems provide "responsible party government".

Chapter 3. Theoretical Framework, Hypotheses, Measurement, Case Selection and Methods

Introduction

In this chapter I create the framework of analysis of the book, state the hypotheses and draw up the research design. The proposed framework explores the relationship between party systems and liberalising policy reforms in the context of Central and Eastern Europe (CEE) on the sample of the four Visegrád countries, Czechia, Hungary, Poland, and Slovakia between 1989 and 2014. The case selection controls for the most important external influences and capitalist regime type and growth model. These countries had the same EU accession process joining the EU together in 2004. Moreover, they are all characterised by high value added export sectors in manufacturing and electronics, they boast relatively generous welfare regimes, hence characterized as embedded neoliberals (Bohle & Greskovits, 2012) or FDI-driven export-oriented growth regimes (Bohle & Regan, 2021; Bohle, 2021; Schedelik et al., 2021). At the same time, they show a great variance in their liberalisation (and deliberalisation) reform trajectories and their party systems (level of closure, institutionalisation, main cleavage, and issue dimensions).

The hypotheses presented aim to disentangle the influence of party policy and ideological preferences, party competition, and the structure of the party system on policy outcomes. The dependent variable is policy reforms (that is, policy output and not macroeconomic indicators of policy outcomes) across 10 economic, labour market and social policy fields as described and measured by the Liberalization Database 1973-2013 (Armingeon et al., 2019) Based on the findings of Armingeon (2012) the analysis is based on the assumption that CEE party policy profiles are similar to Western European ones. It is hypothesised that the spatial composition of the party system plays a crucial role in shaping policy options. I argue that while the salience of redistributive issues is a necessary condition for visible policy change in the CEE context too, however, with the caveat that it in and of itself does not affect the direction of change. That is, whether a significant, visible policy reform is liberalising or deliberalising is depending on other factors (functional pressures, the ideological stance and coherence of the governing parties, and other party system properties). Furthermore, I challenge the studies that found that party ideology of centre right and centre left parties does not matter (i.e., both liberalise to the same degree) or that the left is right and the right is more pro-welfare (albeit from a nativist, nationalist position). Thus, I propose that external shocks or pressure are necessary for centrist (e.g., Christian Democratic) and social democratic parties to implement visible liberalising reforms, while right-wing parties may pursue liberalisation regardless. Moreover, following Armingeon (2012) I hypothesis that strong social democratic and/or centrist parties act as a necessary condition for visible social and labour policy expansion. Finally, the structure of the party system, particularly its concentration, is hypothesised to constrain policy options, with greater concentration leading to a more limited departure from the status quo (as big meanstream parties locked in a fierce electoral competition on the margins with each other will have to accommodate the median voter to a larger degree than in a fragmented and less concentrated party system, see Wenzelburger & Zohlnhöfer, 2021). Additionally, independence right and national communist parties are expected to oppose and block liberalising economic and social policy reforms (Vachudova, 2008a; Fish, 1997).

The Chapter continues as follows, the first section reviews the literature on party competition and social policy retrenchment in Western Europe. The second section adapts this model to CEE, reviews the literature on party policy profiles in the region, as well as the question of importance of the salience of redistributive issues for visible policy change as stated by Kitschelt (2001). The third section states the hypotheses, presents the research design (operationalisation and measurement of variables), the case selection, and the research method.

3.1. Party competition and social policy retrenchment in Western Europe

Herbert Kitschelt developed his model on the effect on partisan competition in social policy retrenchment within the "the new politics of the welfare state" paradigm (Kitschelt, 2001). As I already elaborated in detail, the term "permanent austerity" arguably characterises post-Communist politics even more accurately than that of the post-1970s Western polities. Kitschelt's framework therefore offers an opportunity for studying the political economy of social and economic policy reforms in Central and Eastern Europe as well. The most important for the present study is that its focus on the structure of the party competition bridges the political institutional and partisan approaches to the role of party governance in social and economic policy change.

The reviewed studies on partisan effects on post-Communist social and economic policy change (may they be liberalising or deliberalising reforms) are built on the traditional, Downsian spatial model of party competition. According to the median voter theorem, as Kitschelt (2001) argues, which was developed for a two-party system, a particular policy can only be retrenched if the median voter withdraws support from it. Retaining this assumption, the theory was modified for multiparty systems, where coalition governments are the norm. In this modified model, coalition governments still must include the party that represents the median voter, because no legislative majority is possible without it, but the coalition also includes parties that hold positions other than the median voter's. The latter parties will push for policy positions that are not in line with the preferences of the median voter. The policy position of the coalition along a unidimensional competitive space is the "centre of gravity" of the coalition (see Makszin, 2013, who built her dissertation on this assumption).

According to Kitschelt (2001) although the centre of gravity explanations allows through multi-party competition possibilities for policy oscillation (depending on the ideological composition of the different coalitions and the relative strength of the constitutive parties), they suffer from two main shortcomings. First, the centre of gravity theory only considers the policy positions of the governing parties and leaves aside that government policy formation is constrained and conditioned by the policy alternatives — their feasibility and likely appeal — represented by the opposition. Second, the theory assumes that the social and economic policy positions and coalition building strategies of parties are solely determined by party families (e.g., social democratic, market liberal, Christian democrat, etc.). But as Kitschelt (2001) points out, parties belonging to the same party family might hold very different policy positions and pursue different coalition building strategies based on the structure of the competition in the party system.

Kitschelt (2001) does not single out such party system properties as party fragmentation or polarisation, which measure some aspects of the structure of competition but do not tell much about the structural relations among parties that affect social and economic policy making (in this case social policy retrenchment). Instead, Kitschelt (2001) draws attention to four mechanisms that improves the chances of social policy retrenchment in the Western context: the existence of a strong market-liberal party and the declining credibility of parties defending the welfare state, mild-electoral trade-offs for diverging from the social policy preferences of the party's electorate, a party organisation that minimises strategic inertia at the level of activists and party leaders, and a configuration of competition around economic rather than socio-cultural issues (2001, pp. 273-274). Economic and social policy liberalisation is more likely in party systems with strong parties with pro-market, anti-welfare, economically liberal policy positions, where at the same time parties, which are defenders of the welfare state lost their credibility. The levels of the market friendliness of the challengers of the social and economic policy status quo, and also the credibility problems of the pro-welfare camp may vary from polity to polity: the social democratic overreach towards industrial democracy and nationalisations in the mid-1970s Sweden, together with a constitutional and electoral reform resulted in an electoral backlash for the social democrats and gave a chance to the agrarian-liberal-conservative opposition to govern. This eventually also pushed the social democrats back to the centre. But the Swedish experience cannot be equalled with the British one, where roughly at the same time, the Tories, led by Margaret Thatcher effectively dismantled the British welfare state and eventually pushed the Labour firmly to the right for three decades. For governing parties, the incentives to engage in liberalisations might also be enhanced if there are no pro-welfare alternatives in the opposition where disappointed voters can turn to. The severity of the electoral trade-off and the set of pro-welfare challengers are different for social democratic, Christian democratic and market-liberal parties, but they all face it, nonetheless.

The inertia of intra-party politics can be a further impediment on economic and social policy liberalisation. Organised constituencies within parties might have a vested interest in upholding the social and economic policy status quo. Labour parties with formal ties to labour unions for example are typical examples, but as the VoC literature would tell us, employers' organisations in manufacturing for example might also be a break on certain economic liberalisations (e.g., financial markets or corporate governance) for a centre-right conservative or Christian Democratic government (as they are in Germany for example). Kitschelt (2001) also counts clientelist networks as a case of organised constituencies: where such networks are crucial for party-citizen linkages, universalistic social policy programs are relatively easy to dismantle. However, in such polities the better part of social policy expenditure is distributed through clientelistic networks. The liberalisation of such transfers to special interest constituencies therefore faces strong opposition.

Finally, somewhat counter intuitively, the salience of economic-distributive issues as opposed to socio-cultural divides can enhance the chances of liberalisation. According to Kitschelt (2001) in mature welfare states the primacy of socio-cultural divide rests partly on particular historical characteristics (for example Continental European countries are much more characterised by it than Scandinavian ones), but it also signals an overall political agreement about the social and economic policy status quo. That is, it is based on a broad consensus between the major parties on these policy issues and does not mean that voters do not care about these issues. Thus, leaving the status quo means certain and costly electoral trade-offs. Whereas the primacy of economic-distributive policy conflict signals that there is no consensus about the status quo anymore, questions of economic and social policy are of pivotal electoral importance, and there is a large enough segment of the population, who would support liberalisation.

Kitschelt (2001) operationalised his mechanisms with the help of two economic and five party system factors. The push factors for retrenchment include fiscal or economic crisis: economic growth crisis and the acceptance of social policy retrenchment (which indicates the fiscal soundness or crisis of social policy and whether recent cutbacks or expansion were implemented). The five pull factors include: the presence of strong liberal parties, whether centrist parties are weak, whether left-libertarian blackmail parties are weak, whether there is a strong economic divide, the existence and strength of clientelism (linkage through policy vs cadre). It is important to note that as party systems change these factors change as well; Kitschelt tracked the changes through three decades.

Kitschelt (2001) does not explicitly deal with the inherent contradiction of why vote-seeking parties engage in unpopular retrenchment. Green-Pedersen (2002) starts from the framework of Kitschelt (2001) and also states that the main reason behind social policy retrenchment is economic (see push factors above). However, he emphasises that governments are equally blamed for the mismanagement of economy (fiscal deficit, growth crisis, high unemployment, etc.). Social policy schemes can be a heavy burden on the budget, moreover as many financed by social security contributions, they constrain the ability of governments to use taxation as a means alleviating deficits. That is, there are incentives for retrenchment regardless the colour of the government. As I already reviewed earlier, although the support for the welfare state is high, this support is not universal: some welfare schemes — mostly due to their target groups — enjoy much less support than others. Green-Pedersen (2002) places the politics of retrenchment in the framework of blame avoidance (e.g., Pierson, 1996). The fact that public support varies through different welfare schemes (and different electoral groups), and that voters are equally concerned with how welfare schemes are actually implemented (fairness, efficiency, financial viability, questions of fraud) offers governing parties with opportunities to frame the discourse about retrenchment favourably, thus avoid punishment or even be rewarded for it (Green-Pedersen, 2002, pp. 33-35).

Basing his theoretical framework on the universe of Continental and Scandinavian mature welfare states, Green-Pedersen (2002) emphasises the role of left-wing (Social Democratic) and Christian Democratic parties. These are the two types of parties that have an "ownership" of the welfare state. However, the Christian Democrats also own right-wing characteristics in the eyes of the electorate, that is, they are perceived to run the economy better, and in general, are considered more pragmatic and less idealistic than their left-wing competitors. Holding everything equal the left has the best chance at justifying retrenchment ("Nixon goes to China"), as voters are most likely to accept curbing welfare spending from them ("if they have to do it, it must be justified" and they have a better chance at framing retrenchment as a necessary, minor adjustment). Market liberals and conservatives cannot really protest against cuts as they have to appear consistent. The right on the other hand cannot get away easily with retrenchment, as voters are much more suspicious of their motives and the left will frame it as an all-out attack on the welfare state (Green-Pedersen, 2002, pp. 36-37).

However, the options for justification strategy for retrenchment is contingent on the spatial composition of the party system. In bloc systems, where Christian Democrats are either non-existent or only play a minor role, the left-wing bloc has better chances at employing a winning justification strategy. Whereas the right-wing bloc most likely only can implement some minor adjustments, because an election after a major retrenchment would be framed by the left-wing bloc as a referendum on the welfare state. In pivot systems the Christian Democrats play the central role, government formation mostly depends on them as they can choose to govern with the party to their right or to their left. Too much and radical opposition against the Christian Democrats means political isolation in pivot systems. That is, retrenchment will be contingent on the interest of the Christian Democrats (how they answer on the dilemma of economic constraints vs popular entrenchment at any given time). Therefore, in general, Green-Pedersen (2002) expects more retrenchment in pivot systems than in bloc systems. Visible retrenchments are implemented in pivot systems when the Christian Democrats govern together with the major left-wing party.

Picot (2009) in his analysis of the politics of German unemployment insurance and social assistance reforms over three decades views parties as ‘resourceful organisations’, whose ‘strategic focus is (often) not on their core constituencies but on acquiring new voters or retaining voters, who may be inclined to defect’ (Picot, 2009, p. 156). That is, parties employ policies while in government or take up policy positions in opposition strategically to seek votes (and not the other way around). According to Picot (2009) the ‘nature of the dynamic of competition depends on the spatial configuration of the party system’ (Picot, 2009, p. 157). In addition to the positioning of the parties in the political space, the distribution of policy preferences in the electorate matter. Policy choices of parties are then contingent on the presence of other parties and of the direction at any given time with the greatest net gain of votes (Picot, 2009, p. 157). However, Picot (2009) notes that there are parties that mobilise on something other than redistributive issues (socio-cultural issues), and in presence of high partisan identification based other than on socio-economic issues voters respond less to socio-economic policy positions of parties. As opposed to Kitschelt (2001) Picot (2009) considers intra-party dynamics only relevant to the extent of these having systemic consequences (e.g., a party split).

Picot (2009) argues that the political dynamic leading up to the Harz-reforms implemented by a Social Democratic-green coalition government started with the rightward shift of the Christian Democrats. The Christian Democrats responded to a relatively small shift in voter preferences towards liberal reforms, however, this provided them with an advantage over their left-wing competitors. Nevertheless, they were not able to exploit this shift while in government fully as it was electorally risky because of the Social Democrats. The Social Democrats on the other hand could do so — also pushed by the economic crisis, high unemployment and sluggish growth — and reacted to this demand shift in order to stay electorally viable. One of the most important observation of analysis of Picot (2009) is that although the Social Democrats did not have a viable left-wing competitor when they started the policy making process of the Harz-reforms, by the time they implemented it, their party split and due to the unification of the splinter group with the East-German post-Communists a federal radical leftist party emerged. This change in the spatial composition of the German party system sealed the fate of the German Social Democrats as minority coalition partner for a Christian Democratic party, which in turn, under the leadership of Angela Merkel moved back to the political centre (in the framework of Green-Pedersen the post-Schröder German party system became a pivotal party system). That is, party competition must be analysed as a process not as a static picture. It is not a coincidence that Picot (2009) emphasises that his approach is rooted in historical institutionalism.

3.2. Conceptualising the role of party competition on socio-economic reforms in Central and Eastern Europe

Can these theories on the role of party competition in social and economic policy liberalisation developed for mature welfare states and democracies be used in the post-Communist context? In Central and Eastern Europe there are no legacies of the golden age of embedded liberalism present. Still, as the reviewed literature on these democratic capitalist systems and the descriptive analysis of the economic reform trajectories with the help of the Liberalisation Database 1973-2013 (Armingeon et al., 2019) has shown, there were different economic and social contracts forged during the process of transition based on the pre-existing political, national, social and economic legacies and opportunities. Thus, there was no clean slate and there was an early emerging economic and social policy status quo, which through increasing returns processes (Pierson, 2000) locked in path dependent change. Tomasz Inglot in his seminal and meticulously detailed book on the Czech, Hungarian, Polish, and Slovak welfare state development between the end of the World War I and 2004 convincingly argues that social policy development was characterised rather by path dependency than path departure (2008b). As it was already established in the literature review, the conditions of responsible party government are fulfilled throughout the region. That is, a theoretical framework hypothesising how universal properties of party competition influencing social and economic reform outcomes in Central and Eastern Europe can be constructed based on these frameworks.

On the most general level, one can say that the foundation for such an analysis is to conceptualise how the spatial composition of the party system constrains the opportunities of policy choices at any given time. This also offers a solution to two important sets of alternative hypotheses: to the debate on inclusive vs. isolated governments and to the role of party system institutionalisation in reform outcomes. The question in case of the former is then not whether the government is insulated or inclusive but — apart from its policy preferences — rather its position *vis-á-vis* the competitors. Similarly, an under-institutionalised party system may facilitate reform precisely because it mitigates the electoral trade-offs for reform, as there are no strong opposition parties that could channel dissent, organise resistance and represent a policy alternative against the government.

Under-institutionalisation also signals weak party organisations and equally weak citizen-party linkages, which again may facilitate social policy reform by isolating the decision makers. Under such conditions it does not really matter whether a one-party government or a broad coalition government that implements policy reforms, as the parties are equally "disembedded" (weak inner-party organisation and citizen-party linkages applies more or less across the board, in a coalition government partisan veto may of course be an impediment to reform). But it is not under-institutionalisation *per se* that explains which reforms are implemented or their direction and significance, but the spatial composition of the party system, the main cleavages defining party competition, and the relative strength of the governing and the opposition parties.

However, the theoretical frameworks of Kitschelt (2001), Green-Pedersen (2002), and Picot (2009) are based on assumptions about the cleavage structures, (the relational) party policy profiles (market liberals, Christian Democrats, Social Democrats), and party system constellations that all have to be adjusted to the Central and Eastern European context.

3.2.1 The parties' policy profiles in Central and Eastern Europe

The strategic and relational view of how parties pursue different policies and which policies they choose does not assume that parties are completely inconsistent about what and who they represent. On the contrary, this view still rests on the assumption that parties must be consistent (as Green-Pedersen, 2002 emphasised). The party competition framework is based on the assumption that Christian Democratic, Social Democratic, and market-liberal parties (may they be conservatives or liberals) represent distinct set of policy choices and are limited in their autonomy by their constituencies[1]. However, the spatial configuration of the party system and the resulting party competition offers parties of different colours with different opportunities to react to the dilemma of the need of managing the economy (avoid recessions, deficits, keep unemployment low) and keeping the welfare state possibly intact and viable (Green-Pedersen, 2002). The spatial configuration also gives them different opportunities to employ policies when in government or take up policy positions when in opposition to broaden their constituencies. This framework can only be adapted to the post-Communist context — any framework on partisan effects on policy outcomes for that matter — if parties in spite of low party system institutionalisation and high volatility provide representational consistency in these new democracies.

The model of Rohrschneider and Whitefield (2010) is also relevant for the purposes of the present study insofar as it gives a rigorous empirical test for how to treat party system change, particularly, when issue stance changes. It also explains changes when an emerging party takes the place and becomes the functional equivalent of a declining one, because it is better at adapting the salient issue stances for the same constituency when relevant factors have changed (e.g., the emergence of Fico's Smer at the expense of Meciar's HZDS in Slovakia during the early and mid-2000s). Moreover, the model with its focus on the sources of party stances and the resulting concept of dynamic consistency allows for the definition of relatively consistent party policy profiles in the volatile post-Communist party systems.

[1] As Arndt (2017) showed on the example of the Swedish conservatives, the successful acquisition of new voters, which needs a certain degree of change in the traditional politics of a party in the first place, in this case Social Democratic voters in turn also constrains the autonomy of a party. The social policy of the Moderaterna-led Swedish right-wing coalition government after the 2010 elections, which they fought on a relatively leftist agenda (they called themselves the new workers' party) became tailored to the needs of their new voters as far as policies insuring against labour market related risks were concerned.

Kitschelt (2001) identifies four existing spatial configurations of party systems in Western party systems: united market-liberals vs united Social Democrats, divided market liberals and centrist vs united Social Democrats, a three-way divide between liberals, centre, and Social Democrats, and weak liberals, strong centre, and strong social democrats. Green-Pedersen (2002) considers the relative position and power of Christian Democrats pivotal, because the Christian Democrats both have "ownership" of the welfare state in the eyes of the electorate, and at the same time they are also endowed with right-wing characteristics as being less ideological, more pragmatic and managing the economy better than the Social Democrats. In the analysis of Picot (2009), the right-wing shift of the Christian Democrats on unemployment insurance and unemployment assistance gives the opportunity for Social Democrats that in lieu of a credible left-wing competitor "go after" centrist voters with the Harz-reforms (which eventually led to the emergence of a credible left-wing competitor).

Which parties are pivotal in the post-Communist context for social and economic reform? How do they behave in different spatial configurations? These are among the most important questions of this study. Unfortunately, there are not many comparative studies on post-Communist party types or party families. Notable exceptions on the post-Communist left are the seminal book on post-communist party systems by Kitschelt et al. (1999), the edited volumes of Cook et al. (1999) and Bozóki and Ishiyama (2002) on social democratic parties in CEE, and the monography of Grzymała-Busse (2002) on communist successor parties. There are even fewer comparative studies on right-wing parties in the post-Communist context: Vachudova (2008a) on centre-right, Communist nationalist, and Eurosceptic parties, and Hanley et al. (2008) on centre-right parties. Recently, different Central and Eastern European populist, unorthodox and anti-corruption parties gained the attention of several political party scholars (Engler, 2016; Engler et al., 2019; Pop-Eleches, 2010; Hanley & Sikk, 2016; Engler, 2023).

Schimmelfennig (2005) in his paper on the politics of the adoption and sustained compliance of EU membership criteria (legal, economic and democratic) describes three party system constellations based on the positions of EU membership, economic and liberal-democratic reforms of the major parties in post-Communist countries. Schimmelfennig (2005) identified three constellations, liberal, mixed and anti-liberal. Parties in liberal constellation largely agree on the necessity of EU accession, economic liberalisation and liberal-democratic reform. In mixed constellations there is a markedly anti-liberal party, which is in competition with liberal ones (as far as their economic policy and their understanding on basic liberal democratic values are concerned). In anti-liberal constellations 'major parties base their legitimacy claims and programs on nationalism, communism, populism, and/or authoritarianism' (Schimmelfennig, 2005, pp. 835-836). Although analytically useful, this categorisation is not subtle enough for the purposes of the present study. First, these constellations seem to be more relevant for the period of the immediate transition from communism to market economy and democracy, when in some countries economic liberalisation – in this case the transition to a fully-fledged market economy – was indeed politically contested. Still, not all illiberal parties blocked the establishment of market economy – e.g., the HZDS in Slovakia – and politically liberal incumbents also pursued a more protectionist, more national – not FDI-driven – version of capitalist transiton (such as the ODS in Czechia). Moreover, illiberal and anticapitalist forces do not necessarily have to be viable challengers in a party system to shape politics, they just need to big enough to block certain policy options for mainstream parties and/or make stable governing majorities very difficult to achieve (as the Communist party in Czechia did for over almost two decades). Finally, after economic transition – that is with a functioning market economy – and EU accession, one would not expect a consensus about economic and social policies among democratic parties (and more ambivalent politics towards the role of the EU is not necessarily authoritarian). Similarly, the emergence of authoritarian parties driving democratic backsliding in several CEE EU member states during the 2010s – though partly exploiting a popular resentment with the economic and social policies of the 1990s and 2000s (see e.g., Ghodsee & Orenstein, 2021; Scheiring, 2020a) – cannot be fit into this scheme either.

The most straightforward anti-liberalisation forces (both in economic and political, legal understanding) were Communist nationalist and independence right parties (Vachudova, 2008a). These parties, such as the Slovakian HZDS or the Romanian pre-2001 PSD (born out of the National Salvation Front, which was dominated by the former Communists) had an ambivalent relationship with economic reform and EU accession. They paid lip service to both but engaged in illiberal, authoritarian practices and blocked further liberalisation or only implemented partial reforms. Their rule led to partial reform equilibrium as defined by Hellman (1998), that is, significant liberalisations took place, however, the move towards substantial institutionalisation of the market economy and the rule of law was delayed, blocked or reversed. It is important that these parties nonetheless protected substantial constituencies in the public sector and at state-owned enterprises. The HZDS for example was labour-friendly until it clashed over the independence of the trade union movement with the largest confederation (however, the brake of this de facto political alliance was not over policy). Countries, with otherwise "liberal" party system constellations might harbour such parties, such as the Czech Communist party, the KSČM, or the Hungarian Justice and Life Party, the MIÉP between 1998 and 2002, or Self-Defence of the Republic of Poland, whose leader, Andrzej Leppert eventually even served as agricultural minister during 2006 and 2007. These smaller parties might not be important from the perspective of Schimmelfennig (2005), but for this study they present important policy alternatives and constrain the options of centre-right and left-wing parties.

Market-liberal forces are the most ardent supporters of the market economy in Central and Eastern Europe as well (Marks et al., 2006). However, there is no comparative study on the Central and Eastern European market liberal parties to date. There were also conservatives and Eurosceptics among these parties such as the Czech ODS and liberal and pro-EU ones such as the Hungarian SZDSZ or Viktor Orbán's Fidesz in its early years (1989-1994). The particular issue stances of these parties of course will be dependent on the particular national context and the spatial configuration of the party system. Not in every country could an independent market liberal pole emerge and be resilient. However, even as members of bigger electoral coalitions or permanent junior partners in electoral blocs dominated by big conservative or Social Democratic parties, market liberals still played an important role in shaping economic and social policies (e.g., Hungary, Poland).

The social and economic policies of Social Democratic parties (even if reformed Communists) and centre-right parties with conservative and Christian Democratic leanings are more difficult to categorise. Their policies are the most dependent on the spatial configuration of the party system. As described above in detail, the literature based on the assumption of a universal policy stance of centre left and centre right led to contradictory results. My assumption is that ceteris paribus these parties are fairly centrist. For example, analysing the trajectory of in Hungarian party politics between 1990 and 2010, Tóka and Popa (2013) noted that by 2002 age, class and rural living did not explain the vote choice for the Hungarian Socialists (MSZP) or for Fidesz, as both parties became catch all parties.

On how to conceptualise partisan effects on social and economic policies in comparative politics, Armingeon (2012) provides a good example. The study tested the traditional partisan hypothesis on labour relations and personal income taxation on a sample of 25 established democracies (Anglo-Saxon + Japan, Continental, Mediterranean, and Nordic) and 10 post-Communist democracies. Adding the post-Communist cases did not falsify the theory, that is, a presence of a strong-left party was found to be a necessary condition for the following outcomes: high-union density rates; high collective agreement coverage; low employment protection flexibility (and conversely, strong right-wing parties for high flexibility); and high taxation. A strong centre party (Christian Democratic) was a necessary condition for low-income inequality. The analysis of Armingeon (2012) is not based on linear causation but is set in the logic of fuzzy set analysis, which emphasises the importance of conjunctural causation in explaining individual outcomes – where the presence of a necessary condition, e.g. a strong left party, does not translate automatically into an expected characteristic of state-labour relations. Moreover, the analysis is based on party system properties, that is the presence and relative strength of centrist, social democratic and right-wing parties.

Proposition 1: The policy preferences *ceteris paribus* of Central and Eastern European parties based on their party families are not different from that of their Western counterparts.

3.2.2 The question of a socio-cultural or economic-redistributive divide

At first sight, Kitschelt (2001) assumption about socio-cultural vs economic-redistributive divide is the most problematic to use in the post-Communist context. The main axis of party competition in Central and Eastern Europe was in the reverse direction than in Western Europe in the 1990s. That is, as opposed to societies where market allocation of economic resources was the status quo, in post-Communist democracies, which started with a status quo of non-market allocation, libertarian-cosmopolitan politics (that is, left-liberal societal values) were as a rule paired with favouring market allocation (that is, right-wing economic and social policy), whereas favouring political redistribution (left-wing economic and social policy) was paired with authoritarian-particularist politics (that is, right-wing societal values) (Kitschelt, 1992). Marks et al. (2006) found on the basis of the 2002 expert survey of the University of North Carolina-Chapel Hill Center for European Studies that this direction proved to be resilient in Central and Eastern Europe. However, whether socio-economic or socio-cultural cleavages had primacy varied between countries with the Czech Republic having the most programmatic, economic-redistributive divisions and Poland or particularly Hungary having socio-cultural divisions as the decisive issues in party competition (Kitschelt et al., 1999)[2]. This does not mean, however, that economic concerns of voters do not

[2] According to Kitschelt et al. (1999) the crystallization of programmatic divides on economic-redistributive issues over socio-cultural issues was contingent on the nature of the Communist rule and the manner of the transition. In Czechoslovakia, particularly in the Czech lands, where Communist parties relied on an already large industrial working class and had a large societal support on their own or they were the modernizing force in an otherwise mostly agricultural society and relied on a sultanistic rule of brutal oppression (e.g., Romania or Bulgaria) Communist rule was swept away by popular revolt either mostly peacefully (e.g., Czechoslovakia) or violently (e.g., Romania). In Czechoslovakia programmatic differences on economic-redistributive issues were more marked, and particularly in the Czech lands were decisive in partisan identification for both voters and politicians. Whereas in Bulgaria Kitschelt et al. (1999) found that particularly on economic issues party positions were diffuse, and the entrenched networks of (former) Communist party-constituency linkages were not mediated by programmatic appeals. However, in countries in between these two polar developmental levels, such as Hungary or Poland (and partly the Slovak part of Czechoslovakia) the Communist were originally dwarfed by large agrarian and social democratic parties, and even faced considerable bourgeois parties. They first divided and co-opted their opponents and eventually had to accommodate large hostile segments of the society (as the long-time Hungarian Communist chairman, the face of "Gulaschkommunismus", János Kádár put it: "Those who are not against us are with us."). The Communist parties had influential pro-reform factions and the Communist in both countries experimented with economic reform with varying success (or rather failure). It is not surprising that it was in Poland and Hungary, where Communist rule ended peacefully at roundtable discussions. Consequently, after negotiated transitions programmatic divisions over economic-redistributive issues were less marked than over socio-cultural issues as there was a broad consensus over the necessity of the implementation of a market economy. That is, in Hungary and Poland the main axis of party competition crystallized around and with the primacy of socio-cultural issues.

matter, as they clearly did in Hungary during the 1990s on every election (Kitschelt et al., 1999; Tóka & Popa, 2013). Kitschelt et al. (1999) in their study on the party systems of four East Central European countries found that self-replacement of voters on the left-right scale was determined by economic-redistributive issue positions in the Czech Republic and Bulgaria, whereas in Poland religion/clericalism, and in Hungary a combination of religion and nationalism were much more influential (1999, pp. 287-288). Social structure — that is, the socio-cultural background of respondents — played a large role on citizens' economic preferences. E.g., when comparing young, urban, highly educated, and self-employed professionals to older, rural, workers in state industries the difference regarding their economic policy preferences ranged from 2 points in Hungary, 1,95 points in the Czech Republic, and 1,67 points in Poland on a scale from 2 (least liberal) to 8 (most liberal). However, Communist party membership in Poland and Hungary, with Communist parties, which had a track record of economic reforms, and where transition was negotiated between the Communists and the opposition at lengthy roundtable talks, had only a minor effect on market-liberal attitudes as opposed to the Czech Republic where it was the greatest predictor of the rejection of market reforms (Kitschelt et al., 1999, pp. 296-297). However, in all four countries Kitschelt et al. (1999) found that voters political preferences and associational affiliations 'by and large wash out the independent effect of socio-cultural background variables on left-right self-placements'. That is, the effect of social structure was mediated through issue positions (Kitschelt et al., 1999, p. 300).

Given the extraordinary push towards liberalisation because of the particular post-Communist circumstances and the EU accession process (Appel & Orenstein, 2018), the primacy of socio-cultural issues might signal an elite consensus around liberalisation, that is, that market reform is a valence issue. The example for a centripetal competition around economic policy with a high polarisation around socio-cultural issues was Hungary (at least in the first half of the 1990s) (Kitschelt et al., 1999). However, in Poland, which was quite similar to Hungary in this respect, an early attempt at elevating an economic-redistributive cleavage to political significance shows how socio-cultural polarisation can serve as an ideological proxy for resentment with liberalisation (and the whole transition project) *in the absence of* unreconstructed or recalcitrant post-Communist parties. In Poland the main challenge against liberalisation came from the Solidarity camp and as early as 1991: during his brief tenure, prime minister Jan Olszewski — a forerunner of the PiS-style authoritarian Catholic national conservatism (and who 15 years later served as an advisor to the late president Jarosław Kaczyński) — first tried in vain to reverse liberalisation or at least put it on hold, and only after his failure turned to an anti-Communist witch-hunt in a bid to shore up support and rearrange the spatial composition of the party system. That is, the primacy of socio-cultural issues over economic-redistributive ones might also signal the inability of politicians to polarise the electorate around economic policy. But even if socio-cultural divides are more important for party competition, they might contain significant polarisation about economic-redistributive issues. The Slovakian Vladimir Meciar, who although came from the anti-Communist camp, built — in the terminology of Vachudova (2008a) — an independence-right party, the HZDS, which was a functional equivalent of the illiberal, unreconstructed national-Communist parties of Romania or Bulgaria. Meciar skilfully used a profound socio-cultural cleavage (the Slovak national independence), which also contained the Slovak resentment against the neoliberal program of Prague (the support for market liberalism was much lower in Slovakia than in the Czech lands to begin with). Nevertheless, while in government, this eminence of this socio-cultural cleavage meant blocking further liberalisation. His increasingly authoritarian rule reinforced by the threat of Slovakia being left out from EU accession, however, eventually helped elevate the regime divide to significance on the watershed 1998 elections, which also entailed a strong neoliberal reform discourse.

The observation of Picot (2009) about the strategic use of policy making and policy discourse has important consequences already at this level. As Lipset and Rokkan (1967) stated in their famous introduction to their edited volume, "Party systems and voter alignments: cross-national perspectives", societal cleavages only gain political relevance if they are politicised by political parties. As issue positions found by Kitschelt et al. (1999) to be mediating left-right self-replacement by voters, in the analysis I will concentrate on main issues on elections and which issues and to what degree did influence the vote choice for parties. As shown by Picot (2009) on the example of the German Harz-reforms, the policy agenda of a government is in a reciprocal relationship with the spatial configuration of the party system. Thus, for the purposes of this study it is important to concentrate on the issues, which emerge in the backdrop of cleavages. It is equally important for the analysis to treat the policy agenda employed by the government as not only being informed by the main issues that define party competition, consequently the spatial configuration of the party system, but apart from external shocks as their most important influencing factor.

I would be cautious in assigning socio-cultural or economic-redistributive cleavages a clear negative or positive sign regarding the chances of the direction of social and economic policy reforms as Kitschelt (2001) did in the Western European (and Japanese) context. The eminence of socio-cultural cleavages also signals a consensus about the status quo in Central and Eastern Europe. However, the status quo might be a broad common understanding about the necessity and direction of liberalisation, as in Hungary between 1990-1994, or about anti-liberal, "national-capitalist" and socially protectionist policies, as in Slovakia between 1993-1998. The emergence of economic-redistributive issues in such an environment mean resentment with the status quo but we must analyse the context in order to know the direction (pro- or anti-liberalisation) of the challenge. It is also important to keep in mind the finding of Gehlbach and Malesky (2010) that first and second-generation reforms are implemented in different political environments and are targeting very different constituencies (both as winners and losers). That is, a party running on a platform against such policies as pension or healthcare privatisation does not necessarily question market economy or other neoliberal reforms. E.g., although Robert Fico's Smer party in Slovakia, while running on anti-reform ticket against the Dzurinda-government in 2006, attacked many elements of government's policy agenda, it never questioned the policies locking FDI, the market liberal model of development policy, or the EMU accession of the country (which was concluded with Fico as prime minister in 2009). All of which were integral parts of the Slovak post-Meciar policy status quo.

The relative primacy of an economic-redistributive cleavage on the other hand, does not necessarily mean that there is a constant contestation of economic and social policy. In fact, the clearest example for a party system crystallising around an economic-redistributive programmatic cleavage is the Czech. The Czech reform trajectory as already shown in the previous chapter displays much less variance than the Hungarian, the Polish or the Slovakian. The Czech "socio-liberal" model — a term coined by M. A. Orenstein (2001) — proved remarkably resilient to change. M. A. Orenstein (2001) argued that at least until the fall of the ODS government in 1997, this resilience was due to the unbroken rule of ODS since the 1992 elections, and even before that Vaclav Klaus had overseen the transition to market economy as the economic minister (and his faction was the most influential). But this did not change even after the Social Democrats were in power. The neoliberal restructuring when market liberals were back in government was much less pronounced compared with other countries in the region. Nevertheless, party competition continued to be determined by economic policy issues. The liberal Freedom Union learnt this the hard way when their 2002 coalition with the Social Democrats consumed the party by the next elections (they simply disappeared). Their bid to rely on socio-cultural issues failed, and the coalition was bogged down by internal strife over economic policy.

The strategic view of party competition gives a plausible explanation of the lack of great liberalising waves in the Czech Republic after the “founding wave” (which due to the composition of the anti-Communist unity movement also contained significant decommodifying social and labour market policies). Right-wing governments could not fully go “all in” because of their competition with a powerful Social Democratic party, which in case of liberalisations credibly could take up the position of the defender of the welfare state. The policy options of the Social Democrats on the other hand were constrained by the presence of a radical left alternative, the unreconstructed Czech Communist party. The relative strength of the Communist party (hoovering around 10% for the entire period) also made the building of stable legislative majorities difficult, as the Communist were treated as anti-system pariahs between 1990 and 2014.

Proposition 2:

The eminence of socio-cultural cleavages also signals a consensus about the status quo in Central and Eastern Europe, but it does not signal whether it is for or against market liberal policies.

3.3 Hypotheses

The most general implication of the framework is that the policy options at any given time are contingent on the spatial composition of the party system (Wenzelburger & Zohlnhöfer, 2021). That is, the functional pressure for liberalisation – be it external or domestic – is moderated by the party system. It is difficult to give a straightforward operationalisation of the model on the effect of the spatial composition of the party system on policy reform. The main task is then to "break down" this moderating effect in the analysis to testable hypotheses and evaluate the findings.

Both Picot (2009) and Green-Pedersen (2002) see the position of Christian Democratic parties as more crucial in understanding the opportunities for social policy liberalisation than the position of the social democrats. The Christian Democrats are both seen by voters as credible defenders of the welfare state but also as more credible and pragmatic in economic policy. Moreover, their voter base is mostly interested in policies insuring against life-course related risks and only in those policies insuring against labour market policies that are based on the insurance principle (Jensen, 2012; Arndt, 2017). That is, without a rightward shift of the Christian Democrats the social democrats face a credible defender of the welfare state checking their intended liberalisations. However, I find this assumption too context related. In Central and Eastern Europe there were only a few strong centre parties (e.g., the Hungarian Democratic Forum), and even if there is one in a dominant position in a party system such as the Polish Law and Justice (which is a centre party as far as its social and economic policy is concerned) its main opponent is not necessarily a social democratic party. Therefore, I think analytically party preferences, the structure of party competition and the structure of the party system must be separated from one another. That is, assumptions regarding party preferences *ceteris paribus*, assumptions about the structure of party competition (the cleavages and issues party competition is organised around) *ceteris paribus*, and assumptions based on the structure of the party system (its level of concentration or fragmentation, whether there are dominant parties on either side of the main cleavage, etc.) *ceteris paribus* all must be hypothesised separately.

Structure of party competition:

- H1: Based on proposition 2 I hypothesise that the salience of economic-redistributive issues is a necessary condition for visible policy change.

Policy preferences based on party family:

Based on the findings of Armingeon (2012), I hypothesise that the economic and social policy preferences of parties follows the general partisan hypothesis. With this I contest the idea that the "left is right" (Tavits & Letki, 2009) in CEE or that party politics and party governance either do not matter (Appel & Orenstein, 2018) or only to a highly limited degree in policy reforms (Bohle & Greskovits, 2012; Bohle & Regan, 2021). That is, *ceteris paribus* centrist, agrarian and Christian Democratic parties, and social democratic parties are treated as pro-welfare, whereas right-wing parties (conservatives and liberals) are treated as pro-liberalisation. Based on proposition 1 I hypothesise that

- H2: External shock and/or pressure is a necessary condition for centrist and social democratic parties to implement visible liberalising economic and social policy reforms but not for the right/market liberals, which will *ceteris paribus* aim at liberalising reforms.

- H3: Strong social democratic or centrist parties are a necessary condition for visible social and labour policy expansion.

However, as Tavits and Letki (2009) and – with caveats – Cook and Orenstein (1999) found, reformed communist turned social democratic parties might engage in liberalisation. As already reviewed in the previous chapter, this is partly a "Nixon goes to China" argument about the ability of pro-welfare parties to implement liberalising reforms with relative impunity with some post-communist characteristics (see e.g., Grzymała-Busse, 2002). Nevertheless, H2 already accounts for this. If social democrats liberalise without any crisis and external (that is, structural) pressure H2 must be rejected. Nevertheless, a social democratic government implementing liberalisation per se does not mean that leftist parties were somehow different in CEE as Tavits and Letki (2009) argued.

There is one post-Communist context specific party system factor that must be hypothesised. As described by Vachudova (2008a) independence right and national communist parties, apart from representing an exclusionary ethnic nationalism, also opposed liberalising economic and social policy reforms. These parties dominated the politics of Slovakia, Romania and Bulgaria until the second half of the 1990s.

- H4: Independence right and national communist parties oppose and block liberalising economic and social policy reforms.

Regarding the structure of the party system, I hypothesise that

- H5: The policy options of the two main parties independent from their general ideological stance – keeping in mind the generally hypothesized preferences, see H3 and H4 – are increasingly constrained by one another contingent on the level of the concentration of the party system.

That is, the more a party system is closer to a classic two-party system, the more political competition resembles the Downsian median voter theorem (Downs, 1957). In such a constellation all elements fall in place, which according to Wenzelburger and Zohlnhöfer (2021) makes it more likely for parties to accommodate the median voter. That is, as the vote share of two more or less equally sized big parties grows, they increasingly pursue a catch-all party strategy (they are unable to remain niche parties). Electoral uncertainty and electoral competition also grow as ever smaller electoral changes (an increasingly smaller set of voters) can decide the outcome of elections. In short, as party system concentration grows, a departure from the status quo becomes less likely. And conversely, the less a party system is concentrated, the less credible contenders can constrain the options of governing parties to break the policy status quo.

The effect is, however, contingent on the importance of programmatic competition in a party system, which was hypothesised as a necessary condition for visible reforms (H1). There might be some exceptions. For example, ethnic minority parties might be relatively free to trade social and economic policies for identity politics. Note, that in the logic of linear causation H5 is competing hypothesis to H3, as the spatial composition hypothesis includes the option of centrist and social democratic parties to engage in visible liberalising economic and social policy reforms without any external shock or pressure, completely based on the spatial composition of the party system and the preferences of their main contenders. Just as in the case of the Hartz reforms, as Picot (2009) argues, a rightward shift on labour market policy of the Christian Democrats driven by a modest shift in the preferences of voters (policy demand) together with a lack of a credible left-wing contender, gave the opportunity for the social democratic-green coalition to go after these voters. One can, however, argue that at the time of the adoption of the Hartz reforms there was a widely accepted notion of a deep crisis of the German-model of *soziale Marktwirtschaft* because of an economic growth crisis (the German economy was characterised by sluggish growth at the turn of the Millennium and was in recession in 2002 and 2003), that is, the Harz IV reforms cannot entirely be explained as implemented without an external shock or pressure. In the end, I expect H3 – on the spatial composition of the party system – to be contingent on H2 – on the necessity of external shocks – and H5 – on party system concentration – in line with a fuzzy set logic. That is, I expect external shock or pressure to be a necessary condition for social democratic and centrist parties to liberalise whereas market liberals are expected to engage liberalisation even in the absence of any external pressure. However, the ability of governments – regardless their ideological position and coherence – to carry out liberalisation is expected to be contingent on party system properties.

These hypotheses are of course contrasted with the hypothesis that party competition does not matter in the post-communist context for economic and social policy liberalisation (or deliberalisation) because these are driven by structural factors and/or the competition for investors and technology transfer (see chapter 1 for a detailed discussion of such accounts). The framework of the dissertation is also an opportunity to revisit earlier hypotheses about the effects of party system institutionalisation, the ideological stance of parties, and ideological polarisation on policy reform (see chapter 2 for a detailed discussion). All of these factors are controlled for in the theoretical framework of this book either as control variables of external pressure in case of the economic-institutional accounts or measured and hypothesised on a more profound level in case of the political-institutional hypotheses (e.g. the level of party system institutionalisation explains the opportunities for a credible contender to contain or hinder the policy agenda of a government not the direction and significance of the reform per se).

Table 3.1 – Hypotheses, overview

Main assumption: The functional pressure for liberalisation – be it external or domestic – is moderated by the party system. Tested by the following hypotheses:
• H1: The salience of economic-redistributive issues is a necessary condition for visible policy change (note that the direction of reform – namely, whether it is liberalising or de-liberalising – is not hypothesised!).
• H2: External shock and/or pressure is a necessary condition for centrist and social democratic parties to implement visible liberalising economic and social policy reforms but not for the right/market liberals, which will *ceteris paribus* aim at liberalising reforms.
• H3: Strong social democratic or centrist parties are a necessary condition for visible social and labour policy expansion.
• H4: Independence right and national communist parties oppose and block liberalising economic and social policy reforms.
• H5: The policy options of the two main parties (independent from their general ideological stance) are increasingly constrained by one another contingent on the level of the concentration of the party system.

3.4 – Measurement, case selection, methodology

3.4.1 Dependent variable – economic and social policy change

The dependent variable is liberalisation (and deliberalisation) in 10 policy fields: in welfare schemes, that is, non-employment benefits, pensions, and health care; in economic policy, that is, corporate and personal income taxation (social security contributions included), financial markets, product markets (competition policy), and privatisation (restitution included); and labour market policy, that is, employment protection legislation, industrial relations, and active labour market policies. I will leave out corporate governance, as it is of secondary importance in dependent market economies (Nölke & Vliegenthart, 2009).

However, bankruptcy legislation, which was a politically contentious issue, and important in forcing hard budget constraints on companies, will be mentioned. Similarly, while the exchange rate regime will not be analysed in detail, it will be treated as a crucial part of the economic transition and the subsequent (neo)liberal restructuring. It is posited as a decisive economic structural constraint on governments (the same applies to Euro adoption).

The source for the dependent variable is the Liberalisation Data Set 1973-2013 (Armingeon et al., 2019). Its detailed coding and the precise description of each policy measure as already outlined earlier makes it ideal for the purposes of the analysis. As already described in detail in Chapter 1, policy measures were also coded for their direction – liberalising or deliberalising – and their impact according to the policy paradigm framework of Hall (1993) and whether they disrupt the status quo (Baumgartner, 2013). That is, the dataset assigns whether a measure is a change in settings (a 1st order change), instruments (2nd order change) or goals (3rd order change), and whether it amounts to a status quo change regardless of it being 1st, 2nd or 3rd order change. Visible reforms are 3rd order changes and/or status quo changes (see chapter 1 for a detailed discussion for how the direction and significance of reforms are coded). However, a comprehensive reform agenda might include smaller incremental changes along 3rd order and status quo changes as well.

The choice for policy output, that is, the policy measures and not their measurable consequences in some form of an index (e.g., the OECD labour market liberalization indices, or social expenditure data) is justified as the focus is on the adoption of policy measures. The dissertation seeks to explain how and to what extent do party competition affect what kind of policies are adopted, which fields are liberalised or deliberalised and to what extent. For such an analysis the detailed description of the adopted policy measures, and how the different social and economic policy schemes changed through time is the relevant variable.

3.4.2 Explanatory variables

Measuring party system competition

For the purposes of the current analysis there is no alternative to qualitatively assess the relevant party system properties, that is, the concentration of the party system, the strength and credibility of alternatives to governing parties, and the main issues defining party competition (see Table 3.2).

Table 3.2 – The dimensions of party competition, measurement and sources

Dimensions of party competition	Measurement	Main sources
Strength and ideological coherence of the governing parties	Quantitative – Relative electoral strength of the parties; Qualitative – Ideological orientation and coherence of governing parties; Qualitative – main programmatic/socio-cultural orientation of the parties	Journal of European Political Research – Political Data Yearbook series; additional journal articles, monographies, and book chapters from edited volumes (e.g., The Handbook of Political Change in Eastern Europe)
Strength and credibility of political alternatives to governing parties	Quantitative – Relative electoral strength of the parties; Qualitative – Ideological orientation and coherence of opposition parties; Qualitative – main programmatic/socio-cultural orientation of the parties	Journal of European Political Research – Political Data Yearbook series; additional journal articles, monographies, and book chapters from edited volumes (e.g., The Handbook of Political Change in Eastern Europe)
Concentration of the party system	Quantitative – Electoral results and public opinion surveys; Qualitative – level	Journal of European Political Research – Political Data Yearbook series; Data from

	of closure of government formation	various surveys and national party politics experts
Main issues defining party competition	Qualitative – Analyses from leading country experts	As a rule: Journal of European Political Research – Political Data Yearbook series, but other sources from international journals, monographies and edited volumes as well (e.g., The Handbook of Political Change in Eastern Europe series), Manifesto Project Data (Lehmann et al., 2023)

Control variables

The most important control variables are the ones operationalising structural constraints and external pressures. A standard set of descriptive statistics are systematically analysed during the analysis, namely GDP growth, the debt to GDP ratio, general government debt as a proportion of GDP, inflation, and the level and change in unemployment are nonetheless part of the analysis as control variables for structural constraints that might trigger or contribute to the implementation of a given reform agenda. These indicators are provided as time-series graphs in the empirical chapters for the respective countries and time periods.

The analysis will also take into account other factors such as EU and IGO conditionality, or the competition for FDI which resulted in corporate tax rate cuts and direct subventions and tax incentives to respective investors (Drahokoupil, 2009; Bohle & Greskovits, 2012; Bohle, 2021; Bohle & Greskovits, 2019; Bohle et al., 2022; Appel & Orenstein, 2018). However, the analysis controls for most of the structural conditions with case selection (see below), namely, the growth model, the level of social spending, and the institutional setup and development of industrial relations and social dialogue.

3.4.3 Case selection

I selected Czechia, Hungary, Poland, and Slovakia as a sample for the analysis. These countries are usually treated as one country cluster among the universe of post-communist countries for several reasons: they all have high value-added manufacturing export sectors dominated by TNCs, they all have relatively high levels of social expenditures, and they all were among the “front-runners” to EU accession, and all joined the EU in 2004 (and also to other international organisations such as the NATO or OECD). They even have an intergovernmental organisation of their own, the Visegrad Group founded in 1991 expressing their cultural similarities and close geopolitical ties. The organisation was named after the important medieval summit on trade routes between the Hungarian, Czech and Polish kings in 1335 in the picturesque castle of Visegrád in northern Hungary sitting on top of a hill looking down the Danube, where the river makes its sharp, big southward bend (the territory of today’s Slovakia was at the time part of the Kingdom of Hungary). They also share many more recent historical legacies due to their incorporation to Austria-Hungary before the first World War (partial in case of Poland, as the country was divided between Austria, Prussia, and Russia between 1795 and 1918). As Inglot (2008b) showed in his comprehensive book about the historical legacies of the Czech, Hungarian, Polish and Slovak welfare states, all of them have strong Bismarckian welfare state roots due their Austro-Hungarian and German imperial heritages.

These four countries also chose the same type of foreign-led re-industrialisation strategy by the end of the 1990s, attracting huge amounts of FDI mostly to their complex, manufacturing export sectors (but also to pharmaceuticals, chemicals, electronics). Just to put this strategy in perspective let's compare the four Visegrad states' foreign direct investment figures with other regions. The four CEE countries with a combined population of about 64 million received green field investment in a total value of 231 billion USD between April 2005 and January 2011. During the same period Brazil attracted 180.9 billion USD of green field investment, China 615,1 billion, India 363,8 billion, Mexico 119,8 billion, and Russia 255,5 billion (Bohle & Greskovits, 2012, p. 171, Table 4.1). The absolute numbers are quite indicative of the region's attractiveness to foreign direct investment but mask its staggering advantage with other regions. For example, on a per capita basis China gained 441,5 USD per capita green field investment during the period compared to the Visegrad states' 3609 USD per capita, which is a more than 8 times higher figure. This strategy resulted in high foreign ownership in the export sector: in Hungary, 80,8% of the value of all exports was traded by foreign owned firms in 2013, the corresponding figure was 72,7% in Czechia, 72,6 in Slovakia (2012 figure), while decidedly lower, 45,9% in Poland[3] (OECD, 2020).

As reviewed in Chapter 1 in detail, Nölke and Vliegenthart (2009) based their classification of dependent market economy (DME) on these four countries, which all rely on foreign direct investment to update their industrial sectors and integrate in the world economy as the producer of high value-added semi-standardized goods. There are, however, other types of DMEs. In addition to the FDI-driven CEE market economies, King (2007) distinguished the patrimonial capitalisms of most of the former Soviet republics characterised by the dominance of clientelistic networks. Myant and Drahokoupil (2011) identified five distinctive

[3] The last available data point was 2013 in Hungary. Unfortunately, the 2013 data was incomplete for Slovakia, that is why I took the 2012 data in this latter case.

form of post-communist market economies: the FDI-based market economies of Central and Eastern Europe, the peripheral market economies of the Baltics, Bulgaria and Romania, relying more on low value-added goods and financialised growth, the oligarchic or clientelistic capitalisms, which rely on raw material exports, the poorly reformed order states, which rely on state subsidised manufacturing and raw material exports, and the poorest remittance- and aid-based economies. To sum it up, the Visegrad group is a distinct variety of dependent market economy characterised by an FDI-driven re-industrialisation strategy and a foreign-owned high value-added manufacturing export sector.

Their growth model is, however, not the only similarity between these four countries. Their labour market and welfare state institutions were for most of the period since the collapse of their communist command economies and party states similar (enough). As Bohle and Greskovits (2012) emphasised, the Visegrad group are embedded neoliberal states as opposed to the neocorporatism of Slovenia (resembling the archetypical small states of Peter Katzenstein with post-communist characteristics though) and the neoliberalism of the Baltic states. The four CEE countries are characterised by relatively high levels of social expenditures, relatively moderate levels of social inequality and some form of institutionalised tripartite social dialogue at least during the 1990s and 2000s (for a more extensive review see Chapter 1). Although the patterns of state-labour relationship varied greatly between these countries from the outset (see e.g., Avdagic, 2005), their differences with one another were smaller than with other post-communist dependent market economies. Similarly, the state played different roles in their development strategies as for example highlighted by Duman and Kureková (2012) in their comparison of the statist

Hungarian and the more market oriented Slovak strategies[4]. Drahokoupil (2009) draw attention to the fact that the emergence of the FDI-oriented competition state strategy shows a regional variance and has been consolidated by the turn of the millennium with the exception of Hungary, where this strategy was dominant from the outset.

That is, the research strategy of restricting the sample to the Visegrad group allows controlling for important structural factors. The above-mentioned convergence, divergence, and variance for example in the role of the state in economic governance or in labour market institutions emerged in spite of the very similar structural constraints, thus, these are part of the unexplained variance shown with the help of the analysis of the overall reform trajectories in Chapter 1.

Their similarities notwithstanding, the four countries of the Visegrad group also show a large internal variance in several very important factors that are decisive for the present study. First and foremost, as the Graphs 1.1-1.9 showed, this post-communist regime cluster of "embedded neoliberals" exhibits the greatest variance in their reform patterns. With the help of the Liberalisation Dataset 1973-2013 I identified three distinct post-communist reform trajectories, the incremental, the restructuring, and the oscillating paths, which all proved to be independent from the regime clusters the countries are grouped based on their modes of international economic integration, and their welfare and labour market institutional setup (for a detailed analysis see Chapter 1). The Visegrad group is, however, the only regime cluster that showcases all three variants. Czechia exhibits an incremental path with a significant founding "wave" of both liberalising and deliberalising reforms

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[4] Tarlea (2017) finds the same statist patterns in Hungarian higher education governance compared to the more liberal policy of Poland. Subsequent Hungarian governments actively fostered co-operation between higher education institutions and TNCs.

(mostly social policy compensations for the economic transition), whereas the subsequent trajectory in general shows a high level of path dependence (Figure 1.4). Slovakia is the clearest example of the restructuring path, where a first “founding wave” is followed at the turn of the millennium by an at least equally significant second wave, a radical neoliberal restructuring (Figure 1.7), which is then followed by an incremental path. Hungary in turn is the clearest example of oscillation, where there are at least two significant liberalising waves, but there is also a number of smaller liberalisations and also bigger deliberalisations, which are not part of liberalising waves as direct compensations (Figure 1.5). Poland for the first 15-20 years after transition had a reform trajectory similar to Hungary’s, but since the 2009 Great Recession its trajectory shows more similarity with Slovakia’s or Czechia’s (Figure 1.6).

What is equally important that the four cases are different regarding their party and political systems. First, the institutionalisation of their party systems shows a great variance both within the respective countries through time and between the countries. The party system closure index (Bértoa & Enyedi, 2016) clearly expresses this within and across case variance. The standard deviation of the index is 4,68 for Czechia (1993-2019), 4,71 for Hungary (1991-2019, 5,85 for Poland (1992-2019), and 10,3 in case of Slovakia (1993-2019) (Bértoa, 2020). This measure concentrates on government formation patterns, but other indices also show differences. E.g., the electoral volatility index[5] was on average 25,2 in Czechia (1996-2017), 20,1 in Hungary (1994-2018), 23,2 in Poland (1993-2019), and 21 in Slovakia (1994-2016) (Bértoa, 2020). The averages, however, mask the important variance within cases. The lower Slovakian average hides the fact that it is due to rather high volatility throughout the entire

[5] Measured as the sum of losses and gains of all parties divided by two (see Pedersen, 1979).

period. In fact, the least volatile Slovakian election was in 1994 (13,7), the second lowest volatile one took place in 2002 (15,2), on the other four elections only once was the volatility index below 20, in 2019 (19,1), and the 2016 election was the most volatile one signalling a significant change in the party system (29,9). The Czech party system is even more unstable electorally, the least volatile election was in 1998 (15,2), however the elections in the 2010s all showed an electorally very unstable party system (2010: 32,6; 2013: 36,5; 2017: 28,3). Whereas in Poland and Hungary there are much larger variance between elections. Relatively stable periods in the party system are followed by large changes. For example, in Poland the 2011 elections proved to be rather stable electorally (7,7), whereas in 2015 electoral volatility skyrocketed to 29,7, but was down to 7,4 again in 2019. Nevertheless, in Poland until 2011 no incumbent was ever re-elected (Bértoa & Mair, 2012). In Hungary, by 2006 it seemed like that a very stable party system emerged with two similarly sized blocs competing on the margins (4,8), but in 2010 the party system experienced very high volatility (33,7).

The pattern of competition is also very different in the four countries, Slovakia was characterised by the cleavage on the character of Meciar's regime during the entire 1990s, but then during the 2000s a socioeconomic cleavage dominated the party system just as in Czechia since the first democratic (then still Czechoslovak) elections after the Velvet Revolution (Hloušek & Kopeček, 2008). The Hungarian and the Polish party systems in turn are usually treated in the party system literature as the main examples for the dominance of sociocultural cleavages (most notably since the publication of Kitschelt et al., 1999). Anti-establishment and anti-corruption populism has also been a growing force in the past 15 years particularly in Czechia, Slovakia and Poland (Engler, 2016; Engler et al., 2019; Engler, 2023). Slovakia also has an ethnic cleavage with a regionally concentrated ethnic Hungarian minority representing of about 10% of the total population of the country. Different Hungarian ethnic parties often were members of various coalition governments – both left and right (Gherghina & Jiglău, 2016).

The institutional setup of the political systems is also different in the four countries. Poland is a semi-presidential system with a bi-cameral legislature. The president is a powerful actor – e.g., a 60% majority is needed to override a presidential veto – and turnout on presidential elections is usually higher than on parliamentary elections (Szczerbiak, 2008; Millard, 2010). A proportional electoral system is used for the elections to the lower chamber of the *Sejm*, however, since the 2011 Senate elections, the upper chamber is elected in single-member districts. The Polish constitutional system was modified several times until the adoption of the 1997 constitution – which in turn was never truly accepted by the nationalist, Catholic parts of the right – and the electoral system was also in the constant flux (e.g., different electoral rules applied in 5 out of 7 elections between 1991 and 2011) (Millard, 2010; Jasiewicz & Jasiewicz-Betkiewicz, 2013).

Slovakia and Hungary are unicameral parliamentary systems. The Slovak electoral system is highly proportional, and voters have the opportunity to cast four preference votes for the candidates of the same party list. The President of the Republic is elected directly (Deegan-Krause, 2013). In Hungary the President is elected by parliament, and the prime minister is the most powerful political actor protected by a constructive vote of no confidence (just as German chancellors)[6]. The electoral system is mixed with PR county lists – since 2010 single, national lists – for each party and single member districts with a complicated compensation

[6] The prime minister can only be removed by the parliament if at the same time a new premier is elected with the same vote. Moreover, the fate of the whole government is tied to the prime minister's person, that is, although ministers are subject to parliamentary committee hearings after nomination they are not approved by parliamentary votes and cannot be removed by parliament.

system. The electoral system, which was called “arguably the most complicated in the world” by Kenneth Benoit (2005, p. 235) did favour bigger parties from the outset, and was changed after 2010 to reward the winner even more disproportionally.

The Czech Republic has an asymmetrical bicameral legislature. The president was originally elected indirectly by parliament, however, since 2013 it is elected directly (Linek, 2014). The Chamber of Deputies are elected through a single-round proportional system for four years. Although voters choose between party lists, they are able to name preferred candidates. The Senate are elected in single-seat majority districts for six years with an election of one-third of the seats every two years. The Senate only is an equal to the Chamber of Deputies in constitutional and electoral matters (Linek & Mansfeldová, 2007). Although the analysis does not measure the effects of the institutional setup on electoral outcomes or on the party system, these differences are more than indicative of the heterogeneity of these political systems. Moreover, these characteristics – e.g., a directly elected president or a constitutionally almost immovable prime minister – bear on political outcomes and will be mentioned where appropriate during the analysis.

Thus, the chosen sample allows for holding many important structural variables constant – the ones defining the growth model (Bohle, 2021) or the embedded neoliberal regime cluster (Bohle & Greskovits, 2012) – while at the same time enables highlighting the variance in the dependent variable – the timing, direction and significance (visibility) of economic and social policy reforms – and the theoretically most important explanatory variables (party system properties, see Table 3.2). Moreover, the sampling also controls for other alternative hypotheses such as the EU integration process – as these countries fulfilled the stages of accession more or less simultaneously – or neoliberal reforms as signalling towards investors in a competition for foreign capital (Appel & Orenstein, 2018) – as these countries are very homogeneous in their FDI strategies.

3.4.4 Research method

The method of this dissertation is structured case study comparisons (George & Bennett, 2004). The analysis is structured along three distinct phases based on the EU accession process, and the three, distinct phases of post-communist neoliberalism as identified by Appel and Orenstein (2018). Although the three phases — the Washington Consensus, Europeanisation, and avant-garde neoliberalism — do not perfectly correspond with the EU accession process, they nevertheless overlap to a large enough degree. Moreover, Europeanisation had a strong and positive effect on the introduction of neoliberal reforms. The competition for FDI intensified with the run-up to EU accession — as EU membership promised high returns for investors — and pushed governments to the adoption of reforms not advocated by the EU. However, these distinct reform periods cannot strictly be fitted to "balanced panels" to borrow a term from time-series cross-section statistical analysis. That is, some reforms might have been implemented earlier or later depending on the country (the emphasis being on the dominance of a reform agenda, some belated or early reforms from another phase do not alter the overall picture), and some countries enter the phases a couple of years earlier or later. That is, to properly control for the effects of Europeanisation, arguably the most important general external effect on these political economies, and the overall push for liberalisation, which is exogenous to party competition, our main independent variable, the best way to go is to structure the analysis along the distinct phases of the EU accession process. It is important to note, that this also controls for the strategy of the EU *vis-á-vis* the post-Communist countries, which also changed through time (Vachudova, 2005).

The time frame between 1989 and 2014 is separated into three phases. That is, the first phase lasts from the collapse of the Communist regimes until the official EU candidate status (association agreements were concluded relatively shortly after transition). The second phase is the run up to the EU accession, when the *acquis communautaire* had to be adopted, and there was a constant and direct EU oversight. Moreover, during this phase the competition for investors intensified dramatically. The third phase includes the period from the EU accession to 2014 reflecting the change in the external environment and the role of the EU and covering the Great Recession and its effects. According Appel and Orenstein (2018) after the Great Recession the neoliberal strategy was questioned in CEE and alternative models emerged. The dissertation follows this structure: three case study chapters follow based on the three phases. Every chapter has four sub-chapters for the country case studies and a comparative conclusion, respectively. This makes comparison possible also within cases through time and not only across cases.

The October 2012 special issue of the Journal of European Public Policy, in which the contributions are seeking to explain long-term trajectories of institutional change in European capitalisms, gives a good framework for how to treat the dependent variable, which is policy change through different domains. In their introduction to the the volume, the editors, Gregory Jackson and Richard Deeg (2012) define six core institutional domains – financial systems, corporate governance, industrial relations, education and skill creation, welfare state, and industrial policy – in which the case studies of the volume meticulously track changes through time. Explaining reform trajectories of Hungary and Slovakia in the special issue, Duman and Kureková (2012) give a taxonomy and brief description of all relevant reforms through these six institutional domains in structured tables and analyse the most important policy changes and contrast them with the different role of the state in the two countries, which is their main interest.

The dissertation applies this method and systematically follows the most important changes throughout the analysis under three main categories: economic policy (personal income taxation, corporate income taxation, financial market regulation, privatisation, competition policy), labour market policy (active labour market policy, employment protection legislation, industrial relations), and social policy (non-employment benefits, pensions, and healthcare). Reforms are identified in the three main areas with the help of qualitative coding of the Liberalizaton Dataset 1973-2013 (Armingeon et al., 2019) on the direction and impact of the reforms (see Chapter 1). However, other sources such as the OECD economic surveys series or World Bank working papers, journal articles are also used for the analysis of reforms. The reform trajectories are systematically contrasted with the changes in the dimensions of party system competition and the structural (push factor) variables in concise descriptive analyses. The empirical chapters are all concluded with an inductive section of comparative analysis of the presented country specific changes in the dependent and independent variables.

Chapter 4. – Pathways of transition, 1989-1998

Introduction

This chapter investigates the years of the immediate transition and the run up to the EU candidate status of the Visegrád countries. During this period these countries were certainly not similar in most respects. First, their democratic transitions differed profoundly. The collapse of Communism started in Poland, followed by Hungary, in both countries with negotiated transitions between the opposition and the communist parties. However, the parallels end there. Whereas in Poland there was a united mass opposition movement (the Slodarity trade union), in Hungary several smaller opposition parties with distinct ideological profiles and independent civil society organizations negotiated with the communists at round table discussions. In Czechoslovakia, the strictly orthodox Marxist-Leninist regime fell in a matter of days under the pressure of mass street protests led by umbrella opposition organizations (an alliance of 1968 Prague spring social democrats and reform communists, liberals, conservatives, and Christian democrats).

The four countries also started with very different economic and political legacies. The similarities of the communist regimes notwithstanding – if "existing socialism" is understood as a complex political economic system (Kornai, 2000, 1992) – the four countries were different in almost all important economic and social indicators. Poland was the poorest of the four and the country has been in a deep political and economic crisis since the end of the 1970s. Hungary was also in an economic crisis already before transition, but it had the most reform-oriented regime (many basic market reforms were already implemented by the last communist government after two decades of liberalising experiments within the communist economy). Both countries were heavily indebted, which together with the economic crisis – which became a Great Depression equivalent recession once the command economies collapsed – severely limited the policy options of governments. In contrast, Czechoslovakia was not indebted and at least Czech firms were more viable than Polish or Hungarian ones. However, there was a clear and deepening difference between the two constituent republics both in economic and social outcomes and public sentiment towards reforms and the federation, which eventually led to the dissolution of the country in 1993.

Their reform trajectories also differed. While all four implemented rapid economic liberalisation following the Washington Consensus (Williamson, 2004), differences emerged in privatization, financial markets, corporate governance, and even price liberalisation, with Slovakia standing out. Social policies mitigating the transition shock also diverged greatly. Neocorporatism, strongest in Hungary and Slovakia but eroding by 1997-1998, played a vital role, with tripartism particularly significant in Hungary for resolving transition crises peacefully. Hungary and Poland implementing harsh budget constraints early on, leading to mass unemployment. Czechia and Slovakia, facing milder shocks, opted for softer budget constraint regimes. Facing severe unemployment, Hungary and Poland relied on early and disability pensions, while Czechia kept people employed and implemented effective active labour market policies.

Domestic politics influenced these outcomes, with public opinion and party system dynamics shaping reforms. Despite differences, a liberal economic policy was generally accepted in Czechia, Hungary, and Poland during this period. Slovakia diverged from the other Visegrád countries due to the anti-liberal stance of its ruling party. Paradoxically, Slovakia's illiberal period between 1993-1998 laid the groundwork for its subsequent neoliberal restructuring. Eventually by the end of the decade all countries arrived at an FDI-dominated reindustralisation strategy resulting in an FDI-dependent export-led growth regime in all four countries (with Hungary pursuing this strategy from the outset). However, though convergence did take place, this did not mean a homogenisation of their economic, labour market or social policies or their reform trajectories.

The chapter continues as follows, four case studies of Hungary, Poland, Slovakia, and Czechia first analyse the conditions during the immediate transition. In the case of Czechia and Slovakia the economic and social differences between the two constituent republics of Czechoslovakia and the different public support for the economic transition agenda are discussed in detail. In all four case studies an analysis of the functional pressures, followed by the dynamics of party competition and within this context an analysis of liberalisation (and deliberalisation) across economic, labour market, and social policies, and a theory-driven discussion of the reform paths concludes. The chapter is then summed up and concluded by a comparative discussion of the findings.

4.1. Hungary 1989-1998: The original FDI-based model

4.1.1 Reforms and the dimensions of party competition 1988-1990

To understand Hungarian transition, pre-1990 reforms also must briefly be discussed. Particularly due to the economic and social policy reforms implemented in 1988 and 1989, Hungary enjoyed an early mover's advantage in transition. Reforms in Hungary already started in 1968 with the launch of the New Economic Mechanism (NEM, Új Gazdasági Mechanizmus, in short "új mechanizmus" – new mechanism). NEM had three liberalisation periods, the first two followed by a period of reversals. Mostly, NEM concentrated on the liberalisation of enterprise decision making, and cautious price liberalisation already in the 1970s. Soft-budget constraints, however, undermined these attempts and resulted in increasing internal debt and the re-imposition of direct controls (Lutz & Krueger, 1995; OECD, 1991b, pp. 222-223).

Between 1987-1989 substantial economic reforms were implemented. Price liberalisation started already in 1988, resulting of the liberalisation of 90 per cent of all prices by 1991. A two-tier banking system was introduced in 1987, personal and capital income taxation in 1988. Privatisation began in January 1989, with an insider-oriented model. State-owned enterprises (SOEs) were allowed to transform themselves either into mixed or privately-owned corporations. This gave the SOE managers ample opportunities to sell state assets to themselves and to their partners at low prices, or to transfer all the assets without the liabilities. Later in 1989, the Transformation Act was adopted, which regulated privatisation more strictly. Wage regulation was somewhat eased in 1989, and social security contribution rates were unified into a rate of 53 per cent and levied on wages split between the employer (40 per cent) and employee (10 per cent) (OECD, 1991b). This latter is one of the hallmarks of post-Communist welfare states, the relative importance of payroll taxes to personal income taxes creating high non-wage labour costs (Fuchs & Offe, 2009).

Political competition already affected policy making in this pre-transition phase. The last communist government compensated its liberalising reforms. A generous unemployment insurance scheme was implemented in 1989 with loose eligibility conditions. Those, who worked a minimum of 18 months in the previous 3 years were eligible for a monthly benefit of 50 to 70 per cent of their previous average earnings (after one year the payment was reduced to 75 per cent of the original benefit level). Moreover, the abandonment of fiscal constraints in sickness and family policy resulted in an increase of cash transfers from 13.6 to 14.9 per cent of GDP. The leaders of the newly formed Hungarian Socialist Party (MSZP) – which was a splinter from the former Communist state-party (MSZMP, Hungarian Socialist Worker's Party), and inherited all of its assets – already had their eyes on the general elections of 1990 (Inglot, 2008b, pp. 276-280; Tóka & Popa, 2013).

The dynamics of the ever-intensifying Hungarian party competition during 1989 leading up to the first democratic elections in April 1990 goes a long way in explaining this particular reform policy mix. There was never any unified anti-Communist opposition in Hungary. The MSZP faced two main challengers, the conservative, Christian Hungarian Democratic Forum (MDF), and the social-liberal Alliance of Free Democrats (SZDSZ), which was founded by some of the most radical anti-communist intellectuals, the leaders of the former Democratic Opposition. The MDF portrayed itself as the "calm force" and favoured a gradual transition both in political and economic sense. It also contained a significant nationalist faction. The leaders of the MDF had good personal contacts with the reform communist faction of the MSZMP and eventually struck a compromise with them, which the SZDSZ refused and successfully contested with a referendum on its main provisions[7]. The SZDSZ advocated for a more radical, fast-paced transition process, although their program also contained significant left-wing social policy elements. Both parties were, however, in general pro-Western and stood on the platform of a social market economy. The MSZP distanced itself from Marxism-Leninism and the old guard, which founded its own party. The MSZP instead offered a program of gradual political and economic transition, too (Tóka & Popa, 2013).

4.1.2 Functional pressures 1990-1998, Hungary

By the end of the 1980s, the economic situation was seriously worsening throughout the Soviet bloc. Although not facing such immediate collapse as the Polish economy, keeping the standard of living from falling was only possible due to Western loans in Hungary since the late 1970s. The deep transition recession – in 1990 and 1991, the GDP contracted by 3.5%, 11.9%, respectively (OECD, 1993, at constant prices) – necessitated further reform by the new democratic government (Figure 4.1). Inflation

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[7] The MDF, which had close ties to the popular, reformist Politburo-member, Imre Pozsgay – who was also present at the founding of the party in October 1988 – signed the concluding agreement of the roundtable talks between the opposition and the MSZMP, which the liberal and agrarian parties opposed (the opposition parties and independent organisations originally agreed to only signing an agreement, which they all could accept). The most contested issue of the agreement was whether to hold presidential elections before the parliamentary elections, which Pozsgay would have most certainly won. The agreement among others also would have allowed the MSZMP to keep most of its assets, it wouldn't have abolished the omnipresent communist workplace party organisations, and wouldn't have outright outlawed the dreaded, paramilitary Worker's Guard. The SZDSZ initiated a referendum against the main points of the agreement and won all of them (Pető, 2014).

was also comparatively high, and it stayed double digit for the entire period. After peaking at 34.8% in 1991 (OECD, 2024c), inflation dropped under 23% by 1993, however it was again over 28% in 1995 and although it steadily declined between 1996 and 1998, it was the highest among the four Visegrád-states (Figure 4.2).

However, by 1995 the current account and budget deficits were both mounting (at around 9% of GDP, respectively, see Figure 4.4), foreign direct investment (FDI) inflows fell, and total net foreign debt rose. At 87.5% of GDP, the government debt was highest among the Visegrád-states in 1995 (see Figure 4.5). The reduction of the budget deficit mostly to privatisation as envisaged by the 1995 budget did not seem to be feasible (OECD, 1995). Also, the choice of letting redundant workers to exit the labour market *en masse* through early and disability pension schemes – which was the main compensation for the costs of economic transition – had its dire consequences in addition to the low employment levels. By 1996 Hungary faced an "abnormal pensioner boom" as it was not explained by demography, the proportion of people over 60 and those aged 18-59 remained stable. Between 1989 and 1995 pension dependency ratio grew from 51.4 to 84 per cent, one of the highest in the world (Schrooten et al., 1999, p. 281, Table 1). The number of disability pensioners increased by 49% (Vanhuysse, 2006b, p. 85). Although pension replacement rates declined somewhat between 1991 and 1995 from 63.1 to 59.5 per cent (UNICEF, 1997, p. 142, Table E.5) and the average pension lost about 25 per cent of its value in real terms (Armingeon et al., 2019), pensions kept their value better than other cash benefits during the 1990s (Verhoeven et al., 2008). As a result by 1999 public pension spending stood at 11.4 per cent as a proportion of GDP, above the 7.5 per cent OECD average

(Vanhuysse, 2006b, p. 59). The pensioner boom notwithstanding, unemployment quickly grew and peaked at 12.1% in 1993 (Figure 4.3).

International pressures did not constrain the growth in Hungarian state spending and the corresponding growth of deficits until 1994. However, the Mexican financial crisis made investors wary of macroeconomic imbalances in emerging markets. Hungary seemed to be the next most vulnerable country for a currency run although the Hungarian situation was more favourable. Also, Hungary started to receive bad reports not only from the IMF, but from credit rating agencies and large foreign private banks (Cook & Orenstein, 1999, p. 92; Kornai, 1996, p. 972).

4.1.3. Dimensions of party competition 1990-1998, Hungary

The April 1990 elections brought a wholesale alternation in government, as the reformed communist MSZP was clearly defeated. The MDF got 24.7% of the vote (but 42.5% of the seats), the SZDSZ 21.4%, whereas the MSZP only 10.9% and was even behind the agrarian Smallholders Party (FKgP), which gained 11.7%. The liberal FIDESZ, a former youth organisation, received 9%, and the Christian Democratic People's Party (KDNP) 6.5% (Tóka & Popa, 2013, p. 327). The MDF formed a right-wing coalition government with the FKgP and the KDNP. In terms of socio-economic issues, the coalition government and the liberal and socialist opposition broadly converged on monetary and privatisation policies. The main difference between the right-wing coalition and its liberal opposition was that the latter urged a quicker privatisation process and a more restrictive fiscal policy.

It was, however, socio-cultural rather than socio-economic cleavages that were dominant in the party system between 1990 and 1994. Issues like the situation of the Hungarian minorities in the neighbouring countries, most prominently in Slovakia and Romania, the debates around lustration, the role of religion, and the fierce conflict over the role of public media dominated politics. The bitter conflicts over these issues worked as a catalysator in bringing the former dissidents of the SZDSZ and their reform communist adversaries in the MSZP, and equally importantly their voters on the same political platform (Tóka & Popa, 2013).

In terms of socio-economic issues, the MDF-FKgP-KDNP government was moderately coherent at best, and from 1992 the right became increasingly fragmented. Both the FKgP and the MDF eventually split along ideological and personal lines in 1992 and 1993, respectively (the government, however, was able to keep its legislative majority). Moreover, in December 1993, József Antall, the prime minister died and was succeeded by the minister of interior, who was new to the party leadership and lacked Antall's pro-reform and pro-Western convictions (Ilonszki & Kurtán, 1994). The independence right party that split from MDF remained weak and could not clear the 5% threshold in 1994. On the other hand, those Smallholders' politicians, who remained loyal to the government and did not follow their populist leader to opposition in 1993 lost out on the 1994 elections. The MDF increasingly lost support to the centre left MSZP, which became the strongest party and the winner of the elections in May 1994. To sum it up, the governing coalition faced both liberal and centre-left parties, and radical-right splinter parties. The pro-market, economically liberal, culturally libertarian, and secular SZDSZ and FIDESZ remained a major electoral bloc, and captured around 25% of the votes in 1994, with the former retaining its second biggest position (Ilonszki & Kurtán, 1994, 1995). At the same time the socialists competed with the MDF on expertise and an appeal of a moderate transition (Tóka & Popa, 2013, pp. 298-299).

The MSZP won the May 1994 elections and gained 54 per cent of the seats in the parliament with just 33 per cent of the votes. It, however, was eager to have a coalition partner to avoid an anti-Communist dichotomy, to maximise societal support for the necessary stabilisation measures, and to reassure foreign investors and EU governments that the former Communists are committed to market reforms and European integration (Tóka & Popa, 2013). The only real option was the SZDSZ, which came second with 19.7 per cent. In their election report Ilonszki and Kurtán (1995) emphasize that both parties explicitly addressed in their election manifestos the economic problems of the country and suggested similar solutions (limiting further indebtedness by the consolidation of the banking system and budget reform, etc.).

Because the SZDSZ joined the coalition, the party system became two-dimensional by 1998. Already losing its popularity since 1996 and shaken by a corruption scandal in 1997, the SZDSZ became a small party, and the liberal pole of the party system disappeared. The right collapsed on the 1994 elections, which left the space open for the Fidesz. The former liberal youth organisation was regarded as the farthest party from the right by the electorate in 1992, it was often viciously anti-clerical, and was seen as the second alternative by the MSZP voters in 1993. Nevertheless, it consolidated its grip on the right soon after the 1994 elections. By 1995-1996, the traditional conservative elites and the historical Christian churches accepted the leadership of Viktor Orbán and his party (Enyedi, 2005). However, Fidesz had to compete for the leading position on the right with the Smallholders, who were more populist and radical, and more popular until 1997.

Due to the harsh 1995 stabilisation package, the accelerated privatisation, the 1997 pension privatisation, and other economic policy reforms, as well as the ongoing NATO and EU accession processes, redistributive issues dominated the political agenda between 1994 and 1998. However, according to Tóka and Popa (2013) the conflicting stances on these issues were embedded in the cleavage on Christian-national ideology (2013, p. 304). The governing coalition took the platform of responsible governance, EU-integration, and the champion of FDI-inflows. Whereas the opposition accused the government of betraying strategic national interests, and the Hungarian minorities of Slovakia and Romania[8], and impoverishing the middle class. However, the importance of socio-economic issues had their electoral consequences: by 1998, left-wing policy attitudes had a significant and negative effect on the vote choice for the MSZP (Tóka & Popa, 2013, pp. 317-318, Table 10.1). The Fidesz stood on a clearly anti-austerity and mildly anti-privatisation ticket by the 1998 elections. The Fidesz and the MDF formed an electoral alliance in December 1997 (Ilonszki & Kurtán, 1998). In the 1998 election year, the Fidesz was the clear challenger of the MSZP.

[8] Because of the Basic Treaties with Slovakia and Romania that served as a historic appeasement between the three countries that covered most of the territories of the former Kingdom of Hungary before the first World War (not counting Croatia, which was semi-autonomous in Austria-Hungary). Hungary, however, gave serious concessions regarding the collective rights of the large ethnic Hungarian minorities (e.g., the question of territorial autonomy or the issue of restitution of Catholic and Calvinist Church properties, the latter being a particularly serious issue in the mostly Orthodox Romania, were left out).

4.1.4 Principal economic, labour market and social policy reforms 1990-1998, Hungary

Economic policy

The centre-right coalition government made substantial steps in changing the privatisation framework with a preference for strategic foreign investors rather than mass privatisation or management-employee buy outs (MEBOs). The Act on the Protection of State Property and the Act on the Foundation of the State Property Agency of 1990 set up the State Property Agency (SPA) directing privatisation. An important change was the implementation of the so-called investor-initiated procedure in January 1991, which allowed the SPA to take control of the company if management resisted privatisation. The pace of privatisation, however, under the first government was relatively slow. The government's aim was to sell at least 50 per cent of state assets until 1994, however, until the end of 1992 only 18 per cent was sold.

Price and trade liberalisation were largely finished by 1991. The process of trade liberalisation of internal markets, foreign trade and the setup of new businesses was very rapid and reached the average OECD level already in 1994 (Greskovits, 1998). The April 1992 bankruptcy law was the strictest in the region. It provided for automatic triggering of bankruptcy for any debtor, who was in default for more than 90 days. There were severe sanctions for those failing to do so, even imprisonment (OECD, 1993; Gray et al., 1995). Although the law was made less strict already in September 1993, between 1990 and 1995 Hungary led the region in the number of company liquidations: more than 16.000 firms were liquidated employing 20% of the total enterprise sector workforce (Scheiring, 2019, p. 121).

In 1995, the MSZP-SZDSZ government reorganised the privatisation agency and accelerated privatisation substantially with a new privatisation law. The two state holding companies managing state assets (SPA and Hungarian State Holding Company) were merged into a single institution. Enterprises in key economic sectors were privatised (such as the former oil and gas monopoly, MOL, or the majority stake in the telecommunications company). In fact, Hungary was ahead of many other OECD countries in privatising utilities (OECD Hungary, 1997). The government also launched a bank recapitalisation and privatisation program in 1994: in 1997, 30 banks that represented 60 per cent of total equity were foreign owned, and by 1998, the private sector share in assets reached 88 per cent. Total revenues in 1995 amounted to more than three times to those in 1994, and in 1997 revenues came close again to the 1995 record (OECD Hungary, 1997; OECD, 1999b). The government also introduced a crawling peg exchange rate, which is a form of a fixed exchange rate regime that also allows for flexible adaptation to external shocks (that is, appreciation or depreciation).

Labour market policy

The first democratic government aimed at implementing an autonomous and decentralised social policy regime. Moreover, the move towards neo-corporatism was reinforced by the fact that the peak tripartite institution, the National Council of Reconciliation of Interests (ÉT, later OÉT) was essential in managing the deep transitional crisis after 1990 (Bohle & Greskovits, 2012, p. 149). Consequently, among the most important deliberalising measures of the government was the institutionalisation of tripartite wage bargaining and the set-up of self-governing pension and health insurance funds with free elections of their boards. The Pension Insurance and the Health Fund boards were given the right to veto social insurance policy issues (Inglot, 2008b, p. 281). The top tripartite institution, the National Council of the Reconciliation of Interests (NCRI) consisted of the representatives of seven trade unions, nine employer's organizations, and the government. It was responsible for minimum wage setting and it was the forum for national wage setting negotiations. Moreover, the government had to introduce the budget and tax bill proposals at the NCRI before presenting them in parliament (Héthy, 2000). Tripartite labour boards were also set up at the county level. The labour code of 1992 introduced the institution of work councils with substantial powers and made them mandatory in every enterprise with more than 50 employees (Armingeon et al., 2019). The MSZP-SZDSZ government weakened the neocorporatist system of social dialogue set up by the previous conservative government: it failed to conclude the Social and Economic Pact in 1994, and the harsh 1995 stabilisation package (see below) was adopted unilaterally without any prior negotiation with the social partners (Tóth, 2001). Moreover, the social partners – and even the liberals, the smaller coalition partner - were also left out from the design of the pension liberalisation (see below) (Guardiancich, 2013).

Welfare policy

As Inglot (2008b) observes, although there was a substantial decline in real incomes with wage and pension policies intentionally designed to achieve such results (to keep inflation from skyrocketing) between 1990 and 1994, the Communist era social provisions were largely kept during this period, and before the elections spending rose. There were early attempts to curb the soaring social expenditure deficits and moderate the costs of the abnormal pensioner boom. However, these were rather small, incremental measures (indexation and valorisation were minimally made less generous). The average pension fell about 25 per cent in real terms between 1990 and 1995. The pension system was also cautiously and incrementally liberalised: voluntary pension insurance funds were introduced in 1993 (Armingeon et al., 2019).

After a year of “muddling through” the socialist-liberal government decided to implement harsh measures in March 1995 in order to achieve fiscal consolidation (Kornai, 1996). Severe austerity measures in family allowances, social benefits, sick pay, and health care provisions were implemented to achieve fiscal consolidation. As a result, total social expenditures fell from 29.5% to 24.3% of GDP between 1994 and 1998. The real means of austerity was, however, the non-indexation of benefits. Similarly, wage growth in budget institutions was limited to maximum 9 per cent and in state-owned enterprises not more than 15 per cent. Inflation in the meantime was officially projected at 28 per cent for 1995 (Szikra & Tomka, 2009). Unemployment benefits were already retrenched, and eligibility severed by the former right-wing coalition. This trend continued under the social-liberal coalition government. A two-year limit was set to the hitherto unlimited duration means tested unemployment assistance benefit. In 1996 the level of the unemployment insurance benefit was also significantly reduced (OECD Hungary, 1997; Armingeon et al., 2019).

The most important structural reform, however, implemented by the MSZP-SZDSZ government was the 1998 pension reform. Earlier incremental measures could not stop pension debt from skyrocketing, which stood in 1997 at 213 per cent of GDP (Orenstein, 2000). The 1997 reform created a mixed, three pillar pension system consisting of a modified PAYG scheme for basic benefits, and two fully funded, privately operated tiers, the previously existing voluntary tier and a new mandatory one (for new entrants). Those already employed could choose to enter the new system voluntarily. (OECD Hungary, 1999) Indexation was also set to change gradually to a 50-50 price-wage index "Swiss method" from 2001 (Augusztinovics et al., 2002).

4.1.5 Partisan competition and policy reforms in Hungary, 1990-1998

The above analysis confirms H1, the salience of economic-redistributive issues was a necessary condition for visible policy change. Even though party competition during the first electoral cycle crystallised around socio-cultural issues, the economic transition with the deep transitional recession was salient[9]. Under the second, socialist-liberal government although the question on economic reforms (mostly on privatisation) were embedded in a socio-cultural cleavage, the issue was again salient. With the harsh 1995 stabilisation package, social policy was highly salient, and the introduction of university tuition fees made even higher education policy – due to student protest – an important political issue (Setényi, 1997). In fact, by 1998 having

[9] It almost brought down the government, when on October 25. 1990 a 65% increase in the prices of gasoline was announced. Outraged taxi drivers quickly blockaded Budapest, the capital for days. The NCRI had a pivotal role in the peaceful resolution of the conflict.

left-wing economic policy attitudes had a significant and negative effect on the vote choice for the MSZP (Tóka & Popa, 2013, pp. 317-318, Table 10.1).

But was retrenchment and liberalisation implemented without external pressure (H2)? Was the left truly right as Tavits and Letki (2009) argued? As my analysis showed, there was strong external pressure for reform, and by 1995 structural adjustment could not be postponed further. Looking at examples from established democracies it is not at all surprising that governments led by social democratic parties implement harsh austerity measures and liberalising reforms in times of crises (Kitschelt, 2001; Green-Pedersen, 2002; Picot, 2009). The socialists were also helped by the fact that leaders of the biggest trade union confederation (the reformed former communist trade union confederation) were members of their parliamentary caucus, and during this period both organisations pursued the classic social democratic model of trade union – labour party cooperation (Neumann, 2018).

However, besides the "Nixon-goes-to-China" logic party system properties helped liberalisation in both periods. The conservative government did not face any strong anti-liberalisation, anti-Western integration party, the nationalist, right-wing splinter groups remained relatively weak (H4) in comparison with the liberal parties and the socialists, who all supported economic transition. The socialist-liberal government was an oversized coalition with more than a two-thirds majority in the National Assembly, and the right was fragmented. The Smallholders' only accepted the leadership of Fidesz and Orbán just immediately ahead of the 1998 elections. In fact, the socialists, although they could not form a government mostly retained their 1994 support and received the most votes in 1998. The analysis also confirms H3, a centrist party in government was indeed a necessary condition of visible social policy expansion. The centrist MDF set up a strong neocorporatist industrial relations system, where the peak, national bargaining forum had a say even on tax and budget bill proposals[10].

4.2 Poland 1990-1998: Welfarist shock therapy

4.2.1 Functional pressures 1990-1998, Poland

Poland was in deep crisis since 1979. Until 1978 the standard of living improved, huge investments took place. All of this, however, was realized with borrowed money from the West (the debt equalled 40 per cent of GDP). But the crisis that hit the West in the 1970s reached Poland as well. The ensuing political crisis led to martial law on 13th December 1981, and the independent mass trade union movement, Solidarity was banned. The regime introduced two waves of reforms: the first one in 1982 and an even more radical one in 1987 to no avail. The economic system remained highly centralized, the extent of price regulation and foreign debt increased, instead of introducing competition, branch-based monopolies were created, etc. (Przeworski, 1993; Balcerowicz, 1995). By 1989, as Przeworski (1993) emphasizes, a combination of hyper-inflation, budget deficit and foreign-account deficit made immediate stabilization necessary (1993, pp. 139-141).

[10] The prime minister, József Antall clearly looked to the German Christian Democrats and the *soziale Marktwirtschaft* of the Federal Republic as a model for his party and the country.

Following the implementation of the shock therapy, GDP fell with 11.6 per cent in 1990, and 7.016 per cent in 1991. Growth, however, resumed in 1992. Real wages declined with 32 per cent, and domestic demand by 10 per cent in 1990. With the real appreciation of exchange rates and the collapse of the CMEA market, exports of goods and services fell by 4 per cent, while imports grew by 33 per cent (OECD, 1992). Inflation in 1990 was at 80 per cent, in 1991 it stood at 76.8 per cent, and was gradually declining to 11.6 per cent in 1998 and to single digits afterwards. Unemployment grew quickly and stayed relatively high during the entire period (Figure 4.3). In 1991 it stood at 11.8% and peaked at 16.4% in 1993. Though it slowly decreased in subsequent years, it stayed above 10% until 1998.

The relatively good macroeconomic data, particularly GDP growth (Figure 4.1), must be seen in the light of the long period of decline since 1979. In 1993 GDP still had not even reached the 1989 level (which in turn was below the 1979 level), and unemployment was high (Jasiewicz, 1994). As will be shown below, the privatisation process was slow, and only started to catch up with Hungary or the Czech Republic after 1995. But it was also a very uneven process, with foreign direct investment concentrating in certain regions, while almost completely avoiding the rest of the country (Kozarzewski et al., 2000).

The main compensation for the economic transition was mass retirement in the form of early retirement and disability pension. As a result, the system dependency ratio – the ratio of those receiving pension benefits to those accruing pension rights – stood already at 60 per cent in 1993 (up from 40 per cent in 1989) (Vanhuysse, 2006b, p. 86). In the analysis of the welfare policies, I will elaborate on this process. However, it must be noted here that this radical expansion of the pension system had considerable financial consequences, especially because at the same time Polish pensions kept their value. The income of pensioners remained stable throughout the 1990s, even after the pension liberalisation was implemented in 1999 (Verhoeven et al., 2008). Pension replacement rates in Poland in fact soared between 1989 and 1995 from 44 per cent to 72.8 per cent (UNICEF, 1997, p. 142, Table E.5). As a result, pension spending stood at 8.4 per cent by 1999, above the OECD average of 7.5 per cent (Vanhuysse, 2009, p. 59).

The country also faced considerable pressure for structural reforms and fast paced economic liberalisation from IFIs. Poland had to turn to the IMF in 1989. A Stand-by Arrangement was concluded, and the IMF started to borrow to Poland in February 1990. The main goal of the arrangement was to help reduce inflation still at a very high level (about 80 % a month or 812.15% on a yearly basis) (Boughton, 2012, p. 438; OECD, 2024c). Inflation was indeed reduced; on a yearly basis it was down at 42.8% and it kept steadily decreasing to 11.8% in 1998 (Figure 4.2).

By the end of 1990 Poland sought a 75 % reduction of its debt, of which the largest part, more than 70 % ($33 billion) was held by Paris Club creditors. In April 1991, with the help of the IMF, Poland was able to reach an agreement on a 50 % reduction, and the IMF approved an Extended Fund Facility (EFF) agreement with Poland. The EFF agreement was finally cancelled in March 1993 and substituted with a short term one-year Stand-by Arrangement as Poland still had to conclude another debt reduction agreement with foreign commercial banks (on $10 billion). Poland eventually reached a debt reduction settlement with its commercial creditors in March 1994 (Boughton, 2012, pp. 439-441).

4.2.2 The dimensions of party competition 1990-1998, Poland

Poland was the first of the Central and Eastern European Soviet satellite countries to embark on the process of democratisation, but paradoxically it was the last to hold completely free legislative elections. The negotiations between the ruling Communist party and the opposition trade union and political movement, Solidarity (*Niezależny Samorządny Związek Zawodowy Solidarność*) in 1989 resulted in a compromise of gradual political transition. The elections held in 1989 were semi-free and only around ¼ of the seats in the lower chamber of the legislative assembly, the Sejm, was contested freely (although, in the newly created second chamber, the Senate all seats were freely contested). Solidarity won all but one of the freely contested mandates, which almost instantly outdated the compromise, and Solidarity formed government (Millard, 1999; Rose & Munro, 2009; Wesołowski, 1990). The Mazowiecki government opted for the implementation of a coherent neoliberal "shock therapy" to alleviate the deep economic crisis resulting from decades of economic mismanagement (Przeworski, 1993). The policy measures – mostly referred to as the "Balcerowicz-plan" after its architect, the finance minister, Leszek Balcerowicz – were characterised by Adam Przeworski as the "most radical program of premarket transformation attempted anywhere" (Przeworski, 1993, p. 145).

The period between the semi-free elections of June 1989 and the second fully democratic elections of August 1993 was characterised by growing political fragmentation, the dissolution of the Solidarity camp, and after the presidential elections of November 1990, a struggle between the parliamentary majority and the president, Lech Walesa, the former figurehead of the Polish anti-Communist dissidents. The fragmentation of the party system was largely due to the fragmentation of the right and the new parties springing from the Solidarity movement. The political instability was exacerbated by an ongoing constitution making process and the too much power vested into the presidency (Millard, 1999).

The October 1991 elections resulted in a fragmented Sejm, with 29 parties and electoral coalitions gaining mandates. It took two months to form a minority government by the Catholic right-wing of the Solidarity camp with Jan Olszewski, an anti-Communist lawyer as prime minister. The anti-liberalisation and anti-shock therapy program of the new government was rejected in Sejm because of the harsh critique from the IMF. Eventually, it had to present a budget proposal for 1992 almost identical with that of the former government. Failing to fulfil its economic policy goals, the government stepped up its anti-Communist agenda, attacking even Solidarity politicians of collaboration with the Communists (M. Orenstein, 2001; Gebethner & Jasiewicz, 1993). However, the government was eventually ousted over the „decommunisation" strategy in June 1992[11]. The liberal, religious and conservative parties of the Solidarity camp eventually came up with a broad coalition, also bringing on board the post-communist agrarian PSL and the Solidarity trade union (which had its own deputies) (Gebethner & Jasiewicz, 1993). This coalition, led by the liberal

[11] Over a scandal of the publication of lists with names of whom the Communist secret police kept records, the government lost a vote of no confidence in June 1992.

Hanna Suchocka was incoherent on both socio-economic and cultural issues, however, it proved to be surprisingly durable. According to M. Orenstein (2001) this was due to clientelism, constituency building, social pacting, and significant concessions in economic policy.

The 1992 Little Constitution made the separation of power explicit and increased the power of the dual executive (the president and the government) and reduced the legislative blocking power of the Senate (Millard, 1999, p. 40). The electoral law was changed by the outgoing Suchocka-government in May 1993, which contributed to a much less fragmented Sejm. The winners of the September 1993 elections were the two post-Communist parties, the socialist SLD and the agrarian PSL, which held a two-thirds majority in the Sejm (Jasiewicz, 1994). The SLD although occupying a pro-EU stance, and not questioning the primacy of the market in the economy, proposed a more statist alternative to the neoliberal orthodoxy.

According to Cook and Orenstein (1999) the PSL was sceptical about structural reform, and its priorities were to channel subsidies to rural areas and in capturing local and regional administrations (1999, pp. 83-84). However, once in power, the SLD-PSL coalition government continued the reform process laid out by its predecessors, but with a greater emphasis on social policy and more concessions to trade unions. The main goals of the SLD were to compensate the losers of transition, to secure social rights, and to update the welfare state, while safeguarding growth and fulfilling the macroeconomic conditions of EU accession (Cook & Orenstein, 1999). Between October 1993, until the SLD leader Aleksander Kwasniewski swore in as president in December 1995, the coherence of the government was affected by President Walesa's ministerial appointments to the interior, defence, and foreign ministries[12] and his frequent vetoes. In spite of the stable legislative majority, there were three different governments during the legislative period. (Stanley, 2013, pp. 174-175).

Jasiewicz and Gebethner (1998) emphasize that Polish politics polarised after 1995. The post-Solidarity right after humiliating defeats on the 1993 legislative and on the 1995 presidential elections alike, overcome their fragmentation, and formed a new electoral organisation, the Solidarity Electoral Action (AWS) in 1996. Thus, the party system just as in Hungary during the same period became more polarised and less fragmented. According to Jasiewicz and Gebethner (1998) socio-economic and redistributive issues did not constitute the main cleavage of the party system. People with preferences for a free market and a large welfare state could be found among the voters of both electoral blocs. The main cleavage crystallised around socio-cultural issues, such as lustration and decommunisation, abortion, the role of the Catholic church, etc.

The constitution making process proved to be a particularly contentious issue. The SLD-PSL coalition eventually was able to adopt the 1997 Constitution with the liberal UW (a merger of two liberal parties). However, the right-wing parties called for a referendum, which was only narrowly won by the supporters of the constitution[13] (Jasiewicz & Gebethner, 1998). The opposition to the 1997 Constitution has remained one of the core tenets for the national-Catholic political camp in Poland ever since (Brier, 2009). The new constitution introduced strict separation of power, and

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[12] The 1992 Little Constitution gave the president the opportunity to appoint ministers to these key ministries.
[13] The turnout was, however, low, only 42.9 per cent (Jasiewicz & Gebethner, 1998).

consolidated Poland as a semi-presidential, parliamentary democracy with a bi-cameral legislation. It also weakened the president *vis-à-vis* the prime minister (Millard, 2010, p. 158). The AWS eventually emerged as the main contender of the SLD-PLS coalition government by the September 1997 elections, which it won gaining 33.8 per cent of the votes against the SLD’s 27.1 per cent.

4.2.3 Principal economic, labour market and social policy reforms 1990-1998, Poland

Economic policy

The Balcerowicz-plan was designed to launch market-economy in Poland as quickly as possible to resume growth and to stop hyper-inflation. A series of policy changes were adopted in December 1989 which came into force in January 1990: strict bankruptcy regulation was implemented, excess wage increases were heavily taxed (the so called “popiwek”, the excess wage tax was 500 per cent in 1991), foreign banks were allowed to operate, all forms of property got equal status, most subsidies were eliminated except for a few socially sensible areas (e.g., housing, agricultural investments). The purchase of foreign currency was allowed, tax haven for foreign direct investment was extended to six years. Export tariffs were abolished, and a uniform import tariff was introduced, quantitative restrictions abolished. The tax law was also changed in order to raise more revenue. The indexation of wages was stopped. Most of the prices were deregulated. Subsidies were cut to more than half. The Zloty was devalued, and partial convertibility was implemented (Przeworski, 1993, pp. 144-145).

The framework of the privatisation process until 1994 was defined by the 1981 Law on State-Owned Enterprises and by the 1990 Act on Privatisation of State-Owned Enterprises. In every case during this period, privatisations were voluntary, initiated by the management and employees' council. The 1990 Act distinguished two different paths of privatisation: the direct method ("liquidation") and the indirect method (capital privatisation). Both methods were subjects to lengthy, multi-stage bureaucratic processes. As a result, privatisation was much slower in Poland than in other CEE transition economies (Kozarzewski et al., 2000; OECD, 1992).

As dissent with transition grew – the unemployment rate stood over 16 percent by the beginning of 1994 – privatisation was among the main political issues. Due to huge strike waves a national tripartite commission was institutionalized, and the Suchocka-government reached an agreement with the trade unions on the Pact of State-Owned Enterprises in 1993. The Pact required decision on the method of privatisation within a period of three months (later increased to six), but with the path chosen by the employees. In return they would receive 15 per cent of voting shares free of charge, representation on the supervisory boards, and a relaxation of wage controls. If management and employees of large enterprises failed to choose a privatisation method, the enterprise would be commercialised compulsorily (OECD, 1994b).

Privatisation accelerated with large enterprises sold after the implementation of the 1996 Law on the Commercialisation and Privatisation of State-Owned Enterprises. It provided a new framework for privatisation, also adopting the most important provisions of the 1993 Pact. It also launched the mass privatisation program which was adopted in parliament already in 1993. The Polish mass privatization program was a rather cautious and highly regulated top-down model (Lieberman et al., 1995). 512 companies were selected for mass privatization managed by 15 National Investment Funds (Grosfeld & Hashi, 2007, p. 522). The participation rate was extremely high in the program, by November 1996 96.1 per cent of the population retrieved their share certificates (OECD, 1998a, p. 50).

As a result of selling large and profitable state enterprises, such as Bank Handlowy in 1997, by 1998 about 60-70 per cent of value added was generated in the private sector (OECD, 2000c). Regional disparities were growing, however. Jarosz (2000) showed that the method of privatization, whether indirect (capital privatisation) or direct (liquidation) depended on the region. Between 1990 and 1999 not a single capital privatisation took place in the economically underdeveloped regions of the north-east, that is, these regions did not receive capital investment. This was in stark contrast with the most developed regions like Warsaw or Katowice where 31 and 22 big capital companies (employing more than 500 people) operated in January 1999, respectively. The per capita gross domestic product in the six most developed provinces was 30 per cent higher in 1999 than in the five poorest ones (Jarosz, 2000, pp. 12-13). Unemployment figures also mirrored these regional disparities: e.g., in 1993, in the agricultural regions of the north-east unemployment rates were well over 20 per cent as opposed to urban, industrial centres with substantially lower rates (OECD, 1994b, p. 23). This pattern proved to be durable: while unemployment dropped in every region between 1994 and 1998, regional disparities persisted. In May 1998, it ranged from 8.3 per cent in the industrialized Slaskie Province – with Katowice as the provincial capital – to 20.1 per cent in the north-eastern, rural Warmian-Masurian Province (OECD, 2000c, p. 64).

Labour market policy

The Solidarity governments in power between 1989 and 1993 did not institutionalise tripartism in Poland. Ost (2005) describes in detail how Solidarity's leaders used the trade union against labour once they were in power. Solidarity became a means suppressing growing public dissent with the shock therapy. As a result, in 1992 and 1993 Poland experienced huge waves of strikes. But the lack of institutionalisation was also due to the fact that the establishment of Solidarity created a divided unionism along the anti-communism cleavage. Solidarity rejected the post-communist successor union, the OPZZ (All-Poland Alliance of Trade Unions - *Ogólnopolskie Porozumienie Związków Zawodowych*, OPZZ). After 1989, the labour movement became also fragmented with hundreds of nationwide unions and 24.000 regional organizations (Guardiancich, 2013, p. 149). The two major trade union confederations were directly involved in party politics with own deputies in the Sejm (up until 2001) (Ost, 2005).

Under the post-Communist SLD-PSL government tripartism was, however, institutionalised in Poland. The 1993 social Pact on the Transformation of State Enterprises, implemented by the SLD-PSL government, already gave a voice to unions in privatisation. In January 1995 a new system of collective bargaining entered into force. The new Law on Collective Bargaining created a Tripartite Commission on Socioeconomic issues. The Tripartite Commission had the power to come to binding agreements on labour law, social policies or public finances. However, the subsequent governments failed to forge such an agreement (Bohle & Greskovits, 2012, pp. 150-151). The new Law on Collective Bargaining also changed the system of administrative control of wage increases through income tax policy (the excess wage tax). The target maxima of wage increase henceforth was set by the Tripartite Commission (under strict criteria defined by law and the government). The government opted for centralized bargaining instead of tax-based incomes policies (OECD, 1997b). Nevertheless, the conflict between the Solidarity and the OPZZ trade union confederations resulted in the Tripartite Commission *de facto* ceasing to function between 1996 and 2001 (Gardawski, 2002). The SLD-PSL government also set up a Guarantee Fund of Workers' Services in 1994, which financed claims of workers against insolvent enterprises. Furthermore, all companies were mandated to create Social Service Funds to finance enterprise social benefits (set at 37,5% of the average monthly wage per employee each year) (Cook & Orenstein, 1999, p. 87).

In 1995 a new Labour Code was adopted. The new Code was for the most part pro-employee rather than favouring employers; the only notable exception is increasing the probationary period from 2 weeks to 3 months. The other provisions were all in favour of the employee. The most important changes included that fixed-term contracts could only be renewed twice before automatically transformed into indefinite ones; the reducing the threshold for the obligation to create a working code from 50 to 5 employees; the reducing of weekly working time from 42 to 40 hours; the introduction of a generous overtime work premium (first two hours 150 per cent, every additional ones 200 per cent); and that collective agreements could not be less favourable to workers than the provisions of the Labour Code (Surdej, 2004)

Welfare policy

One of the unique characteristics of the Polish welfare state that it is composed of two different social insurance systems, which was institutionalised by the Mazowiecki government. There is one for the farmers created in December 1990, run by the Farmers Insurance Fund (KRUS), and a general one covering anyone else, run by the Social Insurance Fund (ZUS) (Czepulis-Rutkowska, 2011; Inglot, 2008b; OECD, 2004b). Poland's social insurance system remained further fragmented by granting special entitlements to certain privileged, mostly 'uniformed' occupational groups (e.g. military, police, custom officers, railroad workers, etc.) (Inglot, 2008b, pp. 270-271). These special benefits proved highly resilient to change.

The initially generous unemployment insurance system was quickly retrenched, and the long-term unemployed were effectively excluded. In January 1990, anyone without a job was entitled for income related benefit, which was generally 70 per cent of the previous wage. The benefit decreased with time down to 40 per cent after the 9th month of unemployment, but with unlimited duration. However, already in September 1990, eligibility criteria of a minimum of 180 days of work in the previous year and no suitable job offer were introduced with the exception of mass lay-offs and school leavers. In March 1992 unemployment benefits were set to a flat rate at 36 per cent of the average wage in the previous quarter for a period of 12 months (Armingeon et al., 2019). Low coverage rates and the ungenerous flat replacement rates have been the hallmarks of the evolution of the Polish unemployment benefit system ever since. The eligibility criteria were further tightened in 1996. The refusal of a suitable job offer entailed loss of benefit eligibility. Moreover, school-leavers were deprived of their right to unemployment benefits. Instead, they received a stipend but only on the condition of enrolment to an active labour market policy scheme (OECD, 1997b).

The main compensation for the collapse of the Communist planned economy was, however, letting workers retire. According to Vanhuysse (2006b) between 1989 and 1996 943.000 persons retired abnormally in Poland (that is, neither being disabled nor reaching retirement age). During these seven years a 22 per cent increase in disability and 46 per cent increase in early retirement took place (Vanhuysse, 2006b, pp. 88-89). Nevertheless, the disability pension scheme soon caught up with early retirement: by 2002 3.2 million people, or 14 per cent of the working age population drew disability pension benefits, the highest proportion in the OECD with the factor of two (OECD, 2004b). This is in spite of the fact that eligibility criteria for disability pension in 1999 were tightened. Medical assessment performed by doctors employed by the ZUS was implemented. Moreover, the duration of benefits was made henceforth no longer indefinite.

Because of the ‘abnormal pensioner boom’ the system dependency ratio in Poland increased from 40 (roughly the OECD average at the time) to 60 per cent between 1989 and 1993 (Vanhuysse, 2006b, p. 86) Moreover, as Poland in contrast to Czechoslovakia or Hungary failed to unify its social insurance rules pension benefits and entitlement rules differed vastly (Inglot, 2008b, p. 266). At first, the Solidarity government that was in power between 1991 and 1993 tried to control costs with benefit cuts, but the Constitutional Tribunal consistently ruled against these policies, contributing to a consensus on the necessity of systemic reform (Guardiancich, 2013). The design of the new system was made under the SLD-PSL government and the 5 laws governing the new pension system were adopted in 1997 and 1998. The new system was finally introduced in 1999 under the new right-wing coalition government. It comprised of a notional defined contribution plan PAYG first pillar, a mandatory, funded, private second pillar, and a third pillar that included all voluntary retirement saving schemes (OECD, 1998a). The new system did not concern those born before 1949, for them the old age pension applies. Those born between January 1, 1949 and January 1, 1969 could choose to only contribute to the public scheme or to the mandatory funded pillar as well. The new pension system changed the PAYG scheme to a notional defined contribution plan (NDC) (Armingeon et al., 2019).

4.2.4 Partisan competition and policy reforms in Poland, 1990-1998

In 1989 after their victory on the semi-free elections, amidst a full-blown economic collapse, the Solidarity government had the mandate to act decisively. It was also sheltered from popular backlash by controlling the Solidarity movement and trade union organisation. At the same time, the reform communists were defeated and discredited, and they also occupied a pro-reform and pro-European stance. However, by 1991 it became obvious that the post-Solidarity right is split along (conservative) liberal and Catholic-nationalist lines, which both hold distinctive and opposing positions on the politics of transition. Polish parties occupied a tri-polar counter-position of political attitudes: the liberal parties argued for civic rights but rejected socioeconomic rights, the social democratic left accepted both civic and socioeconomic rights, whereas the Catholic-nationalist right argued for socioeconomic rights but refused individual-based civic rights and viewed the family and the nation as the basis of social order (Kurczewski, 2009 as cited in; Stanley, 2013, pp. 172-173)[14]. The Suhocka-government was initially able to bridge this split on both socioeconomic and sociocultural issues. However, it eventually disintegrated under the societal pressure (from both unions and farmer organisations), the economic downturn, and the disloyalty of an increasing number of deputies (Stanley, 2013, p. 173). The difficulties of the Suhocka-government to implement economic reform and its clear departure from neoliberal orthodoxy was not merely a product of the government coalition's inconsistency on socioeconomic policies, however. By 1993 the left-wing electoral alliance, the Democratic Left Alliance dominated by the reconstructed reform communist social democratic SLD emerged as a clear alternative to the post-Solidarity right.

As the analysis of the economic, labour market, social policies of the SLD-PSL government clearly showed, the social democrats did not pursue some coherent liberalising policy agenda. The labour market policies of the Polish social democrats were in fact visible and third order de-liberalising measures. Although the primacy of sociocultural issues and the post-communist cleavage – the refusal of the liberal Freedom Union (UW) to enter into coalition with the SLD is evidence for the latter – cannot be questioned during this period, socioeconomic issues did not only structure the party system on the level of party elites (as discussed above). Social unrest, economic downturn, high unemployment made redistributive issues electorally salient. The SLD run clearly on a pro-reform and pro-European ticket, but their

[14] The empirical analysis of Kitschelt et al. (1999, pp. 231-234) based on a 1994 survey of politicians also shows these constellations in Polish politics in this period.

campaign platform “Our Program for Poland” and the 1994 June medium-term economic program “Strategy for Poland” emphasised the social dimensions of reform, partnership system in labour relations, and state administrative reform (Cook & Orenstein, 1999, pp. 84-85). The SLD and its left-wing allies even included social rights in the 1997 Constitution. The institutionalisation of the Tripartite Commission and an employee friendly Labour Code must be understood in this context (H1). This strengthens the assumption that the salience of socioeconomic issues does not per se signals the direction of reforms: it is a necessary condition for visible social and economic policy reforms but the direction (i.e., whether liberalising or deliberalising) is a function of the policy preferences of the governing party (or coalition), the structure of party competition, and external shocks.

Under the social democratic-agrarian government social spending decreased slightly as a percentage of GDP, however, it increased in real terms (Cook & Orenstein, 1999, p. 86). Although the pension reform was a liberalising structural reform, it stemmed from a bipartisan consensus and broad public support for the reform as pension spending stood at 15% of GDP by 1993. Pension spending was crowding out other welfare spending, which was important for the left-wing electorate. In contrast with the Hungarian pension reform process, the Polish government gained the support of both employers’ organisations and unions in tripartite negotiations. In the evaluation of Cook and Orenstein (1999) the Polish pension reform was “the keystone of a new centrist consensus on social policy”. Similarly, the economic policy of the left-wing government was moderate. It accelerated privatisation but secured the rights of employees and the management in the process. The Polish mass privatization programme was also a more cautious and regulated programme than the Czech (see below).

To sum it up: liberalisation – that is, the transition to and the institutionalisation of a functioning market economy – remained largely a valence issue during the entire period. The post-Solidarity right, however, was not coherent on socio-economic issues, whereas the left occupied a clear pro-marketisation reform position but with an emphasis on social and labour rights and the consolidation of the welfare state.

4.3 Czechoslovakia 1990-1992

4.3.1. Czechoslovak legacies and diverging pathways 1990-1992

Czechoslovakia did not introduce market reforms like Poland or Hungary before 1990. During 1988 and 1989 some cautious steps were taken by the Communist government such as increasing possibilities for companies to engage in foreign trade or the state enterprise act in 1988 laying the basis for breaking up enterprises into smaller units. On the other hand, inflation was less than 2 per cent, hard currency debt in 1989 was only 15 per cent of GDP, and net government debt was less than 1 per cent of GDP. Moreover, Czechoslovakia was only second to Slovenia in the former Soviet bloc in per capita GDP, which put it in 1989 roughly in the same group as the Southern European group of the European Communities, probably ahead of Portugal and Greece, but behind Spain (OECD, 1991a). After the November 1989 Velvet Revolution Czechoslovakia embarked on a radical transition to market economy. Nevertheless, price liberalisation was coupled with anti-inflationary policies, and welfarist policies to compensate for the sudden – and deliberate – decline in real wages.

As M. Orenstein (2001) summarises, the radical macroeconomic program consisted of rapid price liberalisation, currency devaluation, and fiscal stabilisation. The koruna was devalued against convertible currencies and revalued against the rouble already at the end of 1989 (that is, immediately after the revolution). A strict anti-inflationary policy stance meant among others the introduction of tax-based wage control policy designed to lead to drop in real wages. In addition, in the course of 1990 and 1991 among others a modern tax system was introduced (value-added tax, a progressive personal income tax, and corporate income tax), both small scale and large-scale privatisations were initiated (M. Orenstein, 2001, pp. 68-72).

The liberated prices were compensated with cash benefits. A minimum wage was introduced already in 1991. The Czechoslovak government adopted a living minimum standard for the calculation of wages, pensions, and other social benefits (Inglot, 2008b, p. 222). Collective bargaining was legalised and declared as the most important mechanism in wage regulation after the initial period of government enforcement. Moreover, a corporatist tripartite peak institution of social dialogue, the Council for Economic and Social Agreement was set up with binding agreements. Also, the Czechoslovak policy was rather to keep people employed which meant the protection of state enterprises that were deemed viable. Costly subsidised job and public works and retraining programs were also implemented.

However, attitudes towards the Czechoslovak transformation strategy set mostly by Prague were very different in the two constituent republics. According to a survey whereas only 9% of Czech respondents thought that unemployment should be avoided even at the cost of hindering or suspending economic reforms, 34% of Slovak respondents thought so (Carpenter, 1997, p. 211). Indeed, a July 1992 survey on economic expectations and attitudes of the Czech Academy of Sciences found that although in both federal republics there was a resentment towards economic transition and growing social inequalities, Slovak respondents consistently evaluated the transition more pessimistically and held more egalitarian, statist views than Czech ones (OECD, 1994a). E.g., while 48,5% of Czech respondents completely or partially thought that the state should command some entrepreneurs to lower the prices of their products (admittedly, a very high proportion), a combined 64,6% of the Slovak respondents did so. Correspondingly, while 67,8% of the Czech respondents (partially or fully) embraced the idea that private entrepreneurship should be given complete freedom, only 53% of Slovaks did so. In light of the Slovak neoliberal turn a decade later, it is very interesting to see where Slovaks laid the blame on poverty. After all, explaining poverty by individual choices is a cornerstone of free market ideology since Malthus' 1798 treaties, *"An Essay on the Principle of Population"* (Block & Somers, 2014). In fact, in 1992 a mere 26,4% of Slovak respondents agreed partially or fully with the statement that only an individual could be blamed for his or her poverty, while 40,3% and 33% were rather or completely opposed to this notion, respectively (whereas 46,7% of Czech respondents partially or fully agreed) (OECD, 1994a, p. 18, Table 2).

The legitimacy of economic transition thus differed to a large degree in the two federal republics, consequently, the politics of the transition also diverged right at the outset. Therefore, the two republics are analysed separately below starting with Slovakia, which is a critical case in showing how Offe's (1991) gloomy prediction about the very real possibility of the emergence of authoritarianism inherent in the politics of post-communist transitions was right.

4.4 Slovakia 1990-1998: The decline and fall of illiberal nationalist welfarism

4.4.1 Functional pressures, Slovakia 1990-1998

Before the dissolution of the Czechoslovak federation, the Slovak Republic experienced a much deeper crisis during the transition as the Czech Republic. Although sharing the favourable macroeconomic conditions with the Czech lands at the time of the Velvet Revolution – no excessive debt or macroeconomic imbalances – Slovakia's industrial structure differed markedly from the Czech. Due to Slovakia's late industrialisation under Communist rule heavy industries played a leading role in its economy. Many of the largest and most inefficient Czechoslovak enterprises were concentrated there (Bunce & Wolchik, 2011; Carpenter, 1997). Consequently, the disappearance of its markets, the Soviet reduction in oil exports and the oil price shock induced by the Gulf War affected Slovakia much more adversely than the Czech lands (Carpenter, 1997, p. 211). In 1991 and 1992 GDP declined by more than 20 per cent, while under the same period the decline was 12 per cent in the Czech lands (Inglot, 2008b, p. 243).

But it was first and foremost unemployment, which as the OECD in its 1994 report put it "became a chronic social and political problem" (OECD, 1994a, p. 17). By June 1992 unemployment grew to 11.3 per cent in Slovakia. It remained high in 1993, averaging at 12.9 per cent on a yearly basis, and it increased to 14.4 per cent in 1994, and it remained high close to or above 13% until 1998 (Figure 4.3). Although these figures were not high in regional comparison, in the Slovak Republic disenchantment with economic transition rose. As elaborated above in detail, public opinion was much less in favour of market reforms than in Czechia (Inglot, 2008b).

Nevertheless, according to OECD data, Slovakia was not that disadvantaged at all in regional comparison. GDP per capita (based on prices reflecting purchasing power parity) in 1992 was lower than in the Czech Republic but was equal to Hungary's and ahead of Poland's. Moreover, a comparison on the basis of social indicators put the Slovak Republic ahead of Hungary (OECD, 1994a). Growth soon resumed and GDP grew by 6.2% in 1994, peaking at 6.6% in 1995, however, it started to slow down by 1998 (Figure 4.1; OECD, 1996a). The annual rate of inflation also fell from over 25% in the spring of 1993 to 10% in early 1995, and to 6.1% in May 1996 (OECD, 1996a, p. 13). By 1995, Slovakia's level of external debt at 26% of GDP was also the lowest of all European transition economies (OECD, 1996a, p. 11). However, although industrial production grew robustly in 1995 (13,3% in the 12 months prior to February 1996), and even though industry and construction by 1995 made roughly the same contribution to value-added growth as the service sector, a rather large deindustrialisation took place. Whereas industry and construction produced 60% of GDP in 1991 and the service sector only one-third in 1989-1991, by 1995 the role of the sectors reversed: industry and construction produced only one-third of GDP, whereas the service sector over 50% (the contribution of agriculture remained around 6%) (OECD, 1996a, p. 4).

Problems started to accumulate, however, and from 1996 on macroeconomic imbalances characterised the Slovakian economy. From a surplus in 1994-1995, the current account shifted to a significant deficit of 11,2% in 1996 and remained high in 1997 as well (9,7%). Foreign debt also rose, it in fact doubled by the end of 1997 to 50,9% of GDP (OECD, 1999a, pp. 29-34). Unemployment was not simply high on average but geographically skewed, with enormous regional disparities. While the capital, Bratislava had a 4-5% unemployment rate, and by 1995, unemployment stabilised in other industrial, urban regions as well, in the more rural, south-western and north-eastern districts it continued to grow and remained in many cases over 20% (OECD, 1999a). The maximum regional difference in unemployment grew from 12% to 26% between 1991 and 1995 (OECD, 1996a, p. 99). Furthermore, Slovakia fell behind in the regional competition for foreign investment as the Mečiar-regime became increasingly hostile to foreign capital.

4.4.2 The dimensions of party competition 1990-1998

Slovakian party politics was dominated by Vladimir Mečiar and his party, the Movement for a Democratic Slovakia (HZDS) during the period. Vladimir Mečiar was the first prime minister of Slovakia after the fall of Communism and he led the nationally oriented faction within the Slovakian anti-Communist umbrella organisation, the Public Against Violence (VPN). Besides the former Communists there were other political organisations independent from the VPN: the Slovak National Party (SNS), which wanted an independent Slovak Republic, a coalition of the parties of the Hungarian minority, and the Christian Democrats (KDH). By the June 1992 elections, Mečiar left the VPN and formed a new party, the HZDS. Although Mečiar campaigned only with the re-negotiation of Slovakia's status within the Czechoslovak federation, after winning the elections and falling short only by 2 mandates from a majority in parliament, he quickly negotiated the dissolution of Czechoslovakia with Vaclav Klaus, the Czech premier (Deegan-Krause, 2013). The political discourse around and immediately after the 1992 dissolution of Czechoslovakia laid out the main themes of Slovak politics until the defeat of Mečiar on the 1998 elections: Mečiar's increasingly authoritarian rule, opposition to liberalising economic reform (particularly privatisation), the ever-intensifying conflict with the president of the republic, and ethnic tensions with the Hungarian minority.

It was a combination of the national question and the growing grievances with the economic transition that gave the opportunity for the HZDS-SNS coalition to negotiate independent statehood. The transitional recession affected Slovakia deeper than the Czech lands, and the Slovak public was also much less in favour of the neoliberal economic reform template implemented by Vaclav Klaus than the Czech (see above). The Slovak government for example rejected wage control in 1992 and stalled increases in the prices of housing and heating (Myant et al., 2000, p. 733). Mečiar skilfully combined calls for more independence and self-determination with the fears from economic transition (Hloušek & Kopeček, 2008). The HZDS government remained hostile to the liberalisation of the Slovak economy. E.g., it stopped the voucher mass privatisation, and postponed the reorganisation of indebted SOEs. Nevertheless, in its foreign policy it declared EU and NATO accession as the main priorities (Malová, 1994, p. 420).

Initially, the parliamentary support of Mečiar's government was relatively unstable. 8 MPs left HZDS in June 1993, and a formal coalition government with the Slovak National Party only was formed in November. Mečiar's conflict with the president – who sought to constrain his powers – also became ever more pronounced (Malová, 1994). The increasingly authoritarian rule and the formal coalition with the SNS led to the departure of several additional HZDS deputies, including the Western oriented foreign minister, Jozef Moravčik. Eventually, the government lost its majority and lost a vote of no-confidence in March 1994. The next day the parliament also set the date of early elections (September 30 and October 1). For the interim period a new broad coalition government was formed headed by Moravčik. It was composed of the post-Communist Party of Democratic Left, the Christian Democratic Movement (KDH), and three smaller parties, and supported by the Hungarian parties. Although it was not coherent on economic policy issues, it moved forward with some of the reforms that had been stalled by Mečiar. In spite of the economic recovery, the early elections gave a major victory to HZDS (Malová, 1995).

Mečiar with his third government relied on a disciplined HZDS parliamentary faction, and on a minimum winning coalition with the SNS and a new party, the Association of Workers of Slovakia (ZRS). Both the SNS and the ZRS shared the HZDS' positions on ethnic nationalism, on the centralisation of power, and on privatisation (Malová, 1996). It also quickly moved to strengthen executive power: it sought (in vain) to challenge the mandates of the party of the former interim Premier, and took exclusive control over the country's security services and the public media limiting the power of Mihal Kovač, the President of the Republic, whom it also tried to oust (Malová, 1996, p. 456; Deegan-Krause, 2013, p. 269; Malová, 1995, pp. 470-471). In violation of the Hungarian-Slovak basic treaty ratified in 1996, the rights of ethnic minorities were constrained, among others the official and educational use of minority languages were restricted (Vachudova, 2005; Malová, 1997).

During the second half of its term, the nature of Mečiar's governance became even more authoritarian and at times openly illegal. The government broke the law using the police and security services to intimidate its opponents, and the security services even had the son of the President kidnapped (Deegan-Krause, 2013, pp. 269-270). The government also started to tinker with electoral rules, forcing its opponents to form electoral parties instead of electoral coalitions (Malová & Učeň, 1999). Although supposedly labour friendly, and concluding tripartite agreements up until 1996, and even accepting a pension reform initiated and designed by the social partners in 1996, Mečiar alienated the biggest trade union federation, KOZ by 1997 overriding tripartite agreements ever more frequently.

Mečiar's increasingly authoritarian rule had two consequences: by 1998 the country became isolated internationally, and he managed to push its ideologically divided and organisationally fragmented opposition to form a united front against him. Although the EU did not revoke the European Agreement with Slovakia – that is, free trade – or the developmental funds, the December 1997 Luxembourg European Council meeting made it obvious that with Mečiar Slovakia's EU accession is in serious jeopardy.

Slovakia was not among the countries selected for accession negotiations. As a response, Mečiar turned openly towards Moscow (Vachudova, 2005; European Council, 1997).

But Mečiar's rule was also threatened at home. First, three right-wing and liberal parties forged the "blue coalition" by late 1996. They were joined in July 1997 by the social democrats and the greens forming together the Slovak Democratic Coalition. In late 1997 and April 1998 the ethnic Hungarian party, and the post-Communist left (SDL), as well as a newly formed centrist party agreed to cooperate with the coalition. Eventually, opposition unity combined with a mobilization campaign by civil society actors succeeded in ousting Mečiar in September 1998 (Bunce & Wolchik, 2011, pp. 59-74).

4.4.3 Principal economic, labour market and social policy reforms 1990-1998, Slovakia

Economic policy

The Slovak government had a more cautious stance on economic transition than its Czech counterpart. E.g., wage control was rejected in 1992 and the increases in the prices of housing and heating were stalled (Myant et al., 2000, p. 733). Between 1993 and 1998 the reform process was in a state, which Hellman (1998) characterizes as partial-reform equilibrium (see Chapter 2). Although according to the EBRD transition scores, in 1998, after 5 years of Mečiar's rule, Slovakia was not much behind the other Visegrad countries (EBRD, 1999), a closer look reveals tendencies towards crony capitalism. Mečiar abandoned the Czechoslovak reform agenda immediately after independence. Large-scale voucher privatisation was slowed down already in 1993. During the brief interlude in 1994, when Mečiar was ousted form government the second round of voucher privatisation was announced, and registration took place. After the 1994 elections, however, the third Mečiar government swiftly stopped voucher privatisation and replaced it with direct sales to “national businessmen”, that is, mostly to its own supporters (Malová, 1996; Deegan-Krause, 2013, p. 269; Bohle & Greskovits, 2012). The Mečiar-regime was hostile to foreign capital. In 1995 and 1996 out of 767 privatisation decisions only 7 favoured foreign investors (Haughton, 2001).

The Czechoslovak tax and social security finance reform, however, was not reversed after independence. Adopted in 1992 and introduced from 1 January 1993 in both republics, a completely new tax system was implemented along EU standards. Turnover tax was replaced by VAT (on a standard rate of 23% except 5% for some basic goods) and excise taxes. A progressive personal income tax was introduced ranging from 15% to 47% (with the basic rate applying to a taxable income of about twice the average wage). The corporate income tax was set at a flat rate of 45%. Health and social security funding was also reformed, and a compulsory insurance system introduced. Total contributions to the unemployment benefit, health insurance, and sickness benefit funds amounted to employees paying 9% of gross earnings and employers a further 27% (OECD, 1994a, p. 167). The National Insurance Agency comprised all three insurance funds (health, sickness, and pension) and was financed through the state budget. However, after January 1994 first the National Insurance Company was separated from the state budget and from January 1995 the health insurance fund was separated from the sickness and pension funds. Also, several health insurance companies were allowed to administer the compulsory health insurance system (e.g., in 1995 ten such companies existed) (Hlavacka & Skackova, 2000, p. 19).

Labour market and welfare policies

During the period Slovakia remained a relatively extensive post-communist welfare state. It had a generous child allowance and extended parental leave benefit regimes. The child allowance benefit was subject to parametric reforms, means testing was introduced in 1994 by the Moravčik-government but it still reached 80% of families. The Mečiar-government even doubled the nominal value of the benefit in September 1996 (to 1.68 times of the minimum living standards), although it was reduced by the same government in April 1998 to the level that applied prior to the reform (Makszin, 2013). Although the generosity of the unemployment benefit scheme was cut back already before the dissolution of Czechoslovakia, the Mečiar-governments did not change the eligibility criteria (at least 1 year of employment in the previous 3 years), the replacement rates (initially 60% reduced to 50% over time), or the maximum benefit level (150% of minimum wage), and even extended the duration of benefits (Makszin, 2013).

Based on 1993/1994 data, Slovakia was categorised as a “non-compensator” country by Milanovic (1998). That is, while the share of wages decreased considerably in population income – from 42% in 1987/1988 to 31% of GDP – the share of cash social transfer stayed the same (13% of GDP) (Milanovic, 1998, pp. 36-38). Nevertheless, Milanovic (1998) contends that Slovakia was the only post-communist country where the change in the income redistribution by 1993-1995 was not regressive (measured as the change in the Gini coefficient). The only other three post-communist countries, where the increase (still regressive though) was only marginal were Hungary, Poland, and Slovenia (in this order), in which countries, however, all sources of population income increased as a share of GDP (that is, wages, cash social transfers, non-wage private sector income, social transfers in kind). The puzzle can be largely explained by the fact that cash social (non-pension) transfers – again based on 1993/1995 data – were among the best targeted in Slovakia (family benefits, and unemployment benefits and social assistance) in the post-communist world, that is, there was a strong negative relationship between the absolute amount of transfers and the disposable income of households receiving them (Milanovic, 1998, pp. 109-113).

The Slovak welfare state was corporatist, and tripartist institutions were actively involved in its development. However, tripartism was contested by subsequent governments, and eventually abandoned. In the first half of the 1990s several general agreements were concluded between the government and the social partners. Although Mečiar was initially on good terms with unions, tripartism broke down by 1997. The Slovak Council of Economic and Social Agreement (RHSD) reached General Agreements in the first half of the 1990s. It was also the RHSD that initiated the implementation of a supplementary pension scheme in 1996 and the establishment of independent pension and health insurance funds with tripartite representation. A tripartite commission also had the power to extend the scope of collective agreements (Myant et al., 2000, p. 733). However, Mečiar overrode agreements ever more frequently. Tensions rose and in 1997 the biggest union confederation, KOZ left the RHDS, and no general agreement was signed. As KOZ could not be bullied into an agreement, Mečiar established rival unions, and tried to setup a new tripartite body with consultation rights only in which KOZ was not even invited to join. This pushed KOZ into an alliance with the opposition electoral coalition by 1998 (Myant et al., 2000, pp. 734-735).

4.4.4 Partisan competition and policy reforms in Slovakia, 1990-1998

The patterns of partisan competition during this whole period crystallised around the national question and eventually around the “regime divide” – that is, the increasingly authoritarian nature of Mečiar’s rule. Nevertheless, this latter issue, uniting a fragmented and otherwise ideologically diverse opposition by 1997-1998, also contained the question of Europeanisation, which in turn also entailed the question of socio-economic reforms (Deegan-Krause, 2013). In this period Slovakia is also the best example in the sample of how economic-redistributive issues can be entangled in socio-cultural conflicts: Mečiar built his nationalism successfully on the discontent of the Slovaks with what they saw as a too market-oriented approach dictated by Prague. Just as hypothesised (H4) an illiberal independence right party – the HZDS – in power was a necessary condition for overtly anti-liberal economic and social policies. Mečiar stalled the liberal reform agenda and combined exclusionary nationalism and authoritarianism with a generally pro-welfare stance. By 1997 he also walked back on de-liberalising schemes, such as tripartite social dialogue in his pursuit of unchecked executive power. Eventually, this is what led to his downfall. However, as shown above, the social and economic policies of the consecutive Mečiar-governments were able to shelter Slovakian society from the transition shock relatively well. Of course, other countries such as Czechia, Poland, Hungary, or Slovenia were able to achieve comparable social outcomes without increasing de-democratisation, while countries with similarly authoritarian political dynamics clearly were not (e.g., Romania).

Mečiar's politics proved to be a winning strategy as long as his opposition was fragmented along ideological and ethnic lines. While the HZDS and its allies occupied the national and pro-state redistribution positions, the opposition was dispersed along ethnic (Hungarian vs Slovak majority), redistributive (pro-market conservatives and liberals vs post-Communist left and unions), and religious (Christian Democrats vs secular parties) conflict dimensions. As shown by Deegan-Krause (2013) it was the extraordinary salience of authority (i.e., increasing de-democratisation of the country) and first and foremost EU accession that made it possible for the diverse opposition parties to overcome all of these conflict lines and oust Mečiar. However, as I will show, this temporary alliance did not mean that the conflicts over socio-economic policy were also overcome. In fact, the next two governmental cycles bring an increasing political salience of redistributive issues.

4.5 Czechia 1990-1998: The resilience of the "socio-liberal" model

As previously discussed, there was a much broader support for the economic transition in Czechia than in Slovakia. Nevertheless, the Czech reform-mix was much more complex than simply "pro-market". As shown in the liberalisation-deliberalisation graph in Chapter 1, the Czech policy indeed entailed a profound liberalisation wave during the early 1990s but also a significant amount of decommodification took place (M. Orenstein, 2001). Moreover, although the Czech party system has been characterised by a clear economic/redistributive programmatic division from 1990 on with strong pro-market reform parties (Hloušek & Kopeček, 2008; Mansfeldová, 2013), the reform trajectory was rather incremental after the first "founding liberalising wave".

4.5.1 Functional pressures, Czechia 1990-1998

As already elaborated in the section on Slovakia, Czechoslovakia started transition structurally more disadvantaged than e.g., Hungary and Poland because of the strict, doctriner Marxist-Leninist nature of the regime. That is, in the beginning of 1990 private sector was almost non-existent, there was no legal basis for private enterprises, economic activity was concentrated in large enterprises, and prices were almost fully controlled. It is telling that at the end of 1989 there were only 50 joint ventures registered against 500 in Hungary and Poland, respectively. However, at the same time macroeconomic imbalances were absent: inflation averegad at just 2% between 1980 and 1989. Hard currency debt was at 15% in 1989, and the government debt was less than 1% (OECD, 1991a, pp. 12-14).

As analysed in secton 4.3.1 in detail, the Czech population was more favourable towards liberal economic reform than the Slovak population. In fact, an October 1991 international poll conducted in Czechoslovakia, Hungary, and Poland found that public opinion towards state intervention to the economy was the least favourable in the Czech Republic. All in all, the five questions regarding the state's responsibilities in providing jobs, controlling prices, reducing inequality, subdising prices, and helping agriculture had a 73% mean support. This is admittedly a high proportion, however, the corresponding number was 84% in Poland, 86% in Slovakia, and 85% in Hungary. Czech respondents were particularly outliers in the state's role in reducing inequality (59% in favour) and providing a job (69% in favour) (Večerník, 1992).

Although less affected by the collapse of the CMEA trade and the loss of cheap Soviet fossil fuels than the Slovak Republic, in 1991 and 1992 GDP nevertheless declined by 12% in the Czech Republic (Inglot, 2008b, p. 243). Growth resumed only by 1994 (2.9%) and peaked in 1995 (6.1%) (Figure 4.1). After a drastic contraction of 24% as a percentage of GDP (federally), personal consumption quickly recovered and grew by 11% in 1992 in the Czech Republic (with 3%, in the Slovak Republic the recovery was much more limited) (OECD, 1994a, p. 10, Table 1.). Real wages also grew by 9% (federally) in 1992. During the initial transition period, unemployment did not become such a serious problem in the Czech Republic as in the Slovak Republic. Between 1991 and 1993 the highest quarterly registered unemployment was at 4.1% (fourth quarter 1991). Inflation also remained low, between 1-2%, the only exception was a sharp, one-off increase in the beginning of 1993 for a month, which was, however, attributed to the introduction of value-added tax (OECD, 1994a, pp. 12-13). GDP still contracted in 1993 by 0.9% but growth resumed in 1994 (2.7%) and more than doubled in 1995 (6.4%) (GDP at market prices; OECD, 1996b, p. 7; 1998b, p. 14).

In 1992, the yearly unemployment rate was merely 2.6% and did not substantially increase in 1993 either (OECD, 1994a, p. 14, Chart 3.). Indeed, unemployment remained low in regional comparison throughout the period (Figure 4.3). According to (Inglot, 2008b) the low official unemployment rate, however, obscured the extent of job loss. Communist Czechoslovakia had very high job mobilization rates, thus, a high share of pensioners, disabled, and young mothers worked. During 1990-1992 employment rates decreased across these groups. E.g., the number of working pensioners dropped by 73% (from 446.000 to just 120.000), including many women entitled to early retirement due to their number of children. 79% of all people, who left or lost their jobs did not return to the labour market (Inglot, 2008a, pp. 221-222).

By 1997-1998, the Czech Republic faced an exchange rate and economic growth crisis too (along with rapidly rising unemployment, see Figures 4.1 and 4.3). All of this was exacerbated by the political crisis of the ODS and the government (see below), and the problems with the voucher privatisation programme (see below). There were some negative trends even before 1997, e.g., at 11% inflation was almost four times the level of the EU15 average already in 1994, and it remained relatively high through the entire period, and reached 13% in the first half of 1998, although in regional comparison it was still rather low (Figure 4.2). Driven by domestic demand, the current account and trade balances, which began to deteriorate at the end of 1994, turned from surplus into deficit by 1995, both reaching deficits of 7.6% and 10%, respectively by the end of 1996 (OECD, 1998b, pp. 15-16). The general government deficit was reduced from 12.4% in 1995 to 3% in 1996, however it increased to 4.2% in 1998 (Figure 4.4). In the context of an exchange-rate crisis in Asia, and despite a stabilisation package (see below), the Czech National Bank was not able to maintain the fixed-exchange rate regime of the Koruna, and on May 26. 1997, had to abandon it for a managed float, which led to an immediate 10% depreciation of the currency (OECD, 1998b, pp. 17-18). The currency-crisis gave way to a growth crisis in 1997 and 1998 (Figure 4.1). Industrial output declined by 1.6% and construction by a whooping 22.9%, and the service sector also contracted overall by 1.7% (OECD, 2000a, pp. 23-24,

Table 1.). Consequently, unemployment was also on the rise, between 1997 and 1999 it more than doubled from around 4% to 9% (registered unemployment tripled) (Figure 4.3, Figure 5.3; OECD, 2000a, p. 26, Figure 2., Chart A).

4.5.2 The dimensions of party competition 1990-1998

The founding elections took place on 8-9. June 1990, and the first term was set only to last two years. The turnout was 96.8% and beside the Czech anti-communist umbrella organization only four party gained parliamentary representation. The Civic Forum (OF) achieved a landslide victory with 49.5% of the votes (which translated into controlling 62% of the parliamentary mandates). The second biggest party was the unreconstructed Czech communist party (KSČM) with 13.2% of the votes. The Self-governing Democracy Movement-Association for Moravia and Silesia (HSD-SMS), a regional party gained the third largest vote-share with 10%. A bloc party of historic parties, the Christian Democratic Union/Czechoslovak People's Party (KDU-ČSL) came in fourth with 8.4% (Mansfeldová, 2013, p. 242, Appendix 8.1). According to Mansfeldová (2013), however, the second place of the communists did not represent a genuine anti-communist cleavage in the Czech party system, as it did not split the electorate meaningfully. The vote for KDU-ČSL, however, showed that there is a religious voter base particularly among Moravian Catholics. The HSD-SMS represented a clear centre-periphery cleavage in Czech politics. The party's aim was regional autonomy for Moravia with Brno as capital (Mansfeldová, 2013, p. 222).

Nevertheless, the most important cleavage of Czech politics was represented within the Civic Forum. The main conflict line crystallised around how the economic and political transformation should be achieved. The unabasheadly pro-market conservatives were led by the finance minister, Vaclav Klaus. Those, who objected to the OF becoming a right-wing party created the Liberal Club in December 1990 (Mansfeldová, 2013; Hudeček et al., 1992). The critiques of Klaus' political direction did not question the necessity or the goals of market transformation. However, as opposed to Klaus, they did not consider market mechanisms to be an end in and of themselves. During 1991 the party quickly disintegrated and by the end of the year there were three parties in place of the Civic Froum: the Civic Democratic Party (ODS) led by Klaus, the Civic Movement (OH) and the Civic Democratic Alliance (ODA) (Hudeček et al., 1992, pp. 380-381). The conflict about the economic and social policies of transition had a profound impact on Czech reform policies, which were a mix of radical economic marketisation and social democratic social policies. Moreover, many communist era provisions were also kept (see below) (M. Orenstein, 2001).

The 1992 elections resulted in the fragmentation of the Czech party system and at the same time of the dominance of the ODS. Altogether 8 party lists won enough votes to enter into parliament and 9 factions were formed (by 1993 these split into 11). Václav Klaus' party received 29.7% of the votes and controlled 38% of the parliamentary mandates. The distance second was the Left Bloc with 14,1%. It's biggest party was the communist party. None of the other 6 party lists got more than 6.5% of the votes. With the Civic Democratic Alliance (ODA) another liberal and economically right-wing party cleared the threashold, and formed a minority coalition government with the ODS. With the Republican Party the racist (anti-Roma) extreme right-wing also got representation. However, in retrospect the most important development was the Social Democrats' (ČSSD) entry into parliament, who would go on to become the biggest rival of the ODS by 1996 (Brokl & Mansfeldová, 1994, 1993; Mansfeldová, 2013).

The level of satistaction (or rejection) of economic reforms highly correlated with the support for ODS (which also identified itself with liberal democratic values and individualism) on the pro-reform end of the spectrum and with the support for the communists and the far-right Republicans on the anti-reform end. Although the tensions between the Slovak and Czech political elites wre tangible – with the Slovak HZDS and far-right advocating for an even looser federation or outright independence – these did not impact the Czech parliamentary elections meaningfully (Mansfeldová, 2013).

With the bulk of the economic transition and privatisation concluded, at the June 1996 election the question of redistriubtion and the role of the state in social security constituted the most important political issues (Mansfeldová, 2013, p. 226). All the relevant parties defined themselves on the economic left-right axis, and the socioeconomic cleavage was also the most important factor defining party preferences of the electorate (Hloušek & Kopeček, 2008). The ODS won the elections with 29.6% of the votes, however, the ČSSD came in second with 26.4%, signalling an end to the dominance of the OSD in Czech politics. Two equally strong parties, a moderate conservative and a moderate social democratic occupied henceforth for over a decade the two opposite poles of the Czech party system. There was, however, no socio-class polarisation behind the election result. Both parties drew support from all social classes (e.g., 39% of the poor voted for the right, whereas 30% of the enterpreneurs voted for the left, see Brokl & Mansfeldová, 1997, p. 343) As emphasized by Brokl and Mansfeldová (1997) in their analysis of the election, the political sphere organised by the socio-economic left-right axis was 'not divided but intertwined in the same continuum of the social market dimensions versus liberal economy' (p. 343).

Only four other party cleared the 5% threshold in 1996. The communists (10.3%), the Christian Democrats (8.1%), rhe far-right Republicans (8%), and the liberal-conservative ODA (6.4%). Because of the electoral strength of the communists and the far-right, a minority government could only be formed again by the ODS, the Christian Democrats and the ODA. The ČSSD demanded concessions from the coalition in the questions of territorial administrative reform, independent social funds, retirement age, and of school fees and co-payment in healthcare, but eventually let the government to be formed without reaching any complete agreement (Brokl & Mansfeldová, 1997).

The second Klaus government, however, proved to be short-lived. Czechia was shaken by a party financing scandal of the ODS in the context of a deep economic recession and failed stabilisation measures. The government unravelled when on November 28-29. 1997 the Christian Democratic and ODA ministers handed in their resignations. This was followed by Klaus' resignation as prime minister on November 30, as he was left no other option (Brokl & Mansfeldová, 1999). The ODS party finance scandal was in direct connection with the voucher privatisation programme. Namely, with the lack of its oversight and an absence of any effective regulation of financial markets (M.

Orenstein, 2001). Klaus was not only accused by his critiques by mismanagement because of his laissez fair neoliberalism, but also of an increasingly centralised and autocratic governing style. A caretaker government of 'experts' took over led by the governor of the Czech central bank from January 1998. Early elections were scheduled for June 1998, and the caretaker government introduced financial market regulation measures and initiated bank privatisation (M. Orenstein, 2001). Nevertheless, Klaus was re-elected as ODS chairman.

4.5.3 Principal economic, labour market and social policy reforms Czechia 1990-1998

Economic policy

As M. Orenstein (2001) summarises it, the radical macroeconomic program consisted of rapid price liberalisation, currency devaluation, and fiscal stabilisation. The koruna was devalued against convertible currencies (by 50%) and revalued against the rouble already at the end of 1989 (that is, immediately after the revolution) (OECD, 1998b, p. 13). A strict anti-inflationary policy stance meant among others the introduction of tax-based wage control policy designed to lead to drop in real wages (kept until 1995). Prices were deregulated in two steps, and by October 1991 only 5-6% of GDP remained subject to price regulation, which was comparable to the level found in OECD countries at the time (OECD, 1991a, p. 23) In addition, in the course of 1990 and 1991 among others a modern tax system was introduced (value-added tax, a progressive personal income tax, and corporate income tax), both small scale and large-scale privatisations were initiated (for a detailed description of the Czechoslovak tax reform, see section 4.3.3).

However, the Czech governments did not introduce such hard budget constraints against enterprises as their Hungarian and Polish counterparts (Kornai, 2001). E.g., in 1992 bankruptcy was filed against 23.4% of all Hungarian firms and 2.2% of all firms dissolved, 5.6% of all Polish firms and 1.2% dissolved, and only 0.9% of Czech firms and none dissolved. The pattern did not change during the period, until 1996 the share of completed bankruptcies as a proportion of the enterprise sector remained very low (the highest was 0.6% in 1996) (Kornai, 2001, p. 1578, Table 2). Between 1992 and 1996 on average 1895 Hungarian, 1000 Polish, but only 312 Czech firms declared bankrupt (Vanhuysse, 2006b, p. 113). In fact, this was the consequence of a conscious political programme. The Czech "Radical Strategy" adopted in April-May 1990 that laid out the blueprint for the economic transition explicitly spelled out that bankruptcy of large enterprises must be avoided (Vanhuysse, 2006b, p. 109).

The Czech privatisation was in line with the approach of keeping firms afloat. Small firms (even some factories with a couple of hundred employees though) were auctioned off during 1991 and ended at the end of 1992 ("Small Privatisation Act"). The privatisation of middle-sized and large firms, however, was through a voucher programme in two waves starting February 1992, the first wave ending already in the middle of 1993 and the second in the spring of 1995 (Mertlík, 1997). Called as "populist privatisation" by M. Orenstein (2001), the programme had two additional intended goals beside rapid denationalisation reflecting the ideological convictions of Klaus and his faction: to educate citizens in capitalist reasoning and to keep the structurally weak and undervalued Czech economy in Czech hands (Drahokoupil, 2009). Eventually, 77% and 74% of the adult population took part in the two waves (Myant, 2007, p. 108). Thus, the first two democratic Czech governments also tried to institutionalise a form of national capitalism, albeit differently than the Slovak version built around Mečiar's personalist and increasingly autocratic rule. Nevertheless, it also lead to partial reform equilibrium (Hellman, 1998) and eventual crisis.

Voucher privatisation in fact led to a perpetuation of soft budget constraints. Each registered citizen received a voucher booklet with 1000 investment points for a nominal fee (about one-fifth of the average wage), the book value of was about 60 times of this fee. More than 72% of these investment points by almost 6 million citizens were allocated in so-called investment privatisation funds (IVF) (Mertlík, 1997, p. 69). The four largest state-owned banks owned six of the largest IVFs, which owned enterprises that were indebted towards these very state-owned banks. That is, the state-owned banks supported inefficient firms in their portfolios, and because of a fear of a chain of insolvencies bank privatisation was out of the question (Drahokoupil, 2009, pp. 38-40). Privatisation receipts were used to buy old enterprise debt through a bank founded for this purpose (Konsolidacni Bank), and the government also repeatedly intervened directly to prevent dozens of large enterprise bankruptcies (Vanhuysse, 2006b, p. 114). The government was also actively involved in allotting large shareholdings to managers, who they believed could bring success to "national champions" (Myant, 2007, pp. 108-109).

Furthermore, "privatised firm" in the Czech statistics did not necessarily mean that a firm was truly denationalised (i.e., sold to private owners). Privatisation was administered and carried out by the National Property Fund (NPF), a public body. The founding ministries gave over their property (shares) approved for privatisation the NPF, which was then administered and kept in the NPF's portfolio. These properties although were transformed from unshared to shared ownership still were publicly owned, nevertheless, counted as privatised. This type of still publicly owned shares represented a very sizable amount of the enterprise sector. As late as April 1995 the NPF had an equity of 279 billion Koruna in its administration, which represented 40% of all shares ever held in its portfolio up to that date (and out of which 25% represented shares of 50-60 strategic companies for "permanent holding") (Mertlík, 1997, pp. 68-72).

This strategy had several adverse consequences. Instead of leading to dispersed ownership, the voucher programme led to highly concentrated control rights of IVPs. E.g., after the first wave of privatisation the top thirteen IVPs gained control of 55% the vouchers and an estimated 75% of the board seats in the country (Appel & Gould, 2000, p. 114). In a regional comparison, Czech firms also remained less efficient. The harder Polish and Hungarian budget constraints provided stronger incentives for restructuring of firms. Consequently, the productivity of Hungarian and Polish firms improved more strongly (Kornai, 2001, p. 1591). The government also opposed regulating financial markets and corporate governance, which enabled management of firms and IVFs to simply steal (appropriate assets for private gain) (Drahokoupil, 2009). As the international context became less favourable, the Czech national-capitalist (or "bank socialist") model unravelled. Three of the four big banks – one with advisors of Klaus on its supervisory board – lent unsoundly. An estimated one third of credits – equivalent to almost 20% of GDP in 1997 – could never be repaid. Bailing out ailing enterprises ended in 1997, with the volume of bank credit falling from 63.9% to 39% of GDP by 2002. Wages were owed to 53.000 employees in 1998 (Myant, 2007, pp. 112-113).

The Klaus government introduced two stabilisation packages in 1997 in April and May. These consisted of a combination of short and long-term measures. A Kc 25.5 billion reduction in government expenditure – corresponding to a 5 per cent decline in budgeted current spending – was introduced in April and further cuts in May. The austerity measures included the abolition of the ‘‘14th monthly wage”, a 25 per cent reduction in public-sector capital expenditures, a freeze in the nominal wage bill for public sector in 1998, Reductions in social and investment spending, and reduction of budget-financed imports. Structural measures were also pledged by the government, including the privatisation of strategic enterprises, financial market regulation, corporate governance reform (enhancing rules protecting minority shareholders), and export promotion (OECD, 1998b, pp. 15-17). The caretaker government that took over from January 1998 until the new government was formed in July 1998 initiated bank privatisation (this, however, proved very costly because of the amount spent to keep them afloat and the bad loans that had to be absorbed, see Chapter 5).

Labour market and welfare policies

At the outset of the transition the Czechoslovak government envisaged a corporatist structure. The Council for Economic and Social Agreement (RHSD) was created in 1991 as the peak corporatist institution with an equal representation of the government, unions, and employers. The Act on Collective bargaining, entered into force in February 1991, prepared the floor for collective bargaining on wages on branch and firm level to replace wage regulation (OECD, 1991a). The RHSD signed the first General Agreement already in 1991, which was a broad corporatist agreement on social policy, wages, employment protection, union-friendly legislation, and unemployment benefits. The government, however, soon abandoned tripartism, declaring that it cannot be forced by binding agreements. The RHSD became a consultative body. Under the first premiership of Vaclav Klaus social partnership was abandoned. Klaus eventually, during the 1997 crisis sought partnership, but the unions this time refused to cooperate (Bohle & Greskovits, 2012, p. 147).

Vaclav Klaus won the argument over gradualists in economic policy, and he and his allies did not care about labour market and welfare policies (at least initially). He thought that private ownership will ultimately determine everything (Myant, 2007). The welfarist social policies of the Czech transition reflect this fact and the inherent heterogeneity of the Civic Forum. The designer of the Czech 'emergency welfare' state was Igor Tomeš, a social policy advisor of Alexander Dubček, condemned to work in a steelwork after 1968. Tomeš revived old welfare legacies, but also kept working provisions and institutions from the Communist era (but trimmed them of their elements deemed unfair, such as special provisions for certain privileged groups) (Inglot, 2008b).

The liberated prices were compensated with cash benefits. A minimum wage was introduced already in 1991. The Czechoslovak government adopted a living minimum standard for the calculation of wages, pensions, and other social benefits (Inglot, 2008b, p. 222). Collective bargaining was legalized and declared as the most important mechanism in wage regulation after the initial period of government enforcement. Moreover, a corporatist tripartite peak institution of social dialogue, the Council for Economic and Social Agreement was set up with binding agreements (Bohle & Greskovits, 2012). The chosen economic policy of keeping firms afloat and thus people employed resulted not in exceptionally low unemployment levels (even with the high job loss among working mothers, disabled persons, and pensioners). This meant that Czechia avoided the abnormal pensioner boom experienced by Hungary and Poland, where the most important emergency policy in mitigating unemployment was mass exit to early retirement and disability pensions (Vanhuysse, 2006b). In 1990 and 1990 pension replacement rates in fact increased only marginally, and during the next five years they were reduced by 10 percentage points (Vanhuysse, 2006b, p. 108). The Pension Adjustment Act of 1991 set indexation to follow cost-of-living with minimum pension fully (with every 5% increase in the overall retail price index), while higher pensions were only partially indexed. This had an effect of pensioners remained relatively better off until 1992, when real wages began to grow again pushing down replacement ratios to the lowest level since 1978 (Inglot, 2008b, pp. 222-223). The reform of the PAYG pension system – highly progressive, that is, redistributive with a flat basic and an earnings-related part – was on the agenda since 1990 but not by the World Bank agenda. The social democratic reformers envisaged occupational based supplementary pensions. However, the ODS government – over the protest of trade unions – first supplemental pension insurance in February 1993, and a fully funded voluntary pension insurance funds in 1994 (employee contributions were matched up to a threshold by the state and on the voluntary basis by the employers). Moreover, the government also adopted an act gradually raising the retirement wage for both genders over more than 10 years reaching 62 for men (from 60) and 57-61 for women (from 53-57) (OECD, 1996b, pp. 85-86; 2000a, p. 125; Brokl & Mansfeldová, 1995, pp. 309-310).

The absence of runaway pension spending left resources for other programmes. Czech governments implemented costly subsidised job and public works and retraining programmes. A network of 77 regional labour offices was set up already in 1990. These employment offices reached 92% of all unemployed persons. In 1992 alone, the labour offices created more than 82.000 new jobs, over 1000 places in protected workshops for disabled people, and 25.000 places for community work, and requalified 14.600 jobseekers. In 1993 the share of active labour market expenditures in Czechia (55%) was even higher than in Sweden (45%). In comparison it was significantly lower than the OECD average (33%) in Hungary (23%) and Poland (16%) (Vanhuysse, 2006a, pp. 1125-1126).

Incentive for job search was built in the original design of unemployment insurance with 5 per cent higher replacement rate for those participating in re-qualification and other training programs. Moreover, generosity decreased with time (it was set originally at 65 per cent of the last net salary for the first 6 months, and 60 for the second 6 months capped at 75 per cent of the average wage) (OECD, 1991a, p. 143). The gradual tightening of the UI and social assistance system already started in 1992. Maximum duration of benefit was halved from 12 to 6 months and the replacement rate to 60 and 50 per cent, respectively (OECD, 1996b, p. 81). This marks the trend in UI policy; henceforth increasing job-search requirements and tightened eligibility characterise its development.

4.5.4 Partisan competition and policy reforms in Czechia, 1990-1998

The original Czech “socio-liberal” (M. Orenstein, 2001) economic and social-welfare policy-mix implemented between 1990-1992 can be attributed to several factors. The absence of large foreign indebtedness (along with relatively high living standards), and a relatively strong industrial base was a necessary condition that allowed the Czech government much more room of manoeuvre than its Hungarian and Polish counterparts. Nevertheless, domestic politics mattered. Albeit still very much pro-welfare and statist, the Czech public was the most open to market liberal values among the Visegrad-countries (OECD, 1994a; Večerník, 1992). As minister of finance, Václav Klaus had the dominant and most organised faction within the Civic Forum, the anti-communist umbrella organisation, which governed between 1990-1992. However, the 1968 social democratic reformers and their ideas also held sway. Consequently, economic policy was clearly neoliberal but social and labour market policies were decommodifying and generous. That is, the internal political dynamics of the Civic Forum as the dominant political coalition between 1990 and 1992 accounts for the policy-mix.

M. Orenstein (2001) explains the inertia of Czech reform policies henceforth until the 1997 crisis with the lack of change in government. That is, between 1992 and 1997, Klaus, the former finance minister now as premier largely stayed on the course of the Czech “socio-liberal” model. There are accounts, which explain this resilience of the initial Czech policy-mix for example in privatisation – which was increasingly proving to be a failure even before the currency crisis of 1997 – with the structurally weaker positions of Czech managers compared with their Slovak counterparts (where privatisation was insider oriented) (Appel & Gould, 2000), or with the relative strength of the power blocs within the state representing national and comprador capital with the balance of power favouring the former over the latter until 1997-1998 (Drahokoupil, 2009).

These explanations notwithstanding, ideological stance of the governing parties, electoral considerations and party system properties also clearly played their role. Klaus' coalition between 1992 and 1996, when it enjoyed a majority in the legislature, was not coherently neoliberal. The Christian Democrats, the second biggest party of the coalition was rather centrist, and neither did the other parties fully share Klaus' economic policy convictions. Nevertheless, the government implemented first a supplementary pension, then a fully funded voluntary pension reform and raised the retirement age (even if the act raised it gradually over more than 10 years). Moreover, it liberalised the labour code allowing short-term working contracts. Klaus also abandoned tripartism. These were seen as significant liberalising measures by the opposition and trade unions at the time. Particularly, the labour code amendment and the pension reform contributed to serious political and societal conflict. The labour market and pension reforms sparked the largest demonstration since the demonstrations in November 1989 involving around 40.000 participants at the Old Town Square in Prague on 24. March 1994. Moreover, more than 600.000 trade union members signed a petition against the measures and a general strike involving 500.000 workers was held on 21. December (the first since November 1989) marked by a 15-minutes interruption of work (Brokl & Mansfeldová, 1995, p. 309). These measures cannot be explained by external pressures as pension spending wasn't ballooning as it did in Poland or Hungary, unemployment levels were low, growth and domestic consumption resumed, real wages were also increasing, and Czechia was seen as a “reform champion” by Western decision makers, media, and financial institutions. Even the “entrepreneurial privatisations” were cheered on by such magazines as The Economist (see e.g., Myant, 2007, p. 109). Thus, these liberalisations lend support to H2: external pressure is not a necessary condition for market liberals to implement visible policy liberalisations.

Nevertheless, Klaus’ rightist-liberal-Christian Democratic government stubbornly stuck to voucher privatisation, while perpetuating *de facto* state ownership through the IVFs, which were owned partially or fully by state-owned banks. Neither did it implement any meaningful bankruptcy legislation. Moreover, it also directly subsidised enterprises and refused to privatise firms deemed strategic. At the same time, the government did not implement effective financial market and corporate governance regulations. All of this can again be attributed to many factors. M. Orenstein (2001) was right in pointing out the lack of change in government contributed to this inertia (as opposed to Poland, where political instability facilitated policy learning). However, this policy stance clearly served electoral purposes, namely keeping unemployment low and the Czech enterprise sector running without the transition shock and mass bankruptcies and restructurings experienced elsewhere. As Vanhuysse (2006b) emphasises, Klaus was in the 1990s the most successful politician in electoral terms in the region as a result. Even after the 1997 crisis, his party with him at its helm retained most of its electoral support losing only 1.88 percentage points compared with 1996, getting 27.74% of the vote (Brokl & Mansfeldová, 1999). Klaus’ ideological convictions, namely his laissez-fair neoclassical economic ideology and his nationalism also played a significant role. Admittedly, the interests of special interests with close personal connections to the ODS benefitting from the "partial reform equilibrium" also blocked any incentives for changing course (Drahokoupil, 2009; Myant, 2007). And in the absence of a growth crisis, his opposition with the increasingly powerful social democrats emerging as the dominant left-wing party, did not move to the right of the ODS on privatisation and financial market regulations either. That is, amid the macroeconomic context at the time, the composition of the party system (with unreconstructed communists, an extreme right party, and dominantly, the social democrats in opposition) would not made a change in the "soft budget constraints" strategy very likely even with a change in government.

4.6 Political agency during transition in the Visegrad-states

Even though in many studies the Visegrad-states are treated as most similar systems, this chapter showed that it was not the case between 1990 and 1998, the first phase of transition to market economy and democracy. The four countries exhibited a large variance in their economic, welfare, and labour market policies. Compared to the whole post-communist universe of course all four countries implemented a rapid economic liberalisation programme following the Washington-consensus. However, there were differences particularly in their privatisation, financial market, and corporate governance policies. But even in price liberalisation there were significant differences, where Slovakia was a clear outlier.

In social policies they showed equally large variance. The main question during the period was how to compensate the shock of economic transition. Neocorporatism was the strongest in Hungary and Slovakia during this period, even though it started to erode rather quickly by 1997-1998 in both countries. Nevertheless, tripartism played an important role particularly in Hungary in finding politically and societally viable (and peaceful) solutions to the transition crisis. In this regard, Czechia constituted a middle case, where legally tripartism was codified, however, abandoned by the ODS-governments. Surprisingly, Poland, the home of the once mighty Solidarity trade union movement, had the weakest tripartite structures, even though trade unions were given a role in at least some methods of privatisations, and towards the end of the decade neocorporatist structures were strengthened.

Privatisation mattered also for social policies primarily because of how much unemployment it generated. During communism there was full employment[15], and equally importantly, many vital social provisions were provided by firms and trade unions (themselves branches of the party states) (Szikra & Tomka, 2009). People did not possess capital, the little savings they had were devalued as soon as the currencies became convertible, price liberalisation led to high inflation everywhere (even in Czechia). That is, unemployment and perhaps even more importantly, how it was handled was perhaps the single most important issue for electorates. Hungary and Poland, where eventually direct sales to foreign investors became the dominant method, and which countries were deeply indebted, hard budget constraints were implemented early on. This meant bankruptcies and restructurings, that is, mass unemployment. In both countries the main method of alleviating unemployment was mass entry into early and disability pensions. Czechia and Slovakia, which were not

[15] For an explanation of concealed unemployment in command economies see e.g., Kornai (2000).

indebted and faced much milder transition shocks than either Hungary and Poland chose “soft budget constraints” regimes (although with very different methods, and Czechia had much more leeway than Slovakia). Slovakia, where unemployment was a much bigger problem than in Czechia, kept its relatively generous and well targeted unemployment insurance regime during the period. Czechia kept people working – by keeping most of the large firms running – and implemented a very effective active labour market policy regime (Boeri & Burda, 1996). As opposed to Slovakia, Czechia, Hungary, and Poland started to cut back the generosity of unemployment insurance as early as 1992. However, it was only Hungary that implemented harsh and comprehensive austerity measures in social policy overhauling its post-transition – or “emergency” – welfare policy-mix (Czechia did implement some austerity in 1997, but not comparable to the Hungarian austerity package of 1995-1996). The abnormal pensioner boom in Hungary and Poland gave strong incentives to implement partial pension privatisation, the so called “World Bank” pension model. Czechia implemented only a voluntary (but fully funded) scheme. Poland kept many defining features of its “communist era” social policy regime: it institutionalised the separate social insurance schemes for the rural and urban populations, and it failed to phase out special entitlements to certain privileged, mostly “uniformed” occupational groups.

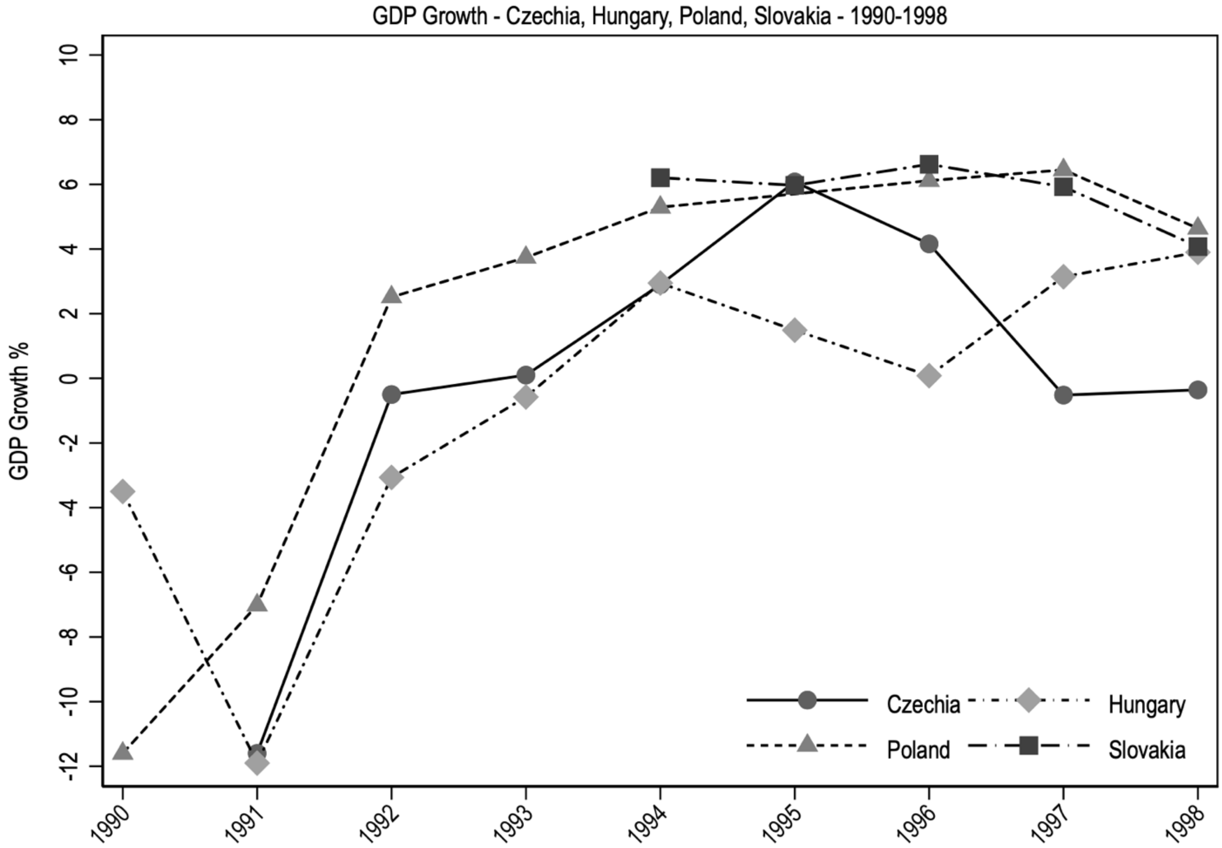
Domestic politics had a role in these outcomes. The quasi-experimental setting of the Czech and Slovak Republics demonstrates that public opinion on reforms mattered. For the Slovak anti-liberal politics during the Mečiar-era, the public resentment against the Czech neoliberal economic reform agenda was a necessary condition. The dynamics of party competition also made a difference even amid the high pressure of external constraints these polities all faced (albeit to different levels). The salience of redistributive issues was found indeed a necessary condition for visible reforms. The analysis of elections clearly showed that even in Hungary and Poland economic and redistributive issues were salient in every election during the period, even if these were crosscut by socio-cultural issues. However, the salience did not per se determine the direction of reform (H1). For example, the 1992 Czech elections gave a clear mandate for the ODS to continue with its liberal economic agenda, whereas the 1993 Polish elections brought the post-communist social democrats to power, who moved social policy clearly to the left.

During the period social democratic or centrist governments did not introduce austerity or visible liberalisations without external pressures (H2), whereas the Czech right-wing, market liberal government clearly did so (e.g., the partial pension reform heavily opposed by the left-wing opposition and trade unions leading to mass protest and strike action was not a crisis induced change). Visible social policy expansion beyond emergency social policy measures was contingent on strong social democratic or centrist parties (H3). For the implementation of the Czech socio-liberal model of active labour market policies and a minimum income guarantee scheme the influential social democratic wing of the Civic Forum was a necessary condition. Similarly, a neocorporatist system of social dialogue in Hungary, with very strong mandates for the peak tripartite forum (even in the budget, tax, and social policy issues) and tripartite self-governments controlling the social insurance funds were contingent on the centrist, Christian Democratic Hungarian Democratic Forum leading the governing coalition.

All differences notwithstanding, economic transition with a clear liberal economic policy-mix was a valence issue though in Czechia, Hungary, and Poland during the period, but not in Slovakia. The independence right HZDS with its extreme right-wing coalition partners was anti-liberal in its economic policy stance and with time increasingly so (H4). Paradoxically, by entangling the question of economic reform with the conflict on authoritarianism and EU membership, Mečiar laid the ground for the subsequent neoliberal reform agenda. During this period the Czech party system was the only showing signs of concentration. By 1996 the Czech social democrats achieved near parity with the ODS, which could not build a majority government anymore. However, the consequences of this concentration and the new dynamic of a major social democratic party facing a major conservative, market liberal party played out only from 1998 on (see the next chapter).

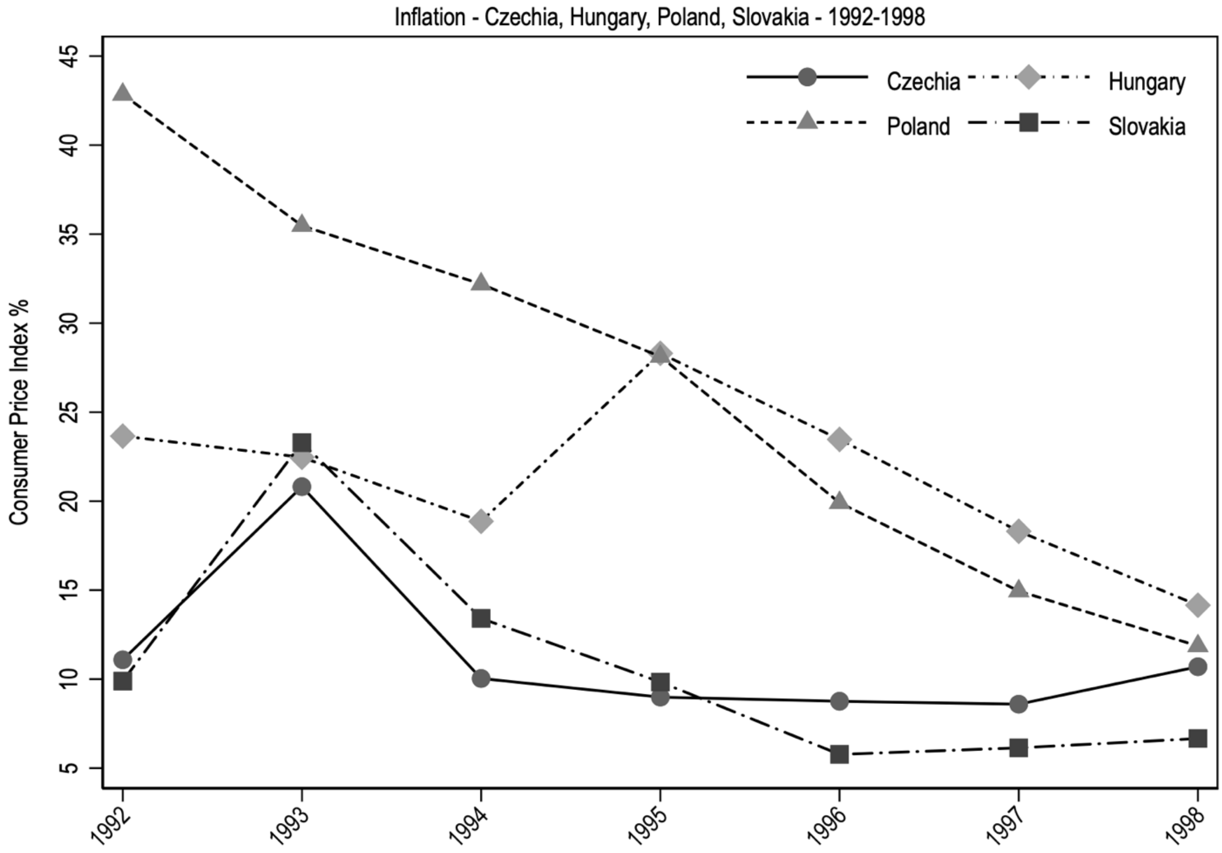
Figures

Figure 4.1. GDP Growth - Czechia, Hungary, Poland, Slovakia - 1990-1998



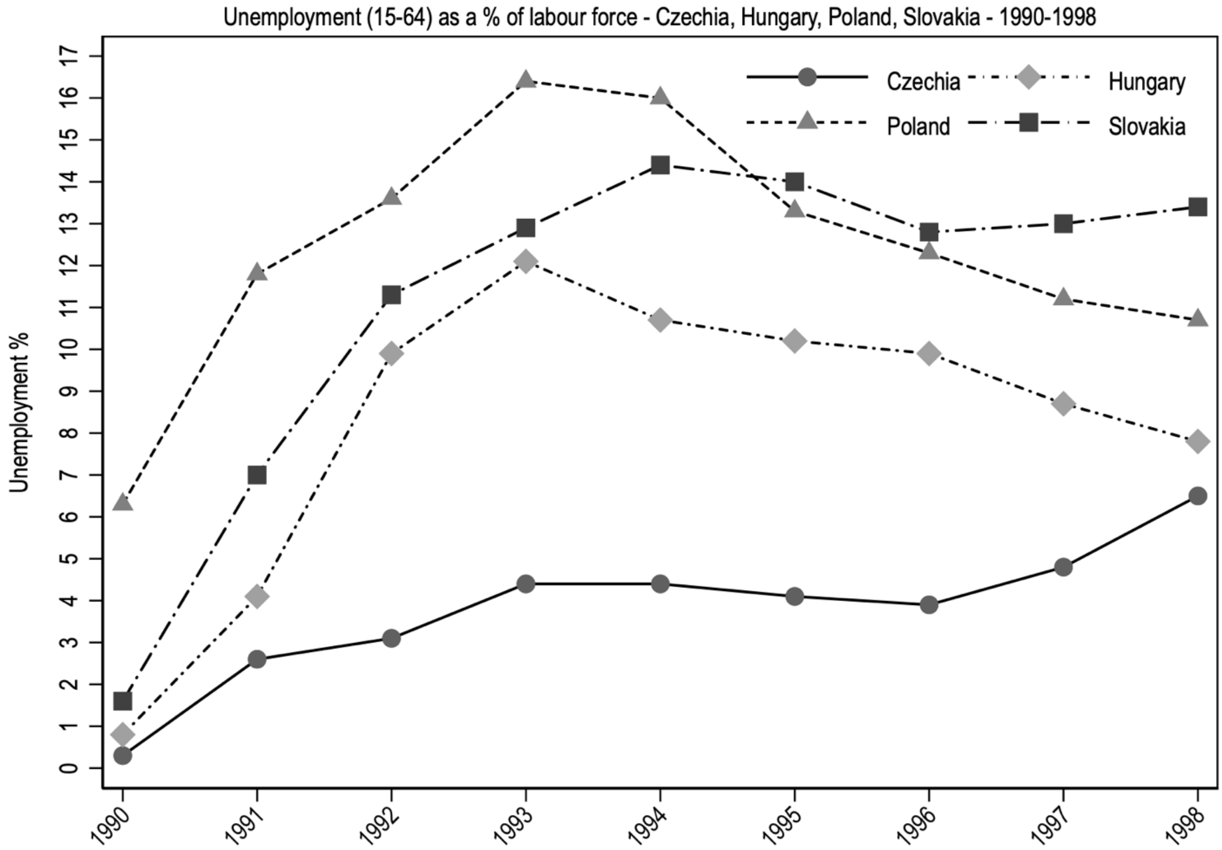
Source OECD (2024d) and World Bank (2024)

Figure 4.2. Inflation - Czechia, Hungary, Poland, Slovakia – 1992-1998



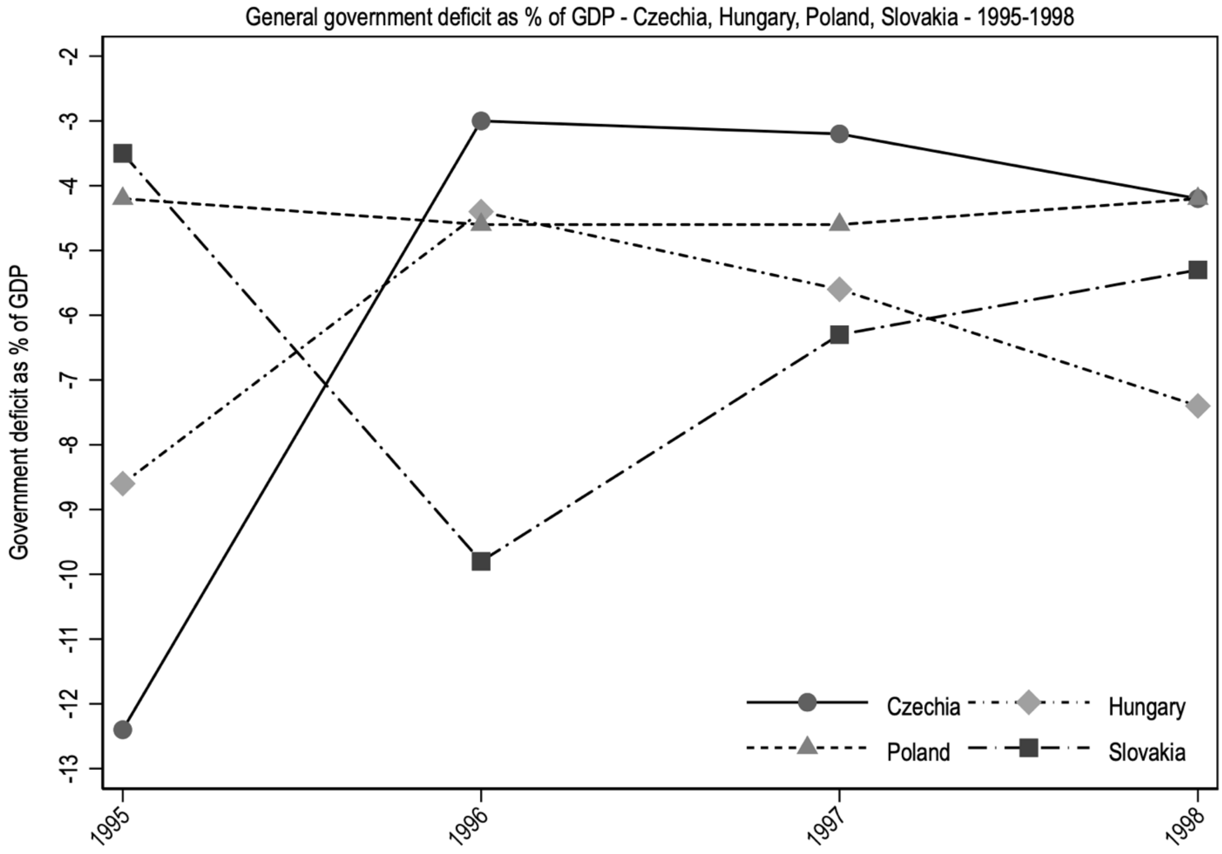
Source: OECD (2024c)

Figure 4.3. Unemployment (15-64) as a % of labour force - Czechia, Hungary, Poland, Slovakia – 1990-1998



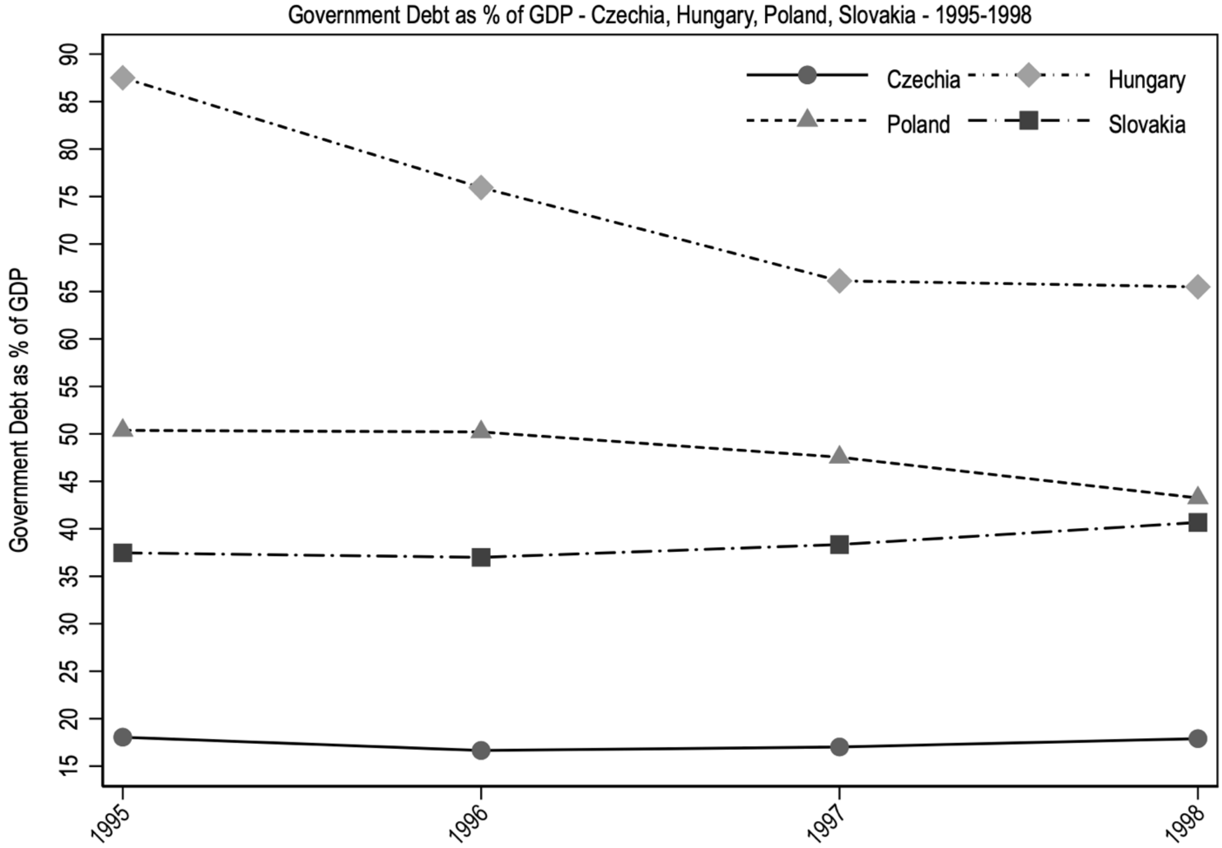
Source: Czechia 1990: UNICEF (1997), Czechia 1991-1998: OECD (2000a); Hungary 1990-1991: UNICEF (1997), Hungary 1992-1993: OECD (1997a), Hungary 1994-1998: OECD (2000b); Poland 1990-1994: UNICEF (1997), Poland 1995-1998 OECD (2001b); Slovakia 1990: UNICEF (1997), Slovakia 1991-1998 OECD (1999a)

Figure 4.4. General government deficit as % of GDP - Czechia, Hungary, Poland, Slovakia - 1995-1998



Source: OECD (2024b)

Figure 4.5 Government Debt as % of GDP - Czechia, Hungary, Poland, Slovakia - 1995-1998



Source: OECD (2024a)

Chapter 5. – Second generation reforms and EU accession, 1997-2007

Introduction

During the period, the Visegrád states each pursued distinct paths toward the FDI-driven export-led growth model, characterised by aggressive investment incentives and corporate income tax cuts. Most of their economic, labour market and social policies remained distinct or even diverged, however. For example, while Hungary adopted statist industrial and educational policies, Slovakia embraced a market-driven, neoliberal approach post-Mečiar era. Despite its deep crisis and its adoption of the competition state strategy, Czechia avoided coherent neoliberal restructuring. In Poland, liberalisation became increasingly contested politically.

Party system dynamics played a crucial role in shaping these trajectories. In Slovakia, an ideologically coherent right-liberal government and a changing and divided opposition were necessary conditions for the coherent neoliberal reform agenda between 2002 and 2006. Conversely, Hungary's concentrated party system led both major parties towards welfare populism, hindering structural reforms. Poland witnessed the emergence of radical parties like PiS, rejecting liberalisation. Though the 2007 victory of the conservative liberal Civil Platform (PO) on a clear reform ticket signalled that a considerable electorate for reform remained. In short, despite considerable functional and external pressures for liberalisation, party system properties kept playing a pivotal role in determining policy outcomes.

The chapter continues as follows, the four case studies of Hungary, Poland, Slovakia, and Czechia provide concise analyses of the functional pressures, the dynamics of party competition and liberalisations (and deliberalisations) across economic, labour market, and social policies, and a theory-driven discussion of the reform paths concludes. The chapter is then summed up and concluded by a comparative discussion of the findings.

5.1. Hungary 1998-2006: Welfare populism and the emergence of a two-party system

5.1.1. Functional pressures 1998-2006, Hungary

Hungary had among the highest GDP growth rates in the OECD between 1998 and 2002 (Figure 5.1), around 2 percentage points above the EU average (OECD, 2004a, p. 24). Growth was largely driven by exports as Hungary became a part of European supply chains for manufactured goods (OECD, 2004a; Bohle & Greskovits, 2012). Despite the growth in output, inflation decreased significantly: from more than 18% in 1997 it dropped to 6% in 2002 (Figure 5.2). Nevertheless, due to an international recession (and to a corresponding drop in manufacturing output), GDP growth in 2001-2002 was mainly driven by domestic demand (although output did increase again by 2003-2004).

Labour market trends were also favourable. Unemployment decreased from 8.9% in 1997 to 5.8% in 2001 (Figure 5.3) (OECD, 2002a). However, employment remained low and dependent employment even decreased 0.4% in 2001, and the economically active population shrank by 70.000 persons (OECD, 2002a, pp. 28-29). The fiscal position of the country was, however, not as favourable. General government deficit was high in 1998 at 7.4% (and up from 4.3% in 1996 and 5.5% in 1997). The Fidesz-government brought it down to 3% in 2000. However, as another general election was approaching it was up again at 4% in 2001 and a whooping 8.8% in 2002. In fact, these very strong political business cycles were a Hungarian characteristic since the 1994 elections (OECD, 2007). With the concentration of the party system at the 2002 elections and the emergence of the cut-throat two-party competition between MSZP and Fidesz, the political business cycle became even stronger. Although the deficit was reduced somewhat to 6.6% in 2004 (still the highest rate among the Visegrad countries) it was growing again in 2005, peaking at 9.3% in the election year 2006 (Figure 5.4). This high deficit was combined with large public expenditures during the whole period between 1997 and 2006. Government debt was always over 60% (and over 65% in most years) peaking at 70% in 2006, which was much higher than in the other three Visegrad states (particularly Czechia, see Figure 5.5).

Fiscal imbalances had several adverse consequences already by 2006 (OECD, 2007). Hungary did not experience acceleration in growth after EU accession as did its peers (Figure 5.1). GDP growth remained at around 4% and even decreased somewhat. The lack of acceleration in growth cannot be explained by a lack on investment. E.g., between 2005 and 2011 Hungary in fact received a higher value of green field investment than Czechia (and on a per capita basis it was only second to Slovakia) (Bohle & Greskovits, 2007, p. 171, Table 4.1). The deficit and debt positions also led to an increase in the current account deficit, causing concern in foreign exchange markets. This elevated the cost of maintaining price stability through the Central

Bank's inflation targeting system, resulting in higher borrowing costs for households and businesses. The combination of high real interest rates and reductions in mortgage subsidies starting in 2003 – see below – spurred a significant rise in the number of households opting for foreign-currency loans, often in Swiss Franc (OECD, 2007, p. 23). The OECD's analysis warned about the fact that borrowers were oblivious to the exchange-rate risks. Another consequence of fiscal imbalances was at first the postponement of the euro entry date (from 2008 to 2010 in 2004), and it's the eventual abandonment in 2006.

On the top these pressures, the European Council launched an excessive deficit procedure against Hungary in July 2004 (European Council, 2004). Both the Council and the Commission was demanding real action from the Hungarian government. However, the government was clearly not ready to present a realistic convergence programme before the 2006 general election. In fact, just as the Council deemed the actions taken by the Hungarian government officially inadequate in November 2005 (European Council, 2005), the Socialist prime minister announced an ambitious tax reduction programme (see below).

5.1.2. Dimensions of party competition, Hungary 1998-2006

The Hungarian party system was characterised by a growing concentration with Fidesz on the right and MSZP on the left dominating politics during this period. The combined vote share of the two big parties peaked at the 2006 election, when they received 85,2% of the votes. At the same time, the smaller parties either disappeared or acted as satellite partners for either of the two unable to break out from bloc politics.

The third democratic election in 1998 brought six parties into parliament, just as the previous two (Tóka & Popa, 2013). Although the MSZP came in first with 32.9% and Fidesz second with 29.5%, the latter could form a government with the agrarian, populist Small Holders' Party (FKgP), which came in third with 13.2%. The once second biggest party of the country, the liberal SZDSZ was heavily punished for its government record with the socialists and received only 7.6% (down from 19.8% in 1994). The other major force of the transition, the centrist conservative MDF – which failed to clear the 5% threshold – won enough direct mandates due to its electoral alliance with the Fidesz to form a parliamentary fraction and participate in the new government as a junior coalition partner. A splinter party of the MDF, the extreme right-wing, racist and antisemitic Party of Hungarian Justice and Life (MIÉP) received 5.5% and entered parliament (Ilonszki & Kurtán, 1999). It served as a reliable ally of the governing coalition from the opposition benches.

Both the new junior coalition partners of Fidesz, the conservative MDF and the agrarian FKgP, and the liberal SZDSZ in opposition quickly started to lose support though (Tóka & Popa, 2013). In the wake of the election, SZDSZ lost an additional 2-3 percentage points in the polls to linger henceforth mostly around the 5% threshold (until its disintegration in 2009/2010). The FKgP, which in 1996 was the clear challenger of the Socialists – in the polls often ahead of them (Kereszty, 1997) – was mired in scandals due to mismanagement and corruption in the ministries belonging to them, most notably in the agrarian ministry run by the party leader (Ilonszki & Kurtán, 2001). Eventually in 2001, the FKgP disintegrated (Ilonszki & Kurtán, 2002).

On the 2002 legislative election, against expectations and all polls (Szémann & Joób, 2017), the MSZP got the most votes, although the difference between the Socialists and the Fidesz-MDF electoral alliance was less than 1 percentage points (42.05% vs 41.07). The high 70.5% participation rate did not favour smaller parties, only the SZDSZ could clear the 5% threshold (5.57%) (Ilonszki & Kurtán, 2003). Orbán managed to mobilise his voters and eventually the Fidesz-MDF alliance won more single member districts than the Socialists and liberals. Nevertheless, the MSZP and the SZDSZ together received more mandates and quickly formed a new government.

Bloc politics brought increasing polarisation around socio-cultural issues. As Tóka and Popa (2013) emphasise, the concentration of the party system with the two big parties having more or less equal support meant that the differences on economic-redistributive issues disappeared between the once pro-market Fidesz and the post-Communist MSZP. Orbán's premiership between 1998 and 2002 brought unprecedented ideological and organisational cohesion to the Right. The Fidesz government delivered on the national Christian conservative ideological agenda (e.g., it was much more assertive vis-á-vis foreign investors and the West, it entered into open conflicts on behalf of ethnic Hungarians with neighbouring countries, it installed the "holy Crown" of the Kingdom of Hungary in the Parliament), it had close and friendly ties to Christian churches, and it aggressively pursued a "change of the guard" both in public administration, the economy and culture (which was seen as corruption, clientelism and "Kulturkampf" on the left). But apart from the scandals around the FKgP – which still ended up hurting Fidesz electorally – Orbán's governed efficiently and employed a streamlined and professional communication (Ilonszki & Kurtán, 2003). And crucially, the Fidesz acquired credibility on welfare issues by reversing many of the austerity measures of the previous governments' stabilisation package, partially reversing the pension reform, and launching different transfer schemes targeting the middle classes (see below). However, Fidesz remained hostile towards organised labour and any form of social dialogue (Labanino, 2020), and restricted the access to and reduced the generosity of unemployment benefits and social assistance. From 2001 on a new pro-welfare consensus emerged in Hungarian politics, any further liberalisations – as in "second generation reforms" – became a political liability meanwhile the polarisation around socio-culture issues increased. The 2002 elections were hitherto the most polarised, relatives refused to speak to each other, and friendships broke up (Ilonszki & Kurtán, 2003).

The Fidesz already overspent in 2001 and 2002 on several transfers to the middle classes. The new Socialist-liberal government continued spending with implementing a costly welfare program right after the elections, which included increases in public sector wages and pensions (see below) (Tóka & Popa, 2013). Orbán was in a permanent campaign-mode, he continued mobilisation with street demonstrations after the elections essentially questioning the legitimacy of the new government (while formally accepting the results of the election). This strategy wasn't successful in terms of poll ratings until the government continued welfare spending. Nevertheless, it helped stabilise and widen the voter and organisational base of Fidesz.

However, as a more restrictive fiscal policy was implemented from 2003 on, the governing coalition quickly lost support (Tóka & Popa, 2013). With inflation rising (around 7%), high government debt and deficit (and a budget modified three times in a failed bid to tackle the problem), the 2004 European Parliament election was a crushing defeat for the governing socialists[16]: Fidesz won with a landslide, getting 47% of the votes (Ilonszki & Kurtán, 2005). Consequently, the socialist-liberal coalition changed prime ministers as Péter Medgyessy, a somewhat boring outsider without a firm base in the MSZP, a technocratic post-Communist reform economist, who precisely because of these characteristics was a good candidate against Orbán in 2002, became a liability. The new premier, Ferenc Gyurcsány, a young, combative, and charismatic former Communist youth leader turned billionaire businessman, staked everything on winning the 2006 elections. Although, privately admitting the necessity for stabilisation, he tried to outbid Fidesz on fiscal issues. With the leadership of Gyurcsány the MSZP-SZDSZ coalition was the first democratic Hungarian government to be re-elected in April 2006. However, by September, Budapest was literally drowning in teargas as violent riots – alongside peaceful protests – broke out against the government (see Chapter 6.)

5.1.3 Principal economic and social policy reforms, Hungary 1998-2006

The national conservative coalition government of Viktor Orbán's Fidesz and the right-wing populist FKgP reversed or stalled titular reforms and austerity measures of the previous government and slowed down privatisation between 1998 and 2002.

[16] The liberals faired relatively well though, winning two out of 24 mandates.

However, it also introduced substantial liberalisations mostly in the fields of taxation, industrial relations, and employer protection legislation. Between 1998 and 1999 the right-wing government introduced sudden and sweeping changes in labour law and weakened tripartism. In the fields of non-employment benefits it reduced the benefit period of unemployment insurance, and introduced workfare for long-term unemployed, benefits rates were cut as well. Fidesz also abolished the self-governing Pension Insurance and Health Funds. In the meantime, e.g. family tax credits, and allowances, subsidised housing loans were introduced. Fidesz reversed measures of the 1995 fiscal consolidation package, for example family assistance became universal again. The most important de-liberalising measure, however, was the partial reversal of the pension reform (Augusztinovics et al., 2002; Guardiancich, 2013; Simonovits, 2009).

Orbán's government did not increase the employee contribution rates as it was planned (neither in 1999, nor in 2000). Moreover, it did not close the gate of return to the monopillar system in 1999, but left it open until 2002; and in 2001 it abolished the mandatory nature of the second pillar for new entrants (Simonovits, 2009; OECD, 2002a). The Orbán-government also refused to apply the indexation rules of the 1998 reform, and instead reapplied the practice of defining flat sums and upper and lower limits (Simonovits, 2009). Fidesz also reversed the means-testing in family allowances and restored general eligibility (OECD, 1999b).

However, Orbán did not become a left-wing politician overnight. He launched a concerted attack on the institutions of Hungarian tripartism, which led to a liberalisation of industrial relations. Fidesz abolished the peak bargaining and social dialogue forum (the Interest Reconciliation Council) and created two new institutions which had only consultative roles (Labanino, 2020). Tripartism was abandoned in social insurance too. The government abolished the self-governments of the Pension Insurance and Health Funds (the rules regarding the elections of their boards were already unilaterally changed by MSZP in 1997 though, see Guardiancich, 2013, p. 112).

The government introduced substantial changes in unemployment insurance and unemployment assistance, respectively, which marked the emergence of an ever since increasing workfare logic of unemployment benefits in Hungary. The means-tested unemployment assistance (UA) scheme was set up by the first democratic (and conservative) government for those who have exhausted their unemployment insurance (UI), or who were not met the eligibility criteria for it. Fidesz changed the UA system. As of May 2000, eligibility could be withdrawn if a participant refused an appropriate public works job when offered. On the other hand, public-works jobs did not only permit the beneficiary to stay in the UA system but counted towards establishing UI eligibility (working for at least 200 days). However, benefits under the new UA scheme were cut by 10 per cent. At the same time, a substantial personal income tax reduction was implemented in 1999, including a personal and family tax credit (Armingeon et al., 2019). This particular mix of tax reductions on incomes and family tax credits benefitting relatively high-income groups and at the same time reduction in social assistance and increasing workfare measures has been the hallmark of Orbán’s welfare policy ever since.

2001 and 2002 were the years of the greatest social policy extension since 1990. The Orbán-government exempted old-age pensions fully from taxation for the election year 2002 (Armingeon et al., 2019). A new program was also implemented directly subsidising interest rates on home loans in 2001. At first, the program did not incur high costs, but as the eligibility criteria were loosened and subsidies increased, it represented a high burden on public finances already by 2003 (Farkas et al., 2004). The subsidies for residential constructions were part of a large-scale development program driving up domestic demand to counter the drop in demand in the export markets between 1998 and 2001. E.g., minimum wages were increased (altogether by 80%), incentives for domestic small and medium-sized enterprises introduced, subsidies were provided for the development of transport infrastructure, tourism, and public buildings (Bohle & Greskovits, 2012, p. 177).

The new socialist-liberal coalition government formed in May 2002 continued welfare spending. It announced the program of "Welfare Transition" (or "system change" referring to the transition from Communism to capitalism and democracy in 1990), which included among others a lump sum payment to pensioners, a 4.5% raise in pensions (and back-dated to January too, and additional 6.3% raise in 2003), tax exemption for the minimal wage, a 20% increase in family benefit plus an additional 13th month payment, and a 50% pay rise to all public employees (Ilonszki & Kurtán, 2003; Armingeon et al., 2019). In 2003, a 13th month pension was introduced. The social liberal government reversed the Orbán-government's liberalisation of social dialogue. A new peak-level national tripartite body was set up with the functions of the dissolved Interest Reconciliation Council (Armingeon et al. 2019).

The most important liberalisation during the legislative cycle between 2002 and 2006 – apart from the largely EU-accession driven opening of the telecommunications market, postal services, and utilities (e.g., natural gas) – was the speed-up of privatisation proceedings, including strategic enterprises such as the three remaining public banks (among them Postabank, the third largest for household deposits). Because of the mounting budget deficit, however, the government had to introduce some fiscal restrictions already in 2003. E.g., as the budget could not finance the ever increasing demand for subsidised housing loans, these were cut back in two steps costing the governing parties dearly in popularity (and in turn leading to the spread of foreign currency loans – mostly in Euros and Swiss Francs – a ticking societal time-bomb that exploded during the Eurozone crisis in 2011) (Armingeon et al., 2019). There was an attempted liberalisation in healthcare. In 2004, the government tried to make the privatisation of hospitals possible, but the idea was soon sheed, as a referendum was held with two questions, one concerning the privatisation of hospitals.

The social-liberal government also introduced significant tax cuts in 2004: the personal income tax brackets were cut from three to two (18% and 36%) and the lower rate applied up to a higher income than before. The corporate income tax rate was also cut from 18% to 16%. In 2005 November the prime minister announced a radical 5-years tax reduction plan to both personal and corporate income taxes (and on other taxes levied on enterprises) (Armingeon et al., 2019; OECD, 2005). Before the 2006 election even a 5 percentage points cut in VAT was introduced. However, this program was never implemented, it had to be scrapped and the VAT reduction reversed in 2006 (see Chapter 6).

5.1.4 Partisan competition and policy reforms, Hungary 1998-2006

The concentration of the Hungarian party system between 1998 and 2006 meant that the two big parties, the MSZP and the Fidesz were roughly of similar size, and the elections were close (however, the electoral system produced clear majorities for the winning side). The only two surviving independent parties, the liberal SZDSZ and the conservative MDF – though the latter had joint list and candidates with Fidesz in 1998 and 2002 – could not break out of bloc politics and carve out some independent political pole on their own. Both Fidesz and the MSZP turned increasingly towards welfare populism both in government and in opposition denying even the necessity of any fiscal consolidation let alone structural reforms. At the same time, politics became increasingly polarised around socio-cultural issues (and right-wing, anti-communist vs social-liberal identities), alleged corruption, and the personality of Orbán on the right and then by 2006 of Gyurcsány on the left too.

With the high party system concentration – the two big parties' combined vote share being over 83% in 2002 and 85% in 2006 – any move from the pro-welfare status quo (even attempts) became a political liability and was abandoned (H5). Not all liberalisations were unpopular though, personal income tax cuts were naturally popular, and product market liberalisations, even further privatisation could be implemented without much opposition. Aggressive corporate income tax cuts and subsidies to foreign firms to attract foreign direct investment in a fierce competition with the other Visegrad states were also popular (framed partly as a nationalist project) (see Bohle & Greskovits, 2012, pp. 166-170). However, fiscally restrictive policies (i.e., stabilisation) and liberalisation and privatisation of public services were out of the question. Tóka and Popa (2013) characterised the political competition between the MSZP and the Fidesz as a "chicken game (…) in which someone eventually had to call the fiscal bluff and be buried under the repercussions" (p. 311).

In fact, Hungary between 2004 and April 2006 provides an example of how domestic actors can withstand external pressures for fiscal consolidation. The Hungarian government continued its bidding war with Fidesz in opposition and implemented costly personal income tax reductions even as an excessive deficit procedure was launched against the country by the Council in 2004 and continued in a similar vein in 2005 – VAT cut and announcement a radical tax reduction programme – even after its actions were deemed officially inadequate. Of course, the Hungarian government withstood the pressure for implementing the convergence programme until it couldn't. Eventually, in the Summer and Fall of 2006, the pressure from Brussels for the fulfilment of the convergence criteria grew combined with a record high fiscal deficit, government debt, increasing inflation, growing unemployment, slowing economic growth, and a weakening currency made the further postponement of stabilisation untenable (see Chapter 6).

5.2 Poland 1997-2007: Economic woes, transition fatigue and the emergence of populist radicalism

5.2.1. Functional pressures – Poland, 1997-2007

Between 1994 and 2000 Poland experienced the second highest real GDP growth in the OECD (OECD, 2001b, Annex 2. Figure 3.). However, in 2000 a slowdown began in

GDP growth, and it accelerated during 2001 and 2002, falling to just above 1% (Figure 5.1). According to the OECD (2002b) the slowdown was a cyclical downturn, which was only exacerbated by a global growth slowdown. The main problem, however, was not the fall in GDP growth, but its consequences on an already high unemployment which by 2002 at 20.3% was the highest in the OECD (OECD, 2002b, Annex 1. Table 3.). Close to 50% of the working age population was without work, and almost 50% of the unemployed were long-term unemployed (i.e., had been out of work for over 12 months). Particularly, unemployment affected the less skilled (25%) and the youth (45%) the most (OECD, 2002b, p. 26). While growth resumed by 2003 and 2004, unemployment still stayed high at close to 20% and 19% respectively (Figure 5.3).

The current account deficit was one of the highest in the OECD in 1999-2000, more than 7.5% of GDP. The external deficit was mostly due to negative trade balance (exacerbated by the Russian crisis, which depressed exports). General government deficit was relatively high in Poland for most of the period. It stood at 4.6% in 1997 but was down to 2.2% in 1999 only to rise again to 4% next year and reaching 6% by 2004. However, just before the crisis it was down again to just under 2% in 2007 (Figure 5.4). The main problem with the accumulation of repeated deficits was that it caused public debt to rise above 50% in 2002 where it remained for the entire period, reaching even 55% in 2005 and 2006 (Figure 5.5). The 1997 Polish constitution put a binding debt ceiling in place, however, at 60% of the GDP. And the 1998 Public Finance Act obliged the government (including local governments) to take specific actions in budgeting when debt rises above 50% of GDP. The restrictions got increasingly severe as debt crossed 55% and draconian as it reached the 60%

threshold (e.g., no resolution authorising state budget deficit might be passed) (OECD, 2004b, p. 85).

The public was, however, getting weary of liberal orthodoxy and economic reform in general. E.g., in 1997 only 7% believed that privatisation was beneficial for the majority of citizens and in 2003 only 5%. With most of the coal, steel, and energy production industries still state-owned (and in need of government subsidies in the name of restructuring), the negative public attitudes towards privatisation were concerning for Polish governments. People were also very dismissive about the health and social security reforms (see below).

5.2.2. Dimensions of party competition – Poland, 1997-2007

The 10 years between 1997 and 2007 were politically very turbulent in Poland. In 1997, a Solidarity conservative electoral coalition (the Solidarity Electoral Action, AWS), together with the liberal Freedom Union (UW, itself a post-Solidarity party) were able to oust the post-Communist SLD and PSL from power. By 2001, however, the right-wing unity was over, and two new main post-Solidarity parties emerged: the conservative, nationalist, and increasingly populist Law and Justice (PiS) and the conservative-liberal Civic Forum (PO). In the meantime, the left completely discredit itself in power: its reform and austerity agenda was not received-well by a reform-weary public, and several corruption scandals proved to be detrimental to the electoral fate of the left (from which it is still to recover…). A general dissatisfaction with the transition and with the transition-elites fuelled the rise of radical right populist parties with PiS increasingly transforming into such a party itself (and taking over their voters). With the demise of the post-Communist social democrats, the anti-communism cleavage was substituted with one around the rejection of the 1997 Constitution and the Third Republic, and the embrace of a radically Catholic-conservative and Eurosceptic “Fourth Republic”, with PO and PiS being the leading forces on either side of the cleavage. By 2007, most of the former post-communist voters were choosing PO.

The AWS-UW government faced significant challenges as growth slowed down, unemployment increased, and government deficit was relatively high and growing. Moreover, although large-scale privatisation progressed, the mining, steal and energy sectors were still mainly government-owned and loss-making (consecutive Polish tried to make them in vain fit for privatisation by restructuring). However, the public was not supportive of economic liberalisation and equally dismissive about the right-wing coalitions social policy reforms. Eventually the coalition broke up by UW leaving it getting fed-up with many AWS lawmakers voting against government policies in 2000. The same year, the incumbent socialist president, Kwasniewski carried the presidential election in the first round (Stanley, 2013, p. 179).

The SLD remained an effective opposition to the AWS-UW government and provided a more social alternative to the AWS. The SLD – which ran on a joint list with another left-wing party, the Labour Union (UP) – won the 2001 elections with a landslide (41%). PO – formed from factions of the AWS and politicians of the UW – came in a distant second with only 12.7% of the vote. The radical parties gained strength already on this election: the Self-Defense (SO) came in third with 10.2% with less than a percentage point ahead of the PiS, and the League of Polish Families (LPR) also gathered 8.9% of the vote. This signalled the growing dissatisfaction with transition politics after a decade of economic liberalisation and high unemployment. Poland's 2004 entry to the EU and the final stages of the accession process gave ample opportunities to the SO and LPR to stoke already existing fears about the future of heavy industries and agriculture, and the question of Polish sovereignty, which they saw under threat. The anti-EU, anti-NATO LPR came in second at the 2004 EP elections gaining 10 seats (Stanley, 2013).

By the EU accession, however, the SLD-UP-PSL government was in trouble. It inherited high government deficit and public debt, which it tried to tackle by raising revenues (that is, raising taxes). Moreover, soon it was mired in several subsequent corruption scandals, which gave credit to the narrative of Jarosław Kaczyński, the head of PiS about the "network" of reform communists and the liberals of the Solidarity, who held the real power in Poland. Eventually, Leszek Miller, the prime minister resigned right after EU accession, but it could not save the SLD. In a bid to address high unemployment and the still high budget deficit, an ambitious labour market reform – liberalising labour law, curtailing UI and activation policies – and austerity package was launched, which proved to be a political disaster for the SLD (see below) (Stanley, 2013, p. 183).

With the SLD marginalised, the 2005 dual presidential and parliamentary election was decided between PO and PiS. The bitter presidential race of PO's Donald Tusk versus PiS's Lech Kaczyński (the twin brother of Jarosław) made it clear, that the former political allies will not be able to form a government together. Tusk prevailed in the first round, but Kaczyński won the second (Jasiewicz & Jasiewicz-Betkiewicz, 2006). PiS positioned itself as the choice for a "social Poland", which proved to be the winning strategy.

The PiS-SO-LPR coalition brought with it conflicts around religion, morality politics, cultural policies, and pugnacious foreign policy towards Poland's new fellow EU member states. PiS truly had an ambition to bring down the Third Republic and adopted a new lustration law targeting left-wing and liberal politicians, journalists, and academics. This affair even brought together – though only for a short time – leading post-communist and post-Solidarity public figures in a "Movement for the Defence of Democracy" (Stanley, 2013, p. 185). However, by 2007 the coalition partners turned on each other and SO exited the coalition, which led to early elections the same year.

5.2.3. Principal economic and social policy reforms – Poland, 1997-2007

The Buzek-government try to implement a comprehensive tax reform. The 1999 tax reform set out to reduce CIT to 22 per cent by 2004 and broaden the tax base. Eventually CIT was cut to 19 per cent by 2004. The 1999 reform also planned major reductions in PIT, but it was vetoed by the president (and the government lacked the necessary majority to override it). The Buzek-government implemented four structural reforms. In addition to the pension reform (see Chapter 5 for details), a healthcare reform, a state administrative (which proved to be a politically highly contested issue), and education reform was implemented in 1999 (Jasiewicz, 1999).

The healthcare reform was a visible systemic change: 16 non-profit regional health funds were set up (corresponding to the regional structure of the country), and an additional nationwide branch which covers 'uniformed services', interior and justice sector employees. Competition took place between providers with each fund negotiating contracts with providers (public and private) following a bidding procedure (OECD, 1998a, 2000c). To reduce red tape and increase system controls, the National Health Fund (NFZ) was created in 2003 through the merger of the 16 health funds (the success of this change was, however, very much debated and one of the contributing factors behind the resignation of Leszek Miller as PM, see Jasiewicz & Jasiewicz-Betkiewicz, 2005). The reform also served as a cost-saving measure: in the early 1990s public spending accounted for 90% of healthcare spending, which was reduced to 72% by the end of the 2000s (OECD, 2012).

The SLD-UP government (in office between 2001 and 2005, see above) tried to revive social dialogue. The prospects were good at the outset. The government reformed the Tripartite Commission in 2001 in order to make it more efficient (e.g. unanimity was repealed, clear representative rules were enacted). Also, the two big trade union Solidarity and the 'post-communist' OPZZ both left party politics. The labour minister Jerzy Hausner between 2002 and 2005 tried to negotiate a broad social pact with the social partners, but failed, mostly because of the opposition and animosity of Solidarity with a 'post-communist' government (Gardawski, 2003; Guardiancich, 2013).

The government nevertheless implemented significant liberalisations in labour market policies. In November 2002, an amended Labour Code entered into force that significantly deregulated Polish employment protection legislation. The main changes included sick leave – for short-term sick leaves, the first day was unpaid; the provisions limiting the maximum number of consecutive fixed-term contracts in two were suspended until the EU accession; overtime remuneration has been reduced significantly; work time regulation was also liberalised; collective agreements could be suspended up to three years (by employers in “extremely difficult” financial situation); severance payment henceforth was only mandatory for companies employing more than 20 people (and the amount was tied to the length of service with the current employer instead of the entire working career) (Czarzasty, 2002). Because of EU requirements, however, several of these changes had to be reversed already in 2003 (e.g., regarding fixed-term contracts, sickness-pay or overtime regulation) Overtime regulation has become again more generous, although not as generous as before 2002 (Surdej, 2004).

Unemployment benefits were further pushed towards workfare and activation. Social integration centres were set up in 2003 to assist and integrate long-term unemployed. For those successfully completing a course a subsidised employment scheme was introduced. Active job search became an obligation of the unemployed with a penalty of losing benefits entitlement in case of non-compliance (Armingeon et al., 2019).

With relatively high public debt (close or reaching the 55% threshold) and high public expenditures (42.5% of GDP, OECD, 2006, p. 71), the government launched a public expenditure reform (the Hausner-plan). In lack of the necessary political capital, it was only partially implemented introducing savings from public administration and the social transfer system. The most important change it introduced was change in pension indexation: instead of yearly indexation to inflation, pensions were only indexed if cumulated inflation reached 5% (OECD, 2006, p. 72). The planned cost-cutting measures and reforms for example of the social insurance system for farmers or the restructuring of mining and railways were not realised (Stanley, 2013).

There were no major social policy or economic reforms implemented during the less than two-years tenure of the PiS-SO-LPR coalition government.

5.2.4 Partisan competition and policy reforms – Poland, 1997-2007

Economic liberalisation ceased to be a valence issue in Poland during this period. The consensus around further liberalisation and social policy reform dissipated. With the transition fatigue of the public, there was also political supply and radical parties emerged and eventually governed too. PiS, though formed by veterans of Solidarity and right-wine governments were still able to occupy the position of radical critique of transition and the rejection of the Third Republic. At the same time, with the demise of the post-communist SLD it also occupied the "social" position in Polish politics. Though mostly interested in socio-cultural issues around identity, morality, corruption, and national sovereignty (Euroscepticism), PiS's was seen as a capable governing force by an overwhelming majority of the public (even by those, who did not vote for them) (Stanley, 2013, p. 187).

Though as argued above, the socio-cultural divide encapsulated political conflicts on economic and social policy too (as a rejection of transition and transition elites), the 2005-2007 legislative cycle is an example for the relationship between a lack of salience for economic-redistributive issues and consequently, no visible reforms (H1).

Though there was no Hungarian-style concentration, in 1997 a roughly similar sized right-wing AWS and post-communist SLD faced each other. The AWS was, however, not ideologically coherent on economic-redistributive policies. Still, liberalising policy reforms became more costly electorally (some tentative support for H5). However, in Poland there was a considerable electorate for reform, as the PO's victory while running on a reform ticket in 2007 showed.

5.3. Slovakia 1998-2006: The neoliberal turn

5.3.1. Functional pressures – Slovakia, 1998-2006

At the beginning of the period Slovakia was performing poorly on all key indicators. Growth was falling sharply from 5.9% in 1997 to recession (-0.1%) in 1999 (Figure 5.1). At the same time, the already high government deficit peaked at 12.6% in 2000 (Figure 5.4), and general government debt grew from 40.6% in 1998 to 58.7% of GDP in 2000 (Figure 5.5). Inflation almost doubled from 6.6% in 1998 to 12% in 2000. And though growth was sharply increasing from 2001 on, unemployment remained persistently high: it grew from an already high level of 12.6% in 1998 to 19.3% in 2001, and only decreased marginally to 18.7% in 2002 (Figure 5.3.). This meant that in a country of around 5.3 million inhabitants half a million people were unemployed (OECD, 2002c).

Between 2002 and 2006 Slovakia enjoyed high growth: increasing from 5.5% to 8.5% in 2006. Inflation was swinging back and forth (see Figure 5.2) but it never went above 10% and was under 5% in 2006 and under 3% in 2007. Government deficit was brought down to 3.12% in by 2003, and it remained low. The debt to GDP ratio was also under 50% by 2003 and it continued to decrease further to 37.6% in 2006. Though unemployment decreased close to 5 percentage points from 18.2% in 2004 to 13.3% in 2006, it was still high.

The reforms and investment incentives implemented after 1998 already had their effect in 2002 (and Slovakia became EU candidate in 1999): gross fixed investment reached 31% of GDP the highest in the OECD area. FDI paid a pivotal role in this sharp rise in investments since 2000 (OECD, 2002c). Slovakia remained the most successful country in the region attracting foreign capital in the region during the entire decade: The combined value of these projects large green field investment projects reached 41.3 billion USD between 2005 and 2011 placing Slovakia ahead of the Czech Republic in absolute terms, and in relative terms (per capita) making it the leader in the Visegrád group (Bohle & Greskovits, 2012, p. 174).

5.3.2. Dimensions of party competition – Slovakia, 1998-2006

Between 1992 and 1998, the HZDS dominated the political life of Slovakia. In 1998 the party's rule ended, however, on a watershed election and marked the end of an illiberal development of Slovak democracy (Vachudova, 2006). An exceptionally high 84% turnout also signalled the importance of this election (Malová & Učeň, 1999). The HZDS still received the most votes (27%), but had to move into opposition, as its opponents formed a broad coalition over ideological and ethnic lines. The governing coalition entailed beside the right-wing, Christian-democratic Slovak Democratic Coalition (SDK) the post-communist SDL, the Party of Civic Understanding, and the united Hungarian ethnic party (MKP) (Deegan-Krause, 2013). The new coalition turned Slovakia back on the European integration track, Slovakia became a candidate of the EU in 1999, and the NATO membership became a possibility again.

In 2002, the share of HZDS' vote fell to 19.5% at a significantly lower but still relatively high turnout (70%) (Učeň, 2003). HZDS again, despite still being the biggest party found itself in opposition, this time facing an ideologically more homogeneous right-wing coalition. The divides in the party system were about to radically change. The stabilisation and the debate on economic reform helped the divide on economy became more and more salient. This was signalled by the emergence to the third position of a new party, the Smer (Direction) of Robert Fico, whose support depended more on economic attitudes than socio-cultural issues (Deegan-Krause, 2013). As a result of its weakening and isolation, and its inability to redefine itself in a changing political environment HZDS lost its dominant position. Mečiar desperately sought a way out from the political isolation (Vachudova, 2006). The HZDS rejected a support for vote of confidence, after the Dzurinda-government lost its majority in the parliament and supported the right-wing government on many accounts. Prime minister Dzurinda did not exclude a future coalition between his new party the SDKÚ and the HZDS. Meanwhile Smer became the fiercest opposition to reforms, and the HZDS lost its momentum. Fico realized the salience of economic issues, and despite its initial ambiguous position on the left-right divide, grasped the left, anti-economic liberalism pole. The renaming of the party in 2004 to Smer-Social Democracy (Smer-SD) made this official, and easier to voters to identify the party as the opposition to the neoliberal reform agenda of the conservative-liberal coalition government (Hloušek & Kopeček, 2008). Fico's strategy worked, as Smer became the biggest party of Slovakia on the 2006 elections and was able to form a government with the SNS and the HZDS (see Chapter 6) (Malová & Učeň, 2007).

5.3.3. Principal economic and social policy reforms – Slovakia, 1998-2006

The anti-Mečiar coalition between 1998 and 2002 implemented an ambitious reform agenda moving the country out of "partial reform equilibrium". Firs, on account of the high current account deficit a harsh stabilisation package had to be introduced (its immediate effect was a 10% contraction in domestic demand between 1998 and 2000) (OECD, 2002c).

Second, the government implemented structural reforms. It initiated privatization measures (particularly of financial institutions) and attracted foreign direct investment. The income and social assistance schemes were partially reformed, that is, made less generous and eligibility was tightened for certain groups (e.g. voluntarily unemployed, school leavers). The unemployment insurance system was also made less generous. Significant tax cuts were also implemented. Both corporate and personal income tax rates were drastically reduced, although the latter retained its progressivity (Fisher et al., 2007; Armingeon et al., 2019).

However, as the coalition contained the reformed Communist Party of the Democratic Left (SLD) and was supported by the largest trade union federation, de-liberalizing measures were also implemented. The 1999 Act on Economic and Social Partnership obliged the government for the tripartite negotiation on key economic and social policies. Similarly, the New Labour code adopted in 2002 secured significant rights for trade unions and work councils; reformed the framework of collective bargaining and increased its scope: it introduced co-decision rights, provided for employee participation in form of work councils and shop stewards in case there were no union representatives at a firm, and abolished the previous limits on collective bargaining. Moreover, the new Labour Code made the organization of working time, the regulation of contracting and dismissals less flexible. Nevertheless, despite the 1999 law on tripartism no General Agreement was concluded after 2000 (Armingeon et al., 2019).

However, as after the 2002 election, the new right-wing (and ethnic Hungarian) coalition government implemented a coherent and radical neoliberal programme. The Labour Code was amended in June 2003 and the revisions entered into force the next month. Labour regulation took 180 degrees turn. A range of atypical labour contracts were regulated and made accessible to employers. Part-time and fixed-term contracts could be prolonged up to three years without any justification. Fixed-term contracts could also be terminated without further notice, although the employee was made entitled for a compensation for future earnings. Overtime limits were raised from 150 to 400 hours per year, and 150 hours may be requested by the employer without the employee having any say in it. The termination of permanent contracts was also made much easier for employers. In 2004, the Act on Economic and Social Partnership was abolished (Armingeon et al., 2019).

Following the neoliberal blueprint the flexibilisation of employment protection regulation and the curbing of the rights of organised labour were coupled with tightening the access to and the reduction of welfare and unemployment benefits. Welfare benefit for a single adult was unified at a level below the “life minimum” (€35 per month), the maximum welfare benefit for a family with more than four children was cut by 60 per cent. At the same time an activation allowance was introduced (around €35 per month) for which recipients had to take part in activation measures (community work, training, etc.). In addition to basic social benefits a housing benefit was also introduced (for singles amounting to about €15-17 and to families to €30-33). The combined benefits were paid to successful jobseekers during the first 6 month of employment, and several types of income were made exempt from the calculation of social assistance benefit (Armingeon et al., 2019).

The system of family allowances was also reformed. The former means tested but progressive benefit was replaced with a flat, but universal benefit (its level was set approximately in the middle of the former progressive scale, around €11-12) and a tax credit (around €9-10). The new system was made conditional on the child being enrolled in education. The tax credit was payable only to households where at least one parent is employed (it was refunded if the overall tax liability is negative) (IMF, 2005).

These measures led to riots in the deprived, mostly Roma rural settlements on the countryside. Considerable police and military forces had to be deployed to restore order (Greskovits, 2008). As Fisher et al. (2007) notes it is not a coincidence that parallel to the implementation of neoliberal reforms social anomalies had been increasingly penalized. The penal code itself was made stricter as punishment and deterrent took prominence.[17]

The three centre pieces of the neoliberal strategy were however the Income Tax Act, and the pension and healthcare reforms. The 2004 income tax reform introduced a flat tax for capital and personal income taxes at 19 per cent. VAT was also set at this unified rate. Tax on dividends and inheritance tax were both eliminated. The 2003 pension reform introduced a fully funded, second pillar to the PAYG system. The pension reform introduced a gradual increase in retirement age to 62 years for both men and women, although for women it was not phased in until 2014 (while men's

[17] Following Foucault, Bourdieu, and David Harvey Wacquant (2010) identifies the "penal state" as a distinctive feature of the neoliberal state. In his account 'punishing the poor' is a response to rising social and not criminal insecurity.

retirement age reached 62 already by 2006). A closer link was established between future benefits and contributions (Armingeon et al., 2019).

The health care reform proved to be the most controversial and unpopular measure of all (Fisher et al., 2007). Public health funds were transformed into joint-stock companies (publicly or privately owned), and these were allowed to make profits and freely dispose of it. User-fees were also implemented. A so called flexible basic benefit package was introduced. Priority diseases were covered by the benefit package (in 2004 these represented 41 per cent of all diseases, and 67 per cent of the costs), while for non-priority diseases co-payment may be required and set by government decree. The insurance companies were allowed to selectively contract with providers and had only to fulfil a minimal network requirement. A new supervisory body, the Healthcare Surveillance Authority was set up to regulate the market and the activities of insurance companies at arm's length from government. Apart from these core reforms, considerable privatisation and deregulation took place in network industries, particularly in the telecommunication and the gas and electricity sectors (Armingeon et al., 2019).

5.3.4. Partisan competition and policy reforms – Slovakia, 1998-2006

So, how did this clear neoliberal turn happen in a country, where just a decade ago one of the main causes for independence was public dissatisfaction with economic liberalisation? Fisher et al. (2007) argued that legacies of the Mečiar-era goes a long way in explaining the radical transformation between 2002-2006. Slovakia was left behind in the regional competition for foreign capital, it wasn't given EU candidate status along with its neigbours in 1997, and it was left out from the first round of NATO accession. Moreover, the HZDS captured the state and economy.

Appel and Orenstein (2018) also explain such radical neoliberal reforms that went beyond anything the EU and IFIs ever suggested or demanded with a competition for foreign investment. Such radical reform agendas such as the Slovak are then signalling for investors, which along with EU candidacy and NATO membership clearly helped Slovakia to be regional champion in attracting foreign capital. O'Dwyer and Kovalcík (2007) provided a very similar argument, they added, however, that late comers, which implemented such second-generation reforms all had centre-right, pro-reform governments.

Slovakia between 2002 and 2006 is a critical case for these accounts. However, as I shown, by 2001 the reforms implemented by the incoherent left-right-liberal-ethnic Hungarian government already made Slovakia into a regional champion in attracting investment, and the EU and NATO accession of the country was on track. There were no functional pressures either for the neoliberal reform agenda nor did the median voter support such radicalism. While it is true that Slovakia had a centre-right government, so did Poland between 1997 and 2001 and then again from 2007 – or for that matter Czechia too during the period (see below) – and such radical neoliberal reforms were not implemented (and in Hungary a left-liberal government failed with much milder reform attempts see above). The signalling and late-comer arguments identify why and how an epistemic community of neoliberal reformers was forged in Slovakia and identify a necessary condition for the neoliberal turn but cannot explain how it was possible to implement it.

The ideologically coherent right-liberal government – with the ethnic Hungarian party being more interested in identity politics and local patronage than economic or social policy – could implement such reforms as it had at least a partial mandate for further liberalisation and because there was no credible and strong opposition against its policy agenda.

The salience of the economic-redistributive divide increased steadily, as the socio-cultural (nationalism and authority) divide lost its dominant structuring position, to a large degree due to the reform process. In the 2002 elections partly, and in 2006 clearly, economic issues played an important role (H1). The downfall of HZDS and the emergence of Smer are evidence to this tendency (Deegan-Krause, 2013).

Because of the neoliberal turn between 2002 and 2006 a traditional left-right economic-distributive divide crosscut, and reinforced by socio-cultural divide on ethnic, and national issues emerged (Deegan-Krause, 2013). Due to internal divide the opposition was not able to obstruct the reforms and could not channel public dissatisfaction successfully (O'Dwyer & Kovalcík, 2007; Fisher et al., 2007). The HZDS was not able to transform itself for a more programmatic competition and did not provide an effective and coherent opposition to the government seeking its way out of isolation and marginalisation. Eventually its position in the party system – with most of its voters – was taken by the openly left populist Smer-SD.

The reform process in Slovakia between 1998 and 2006 also support H2. That is, between 1998-2002 a government, which included a strong left-wing party and enjoyed the support of the largest trade union federation did implement economic and social policy liberalisation, but these were crisis-induced changes (moreover, significant de-liberalising measures also were implemented). However, the much more radical reforms between 2002 and 2006 implemented by a pure right-wing government cannot be explained by crisis (on the contrary, the economy was booming).

5.4. Czechia 1998-2006: Adapting the “socio-liberal” model to new challenges

5.4.1. Functional pressures – Czechia, 1998-2006

In 1997-1998, Czechia experienced a currency crisis and growth crisis (for details and causes see Chapter 5). Following the 1997 fiscal stabilisation package, public expenditure dropped to 41.9% of GDP. However, expenditure started to increase rapidly from 1999. By 2000, it had climbed to 46.4% of GDP, significantly surpassing the OECD average of 37.9%. Moreover, it exceeded the levels observed in other low and middle-income OECD countries (OECD, 2001a, p. 72). Government deficit did increase by 1 percentage point to 4.2% in 1998, but then it dropped back to 3.1% the next year. However, by 2001 it was up at 5.8% and even grew to 6.8% in 2003 before it dropped to 2.4% in 2004 (Figure 5.4). Government debt, however, remained comparatively low throughout the entire period. In 1998, it was 17.9% of GDP though it steadily increased to 31.9% in 2006 (Figure 5.5). Growth resumed in 1999 and it peaked in 2000 at 4.3%, but then it slowed down again (Figure 5.1). Growth truly caught up again with the pre-currency crisis levels by 2004 (4.7%) and peaked in 2006 at almost 7%.

5.4.2. Dimensions of party competition – Czechia, 1998-2006

During the period there were no strong governments: a minority government was followed by a shaky and volatile ideologically incoherent three-party coalition. Between 1998 and 2002, a minority cabinet of the social democrats governed with the help of an agreement with the centre right ODS that secured its position in the government. The so-called Opposition Agreement diluted the differences between the two big parties. On the 2002 elections the traditional Czech redistributive conflict (market liberalism vs economic populism) was the main cleavage of the party system (Mansfeldová, 2013). This favoured particularly, the Communists, who came in third behind the ČSSD and the ODS with 18.4% vote share. In fact, they were the only party to increase their vote share despite a 12 percentage point lower turnout compared with 1998 (58%) (Linek, 2003).

In 2002, the ČSSD formed government again leading a heterogeneous a coalition government with two right wing parties, the centrist KDU-ČSL and the liberal Freedom Union (US). The coalition government had only a minimum majority of 1 in the Chamber of Deputies. This made the government highly unstable (Kopecký, 2006). E.g., there were three prime ministers in four years – and the coalition survived a vote of no confidence in 2004 (Linek, 2005). The governing parties often clashed over economic and social policy, and the social democrats often cooperated with the communist KSČM in adopting policies (e.g., restriction on sales hours for supermarkets, the Labour Code, the prohi-bition of privatisation of regional hospitals or the expropriation of land forconstruction in the public interest) (Linek, 2006).

Initially, the limited success of the Freedom Union in 1998 was interpreted as evidence to the increasing importance of a cultural divide. However, the fate of the party was evidence to the continuous dominance of the socio-economic divide. The culturally liberal, economically pro-market US were not able to create a new, cultural cleavage which would be equally important as the economic-distributive divide. In fact, the 2002 coalition with social democrats eroded the support for the party, and led to internal strife over the economic policy of the government the party was part of. The party literally disappeared in the 2006 elections. By 2002, cultural issues became important for the ODS too, however, its cultural conservatism and nationalism found its best manifestation in an increasing Euroscepticism (Mansfeldová, 2013; Hloušek & Kopeček, 2008; Vachudova, 2008a). Although it never evolved into the opposition of the EU membership of the country, the party became one of the most outspoken critiques of an overstretching integration, and one of the most ardent defenders of national sovereignty within the EU. Euroscepticism, however, did not become a structuring factor for the party system (Mansfeldová, 2013).

5.4.3. Principal economic and social policy reforms – Czechia, 1998-2006

Despite of the crisis, a clear liberalization reform wave did not follow, as the ČSSD government between 1998 and 2002 did not have the political mandate, or the will for radical change. Nevertheless, large scale privatizations were introduced. The new Energy Act partially liberalized the electricity and natural gas sectors. However, the providers were sold to a single foreign investor, respectively.

The government had to "clean up" the problems inherent to the financial system that led to the crisis. Namely, the 1997 currency crisis was directly fuelled by the lenient credit policies adopted by major state-controlled banks, alongside a convoluted ownership structure. This structure involved these banks holding equity stakes in numerous debtors, exacerbating the situation. The most important changes to the financial system were that the Czech National Bank increased provisioning requirements and revoked licenses from eleven banks, while the government continued with the privatization of the remaining major state-owned banks (OECD, 2000a, p. 92). The government also placed limits on banks' holdings in other institutions, obliging the CNB to withdraw a bank's license if its capital/asset ratio declines below one-third of the prescribed limit. It also increased deposit insurance limits by Kc 100 000 to Kc 400 000 (OECD, 2000a, p. 93, Box 6).

The social democratic minority government launched an investment incentive scheme to attract FDI in April 1998. At first, the programme was only subsidising green field investments but soon this restriction was abolished (OECD, 2000a). In manufacturing, investment projects over $10 million (or $3 million in high-unemployment regions) qualified for 10-year corporate tax relief for new firms (or partial relief for existing ones over 5 years), access to affordable industrial zone sites, and grants for local job creation and training. In its first four year, these incentives attracted greenfield investments valued at $5 billion and created 40.000 jobs. From 2002, investment strategic services and technological centres, including business customer contact, hi-tech service and repair, software development, and R&D centres also qualified for investment support (OECD, 2003, p. 122, Box 12.)

Several incremental liberalizing policy changes were implemented in the field of pensions. The minority ČSSD government changed the eligibility criteria of the supplementary pension schemes by introducing a minimum contribution period of 5 years, and fifteen years for early retirees in 1999. However, all proposals to increase the mandatory retirement age were rejected in parliament (OECD, 2001a).

The government adopted the Act on Stock Exchange Commission (SEC) which enhanced regulatory oversight and corporate government structures by enhancing minority shareholder protection (M. Orenstein, 2001; OECD, 2000a). And although the ČSSD were committed to social dialogue, it did not re-institutionalize binding tripartite coordination. However, consultation on economic and social policies was retained (Bohle & Greskovits, 2012, p. 147).

The Social Democratic-Christian Democratic-Liberal coalition government, formed after the 2002 election, implemented a public finance reform in 2003 mainly concerning the pension system and sickness benefits. Regarding pensions, the indexation was kept at the statutory minimum, and the retirement age was set to increase. The level of sickness benefits was halved for the first three days, the assessment basis was reduced from 100 to 90 per cent for the first two weeks, and the period decisive for the assessment basis extended from 3 to 12 months.

However, in 2004 the new Employment Act temporarily broke the trend of commodifying labour policies, at least for unemployment insurance. The maximum duration of benefits was prolonged for older workers (but conditional on at least 25 years of participation in pension insurance). The replacement rate for the second half of the duration of benefits was increased. Partial unemployment was also introduced, allowing those drawing benefits to earn up to half of minimum wage (Armingeon et al., 2019).

5.4.4. Partisan competition and policy reforms – Czechia, 1998-2006

The Czech Republic moved towards the competition state model (Drahokoupil, 2009). As the experiment with a non-authoritarian version of national capitalism led to cronyism and in fact prolonged state-ownership and ended in a deep financial and growth crisis, there was a clear mandate for change. There were no clear majorities, however, for a radical change with the original Czech “socio-liberal” in either direction. The social democratic governments between 1998 and 2006 thus walked a fine line between first cleaning up the mess and making the Czech Republic into an FDI-magnet. At the same time, as their mild deliberalisations mostly in the field of labour market show, they could not find the political majorities for more as first they could govern only based on an opposition agreement with the ODS and then their coalition included a liberal and a centrist party. The party system included a roughly similar-sized market liberal and social democratic party but also significant social liberal and centrist (Christian Democratic) parties and of course the communists, who attracted enough votes (11% in 1998 and 18.5% in 2002) to make governing majorities very difficult. Their existence and relatively strong electoral performance denied any economically truly right-wing strategy for the social democrats.

Although the competition in the Czech party system was the most clearly defined by an economic-redistributive divide of the four countries in the sample (H1), no neoliberal turn happened in this period. The social democrats implemented crisis-induced liberalisations between 1998 and 2002 (H2), and between 2002 and 2006 no coherent pro-market or welfarist agenda was implemented. The social democrats in government, however, implemented – albeit mild – de-liberalisations in the field of social dialogue and unemployment insurance (H3).

5.5. Growth model convergence and persistent reform policy divergence

There were different roads to the FDI-driven export-led growth (or competition state) model in the Visegrád states. And though by the first half of the 2000s all four countries implemented aggressive investment incentives in the form of direct subsidies and corporate income tax cuts, in other respects they did not converge, in fact their policies diverged from one another. There was a lack of convergence even in "quiet policies" as pointed out by Duman and Kureková (2012) in their comparison of Hungary and Slovakia. While Hungary pursued statist industrial, vocational and education policies, Slovakia chose a more market-driven, neoliberal approach after the Mečiar-era (particularly from 2002). Czechia also moved towards the competition state strategy after its non-authoritarian experiment with an insider-oriented national capitalism ended in cronyism and a deep banking and financial crisis (see Chapter 4). However, there was no coherent neoliberal restructuring in labour market or social policies. If anything, mild deliberalisations were implemented in these policy fields (see above). In Poland, where liberalisation was a valence issue until the early-mid 2000s, market-oriented reforms became politically increasingly contested. With the emergence of PiS and even more radical parties to its right, a complex liberalising reform process stretching over different governments such as the pension privatisation in the 1990s became unthinkable.

I would not go as far as to say that the "neoliberal reforms as virtue signalling to investors" explanation of Appel and Orenstein (2018) is mistaken. It is certainly a fact that not only Slovakia but also other late comers in the competition for FDI implemented radical neoliberal reforms in the region (e.g., Romania or Estonia, see O'Dwyer & Kovalcík, 2007), and as I showed above, Slovakia indeed became the regional champion in attracting FDI. However, EU candidacy status and then EU membership mattered (and still does) at least as much in the establishment of this FDI-dominated export-led growth model (Bohle & Regan, 2021; Bohle, 2021). Furthermore, TNCs seem to care most about subsidies and taxes, and are relatively disinterested in social and labour market policies (Bohle & Greskovits, 2012). For example, there is no evidence that investors punished Hungary because of the 1999 pension reform reversal of the Orbán-government (or for its more cautious approach towards privatisation). As long as subsidies, tax incentives and the EU-candidacy were not in jeopardy, FDI-inflows continued to increase in all four countries.

In this chapter I showed that the differences in the liberalisation (and deliberalisation) trajectories can be largely explained by the different patterns of party competition during this period too. In Czechia, there were no clear majorities for a radical change with the original Czech "socio-liberal" in either direction. The social democratic governments between 1998 and 2006 walked a fine line between first cleaning up the mess of the previous ODS-governments and making Czechia into an FDI-magnet. At the same time, as their mild deliberalisations mostly in the field of labour market show, they could not find the political majorities for a more welfarist direction. First, they had to rely on an opposition agreement with the ODS and then their coalition included a liberal and a centrist party.

The Czech social democrats could not have followed a right-wing strategy either (even if they wanted to). The party system included a roughly similar-sized market liberal and social democratic party but also significant social liberal and centrist (Christian Democratic) parties and of course the communists, who attracted an increasing and significant share of the votes (11% in 1998 and 18.5% in 2002). Their existence and relatively strong electoral performance denied any economically truly right-wing strategy for the social democrats. To sum it up, despite a clear economic-redistributive divide in the party system (H1), no neoliberal restructuring happened. The social democrats implemented crisis-induced liberalisations between 1998 and 2002 (H2) and implemented incremental de-liberalisations in the field of social dialogue and unemployment insurance (H3).

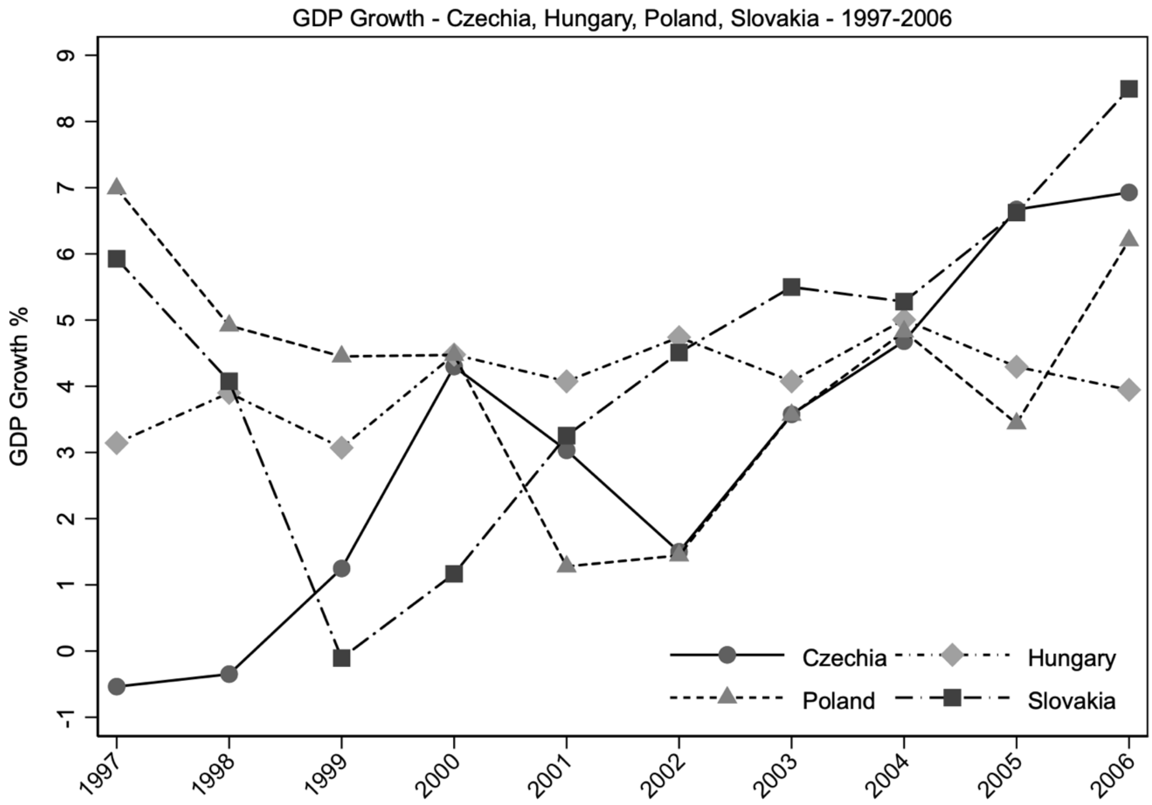
Similary, the neoliberal turn in Slovakia can be explained by party system properties. The signalling and late-comer arguments identify why and how an epistemic community of neoliberal reformers came about in Slovakia but cannot account for its implementation. An ideologically coherent right-liberal government – with the ethnic Hungarian party being more interested in identity politics and local patronage than economic or social policy –at least a partial mandate for further liberalisation and the absence of a disciplined, credible and strong opposition against this policy agenda were necessary conditions of the neoliberal restructuring. Although Fico's Smer party emerged eventually as the anti-reform challenger of the Right, it had to compete with Mečiar's HZDS in the opposition. The reform agenda of the previous 1998-2002 governmental cycle under the anti-Mečiar rainbow coalition strengthens my argument. The liberalisations of this government were crisis-induced changes, and as it contained a strong left-wing (post-communist) party and was supported by the biggest trade union federation significant and visible deliberalisations were also implemented, particularly in labour market policy.

In Hungary, the concentration of the party system meant that the two big parties, the MSZP and the Fidesz were roughly of similar size, and the elections were decided by a few percentage-points swing in either direction. Both Fidesz and the MSZP turned increasingly towards welfare populism in government and in opposition alike denying even the necessity of any fiscal consolidation let alone structural reforms. Not all liberalisations were unpopular though, personal income tax cuts were popular, and product market liberalisations, even further privatisation could be implemented.

In Poland, with the transition fatigue radical parties emerged. PiS could occupy the position of radical critique of transition and the rejection of the Third Republic despite the fact tha it was formed by veteran and well-known politicians of Solidarity and right-wing governments. At the same time, with the demise of the post-communist SLD it also occupied the “social” position in Polish politics. The 2005-2007 PiS-government is an example for the relationship between a lack of salience for economic-redistributive issues and no visible reforms (H1). However, in Poland there was still a considerable electorate for liberalising reform, as the PO’s victory while running on a reform ticket in 2007 showed. Nevertheless, as I argue in the next chapter, liberalisation became electorally more costly in Poland too.

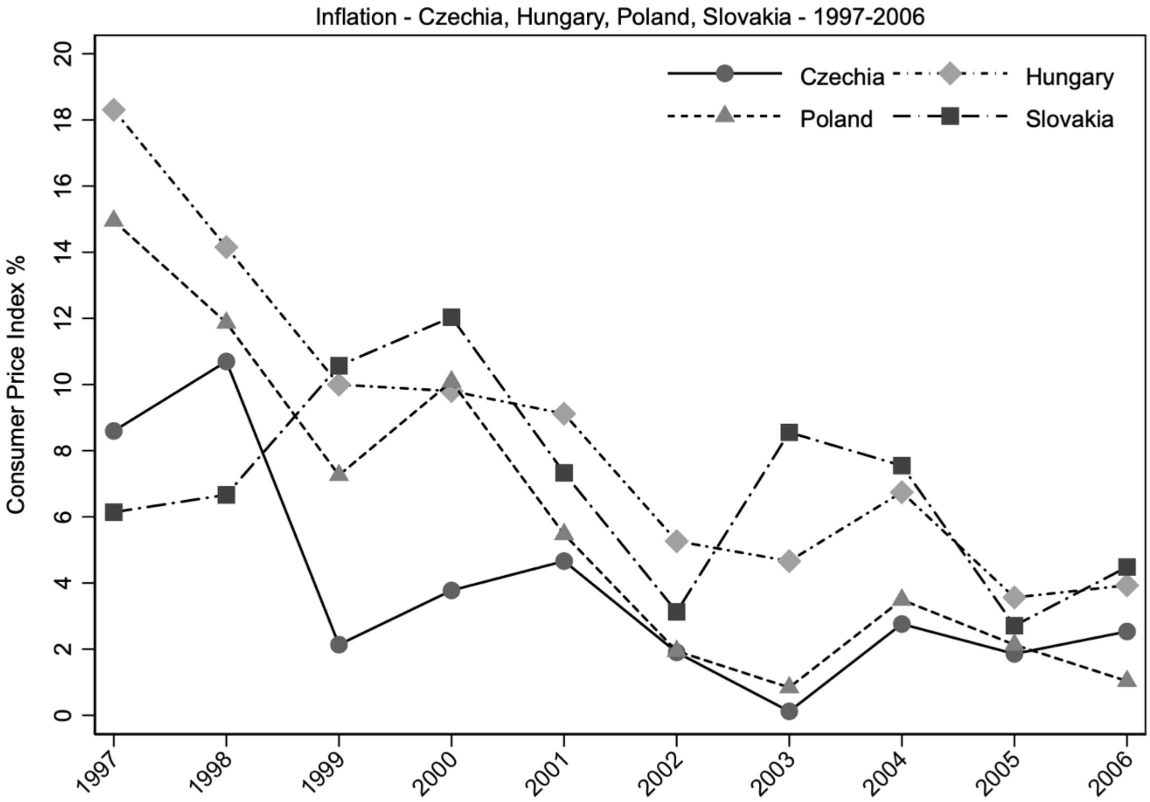
Figures

Figure 5.1. GDP Growth - Czechia, Hungary, Poland, Slovakia - 1997-2006



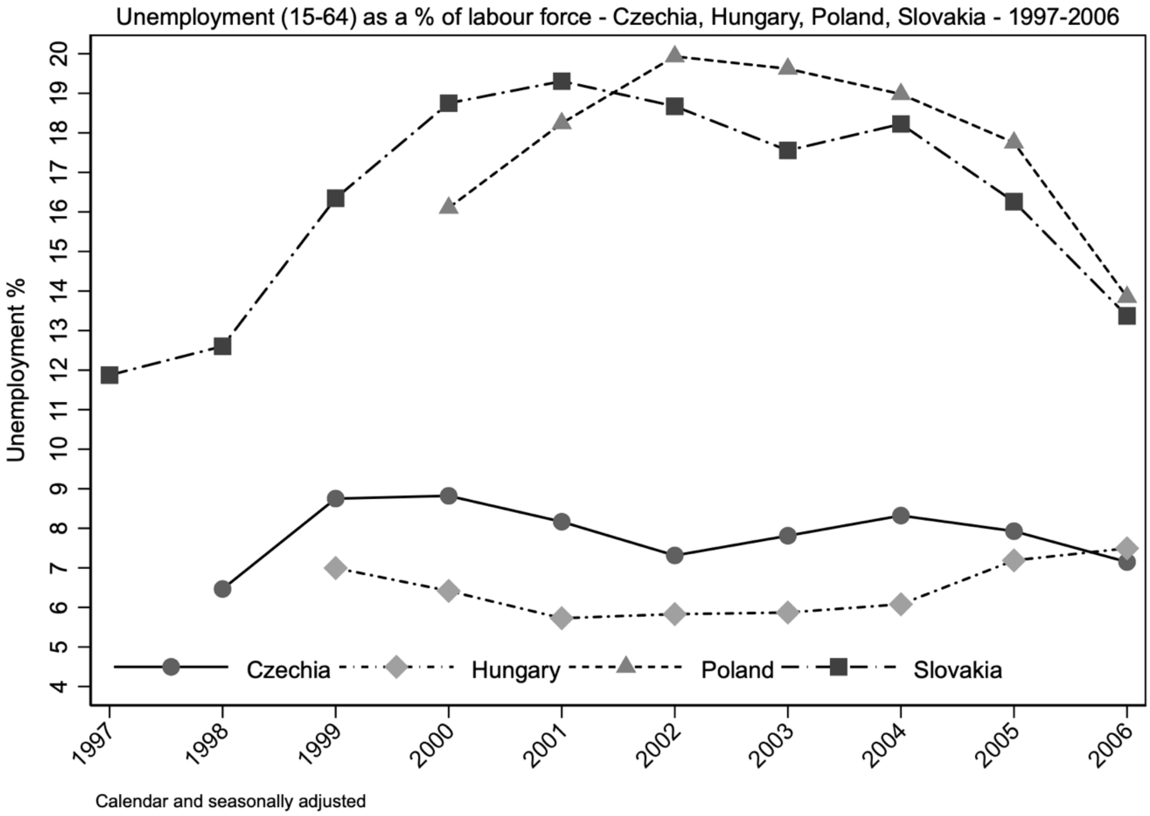
Source: OECD (2024d)

Figure 5.2. Inflation - Czechia, Hungary, Poland, Slovakia – 1997-2006



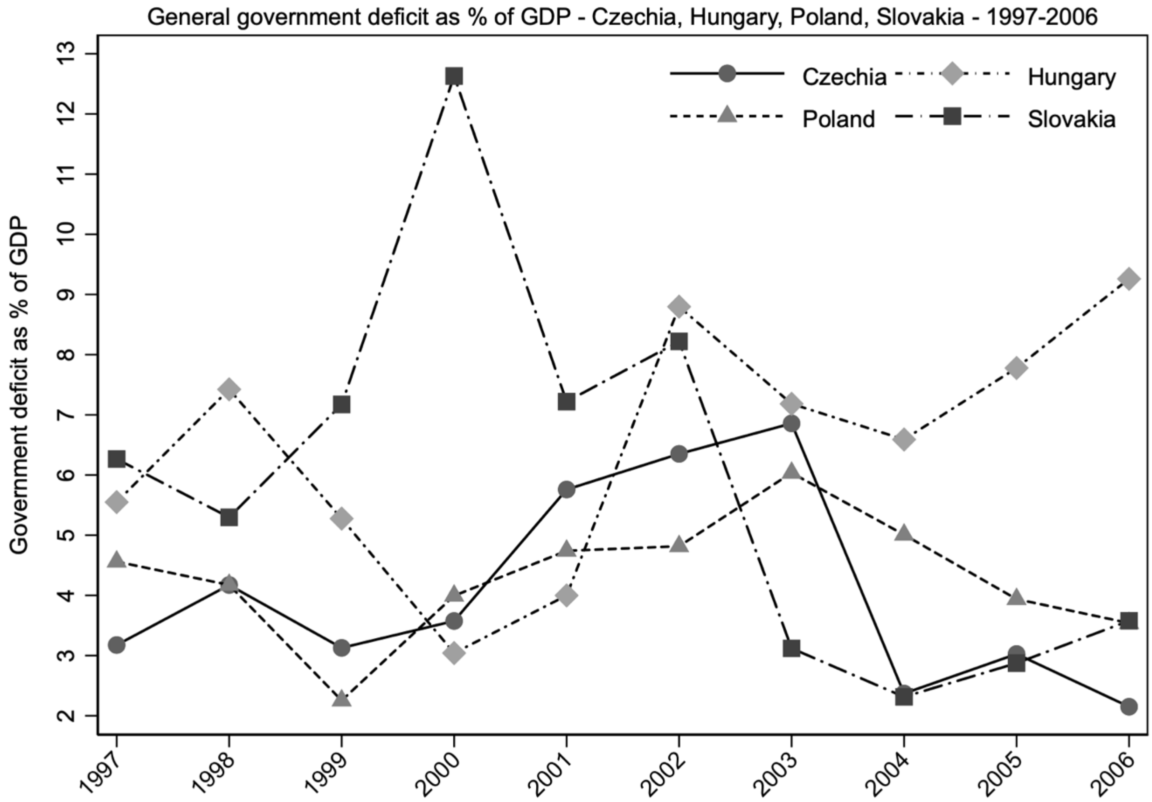
Source: OECD (2024c)

Figure 5.3. Unemployment (15-64) as a % of labour force - Czechia, Hungary, Poland, Slovakia - 1997-2006



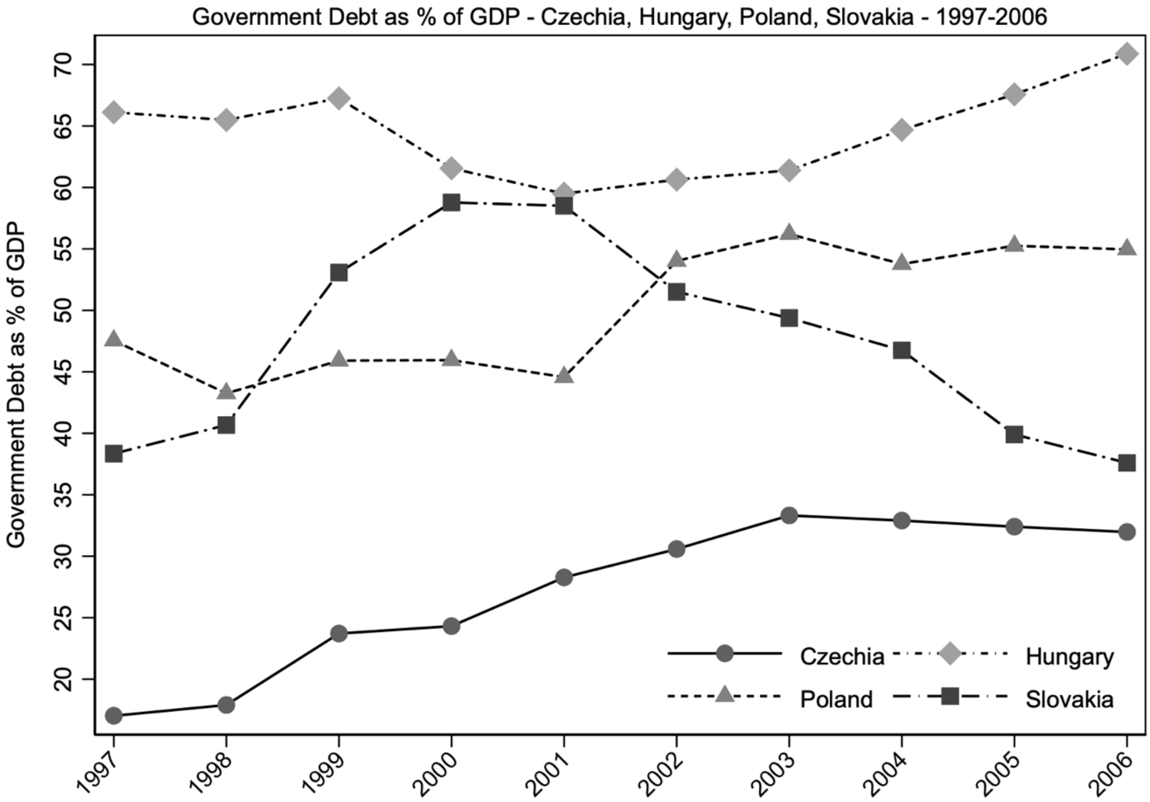
Source: OECD (2024e)

Figure 5.4. General government deficit as % of GDP - Czechia, Hungary, Poland, Slovakia - 1997-2006



Source OECD (2024b)

Figure 5.5 Government Debt as % of GDP - Czechia, Hungary, Poland, Slovakia - 1997-2006



Source: OECD (2024a)

Chapter 6. Crisis and political upheaval – the end of neoliberalism? 2006-2015

Introduction

Marked the Great Recession and in its wake the rise of populist and outright authoritarian incumbents the end of neoliberalism in the Visegrád states as Appel and Orenstein (2018) argues? Or the growth models/capitalist varieties have been updated and adapted (Bohle & Regan, 2021; Bohle, 2021; Bohle & Greskovits, 2019; Scheiring, 2020a)? This analysis rather lends support to the latter explanations: the period did not end neoliberalism in CEE, rather ushered in a more heterodox and in several cases more authoritarian version of it. Nevertheless, as far as the liberalisation (and deliberalisation) trajectories are concerned, no significant convergence could be observed during this period either.

The period between 2006 and 2010 marked a tumultuous era in Hungarian politics, characterized by crisis-induced austerity measures and liberalisations. The socialist prime minister failed to build a platform on reformism and modernisation, and in turn lost credibility on welfare and good governance not only for himself but for the socialist party too. In contrast, Fidesz, led by Orbán, emerged as a credible alternative. Orbán's consolidation of power through institutional authoritarianism and media manipulation ensured minimal opposition to his policies.

In the Czech Republic, a wave of liberalisation occurred before the global financial crisis, demonstrating the proclivity of right and market liberal parties for reform even in the absence of functional pressures. However, the limits of a neoliberal agenda were evident in the overreach of right-wing policies, leading to the election of the former social democrat prime minister and strongman, Miloš Zeman as president in 2012. Meanwhile, in Slovakia

Fico never truly questioned the new neoliberal status quo only implementing some marginal deliberalisations. In Poland the concentration of the party system constrained policy options. PO's cautious approach to liberal reforms created space for neoliberal parties like the Palikot's Movement. A cycle of scandals and corruption cases led PiS's rise back into power in 2015, pushing Poland towards increasing authoritarianism.

The chapter continues as follows, the four case studies of Hungary, Poland, Slovakia, and Czechia provide concise analyses of the functional pressures, the dynamics of party competition and liberalisations (and deliberalisations) across economic, labour market, and social policies, and a theory-driven discussion of the reform paths concludes. The chapter is then summed up and concluded by a comparative discussion of the findings.

6.1. Hungary 2006-2014: Failed reforms and authoritarian turn

6.1.1. Functional pressures – Hungary, 2006-2014

In the election year 2006 government deficit reached 9.2% (Figure 6.1) of GDP and government debt 66% (Figure 6.2). The European Commission rejected the Hungarian convergence programme in January, but the government only started to address the issue after the elections. However, the country faced other worrying trends apart from the fiscal imbalance. Though still low in regional comparison, unemployment by 2006 also rose with 1.5 percentage points to 7.5 in two years (Figure 6.3). As energy prices increased, inflation started to rise and by 2007 it almost doubled to 8% (Figure 6.4).

The external debt was mainly private debt: the external public debt totalled about 40% of GDP at the end of 2008. Large budget deficits (averaging 8% of GDP between 2002 and 2006) limited the ability of the government to bail out private parties. Public debt rose sharply, reaching 73% of GDP by the end of 2008, far above levels seen in neighbouring countries (OECD, 2010a, p. 24). At the same time, growth already started to slow down in 2006 and in 2007 it almost halted: GDP growth was only at 0.27%.

Thus, Hungary was in a precarious position already before the global financial crisis. As summarised by the IMF's regional team:

1. Public debt stood at around 70% of GDP despite consolidation efforts, making its rollover vulnerable to foreign investors' decisions.
2. Banks had loan-to-deposit ratios of 150%, exposing them to substantial liquidity risk.
3. Nearly two-thirds of bank loans were in foreign currency, leaving borrowers largely unhedged.
4. Official foreign currency reserves only covered slightly over half of the short-term foreign debt. (Carare et al., 2012, pp. 92-93)

Hungary had to turn to the IMF just days after the collapse of the Lehman Brothers. The IMF and the EU secured a € 20 billion bailout package. Hungary had the deepest recession among the Visegrád group amounting to a 6.6% drop in GDP on a yearly basis (Figure 6.5.). Unemployment grew quickly and peaked at more than 11% in 2010 (Figure 6.3.). Hungary also had the slowest recovery; growth did not truly resume until 2013-2014. The government deficit even grew in 2011 as the new government initiated some costly measures (e.g., flat personal income tax, a cut in corporate income tax), but was brought down by 2012. However, the government debt to GDP ratio remained high, reaching 100%

by 2014. The Eurozone crisis and the Orbán-government's conflict with the IMF and the suspension of the agreement led to severe depreciation of the domestic currency against the Euro and the Swiss Francs putting hundreds of thousands of people in an often impossible situation, who borrowed in these foreign currencies while the exchange rates were more favourable. As growth started to catch up again (and due to a huge workfare programme, see below) unemployment was quickly decreasing though after the crisis peak of 11% to 5% in 2016.

6.1.2. Dimensions of party competition – Hungary, 2006-2014

The 2006 election was the height of the Hungarian two-party system with the two big parties capturing more than 85% of the vote. Apart from the MSZP and the Fidesz only the SZDSZ and the MDF could clear the 5% threshold. However, the erosion of the two-party system started right after the elections. Political scandals, austerity programs, and severe economic and societal crises eroded the popularity of the socialists and eventually destroyed the liberals. For the first time since 1990 new parties emerged, which were not (completely) splinter groups of existing ones: the radical right Jobbik (the radical is quite literal in their case, they even had a paramilitary guard) and the green Politics Can Be Different (LMP). Although different in their ideological orientation, both parties stood against the existing blocs and occupied general anti-elitist positions. Though of course in the terminology of Engler (2023) only LMP was centrist populist of the two.

Shortly after his victorious election, the socialist premier, Ferenc Gyurcsány to win the support of the reluctant socialist MPs for the necessary fiscal stabilisation and reforms, held a speech behind closed doors. He admitted that he and his government deliberately mislead the public about the state of the economy for years, including during the election campaign, and that crisis was imminent. If he thought that pulling off re-election – a first in democratic Hungarian politics – and saving his party after a crushing defeat just two years earlier on the European Parliament elections secured him loyalty from his party's MPs, he was wrong. A recording of the speech was eventually leaked before the municipal elections in September the same year and violent riots broke out in Budapest (Ilonszki & Kurtán, 2007). Still popular among the rank and file of his party as well as among a majority of the socialist-liberal electorate, who saw him as the only man capable of keeping Orbán out of power, Gyurcsány refused to step down and tied his fate to his reform agenda. Not surprisingly though Fidesz captured 18 out of 19 county assemblies and most of the largest towns on the municipal elections (Ilonszki & Kurtán, 2007).

A referendum launched by Fidesz on higher education tuition fees, co-payment for physician's visits and in-patient hospital care successfully defeated the government's healthcare and higher education reform agenda in 2008. The coalition did not survive the defeat though the liberals kept providing majority for the government from opposition sealing the fate of the party. Finally, as Hungary had to turn to the IMF to avoid insolvency, realizing that he was unable to secure the majority for the fiscal consolidation even within his own party let alone in Parliament, Gyurcsány stepped down as PM in 2009.

The new government led by a relatively young, technocratic economist acted as a caretaker government (even if it formally was a minority MSZP government). It managed to stabilise the exchange rate and the country escaped insolvency, however, unemployment drastically increased. The 2009 European Parliament elections brought a deceive victory for Fidesz (56%), the socialist came in distant second (17%), the Jobbik came in third (14.7%) and the MDF fourth (5.3%), the SZDSZ was not even close to the 5% threshold (2.16%) and the party formally disintegrated. Next year on the legislative election, Fidesz captured 52.7% of the votes and 68% of the mandates in Parliament, the MSZP got only 19.3%, the Jobbik 16.7%, and the LMP 7.5%.

Orbán called the new political constellation "central force field". That is, the Fidesz was at the political centre with its massive vote share as a true catch all party. At the same time, it's rivals were all too small to challenge them and ideologically so distant that they could not form any alliances to form a viable alternative (and even if they tried, their voters would never have followed).

The new government enjoyed a constitutional majority and used it ruthlessly. E.g., just in its first one and half years, the overall number of laws amounted to 365, including a new constitution. In comparison, the overall number of laws accepted in the entire former legislative cycle between 2006-2010 was 591 (Várnagy, 2012, p. 122). The government thus completely reshaped the Hungarian political system under heavy domestic and international criticism (e.g., the new constitution and the exclusionary manner it was adopted, the new media regulation, the special taxes levied on different sectors, etc). The EU launched several infringement proceedings against Hungary because of possible breaches of EU legislation (Várnagy, 2012). The government also regularly amended the new constitution to achieve formerly unconstitutional goals. E.g., in 2013, with the third (!) amendment it pre-emptively took away the right of the constitutional court to review constitutional amendments (and among others made it possible to criminalise homelessness).

The government's exclusionary and fast track legislative and policy agenda sparked mass protests. E.g., hundred thousand strong demonstrations were held against the new media law or the constitutional amendments. Students marched, held information strikes, and occupied one of the campuses of the biggest university of the country in Budapest for weeks protesting plans of radical reduction of state-financed student places and the governments' encroachment on academic freedom (Várnagy, 2012, 2013; Labanino & Dobbins, 2022).

These conflicts had their consequences. Within one year of its landslide victory, Fidesz lost 1/3 of its supporters (Népszabadság, 13 May 2011). However, none of the opposition parties were able to profit from it. The MSZP was in deep crisis. Not only was it discredited by its government record, but the party also split with their former PM Gyurcsány, who formed a new party, Democratic Coalition taking several leading politicians with him.

6.1.3. Principal economic and social policy reforms – Hungary, 2006-2014

After four years of expansionary policies and the first incumbent victory on an election in 2006, the government's policies were doomed to fail at the outset. Due to its constant legitimacy problems and shrinking public support (see above), the government could only implement fiscal stabilisation measures, that is, across the board austerity between 2006 and 2007, and then came the 2008-2009 crisis and Hungary was the first EU country to be bailed out by the IMF (and further stabilisation packages had to be introduced). The attempted public sector, higher education and health care reforms were never fully implemented, and the weakened premier was unable to secure the support even of his own party on several occasions.

After the elections, the returning socialist-liberal coalition immediately announced austerity measures. A two-years wage freeze on public sector wages were implemented (along with cuts in public employment), a reduction of pharmaceutical subsidies, and a reduction in household gas-subsidies were introduced. The cut in VAT was reversed and the five-years personal and corporate income reduction plan srcapped (moreover, a new top income tax threshold was implemented at 40%). However, the public sector wage freeze was partially eased by the end of the year as a part of an agreement with trade unions (e.g., nominal wage increase of 3.5-4% was allowed) (OECD, 2007; Armingeon et al., 2019).

The coalition tried to introduce structural reforms. An ambitious health care reform process was launched. Co-payment, increased contribution rate, decreased reimbursement of pharmaceuticals, a 10% cut in the number of hospital beds, etc. were implemented (OECD, 2007). These measures could not, however, solve any of the real problems (the widespread corruption, the too many specialists and too few nurses, the overuse and over report of hospitalisation) and were perceived as mere austerity measures by the public. The coalition partners were fighting over the issue of insurance reform for over a year. The Gyurcsány-government having failed in its attempt at higher education reform between 2004 and 2006, gave it another go and introduced tuition fees. An ambitious administrative reform was also launched. E.g., the number of ministries were reduced and there were cutbacks in public employment and a centralisation in public procurement (OECD, 2007). The socialist-liberal government was able to implement a reform in one policy field though: eligibility to social assistance programs was tightened and benefits levels decreased, reflecting the heavily ethnicised (i.e., racist, anti-Roma) anti-poor consensus of Hungarian politics (Ferge, 2008).

However, the 2008 referendum which resulted in the defeat of the government reform agenda, and the subsequent brake up of the coalition effectively blocked any further reforms in health care or higher education (or any kind of structural reforms in general) (Ilonszki & Kurtán, 2007). In 2008 October Hungary was the first Central and Eastern European country to turn to the IMF. In return for a 20 billion Euros bailout, the government had to embark on austerity. Public sector wages were frozen, and extended means testing of social benefits were introduced. A fiscal responsibility law was adopted, which foresaw a decline in the budget deficit over the next two years and annual reduction in debt in real terms thereafter (Carare et al., 2012).

After his landslide victory in 2010, Viktor Orbán initially wanted to pursue expansionary policies. His plan was to increase the budget deficit from 3.8 to 7.5 per cent of GDP in 2010. He was, however, quite blatantly told personally by the head of the European Commission that no fiscal loosening would be tolerated, and Hungary must keep itself to the budget deficit target negotiated and agreed upon with the former caretaker government. Moreover, Hungary was under excessive deficit procedure ever since its accession to the EU, and received already 6.5 billion of the bailout package in the fall of 2008 (Guardiancich, 2013). When he realised that there was no other possibility, Orbán declared fiscal consolidation and the radical reduction of budget deficit the outmost priority of his government's policy, and stopped borrowing from the IMF, which was a very costly decision (Carare et al., 2012). Instead, emergency taxes were levied among other on the telecom, the banking sector (in fact, the highest bank tax in Europe), or the advertisement sector (these special taxes also prepared the ground for government-friendly national firms to gain more grounds in these largely foreign owned sectors and the media). The VAT was also increased from 25% to 27%, the highest in the EU. In 2012 Orbán launched an anti-IMF public campaign, while negotiating a new agreement (in which the government accused the IMF also with such austerity and reform demands that were never on the table). Eventually, in July 2013, the government announced that they will pay the IMF back ahead of schedule and initiated the closure of the IMF's resident representative office in Budapest (Reuters, 2013).

The policy agenda of the second Orbán-government is contradictory. In some policy fields Fidesz pursued a radical neoliberal agenda. It introduced a flat personal tax system (at 16%), abolished the tripartite conciliatory body, adopted a new radically pro-employer Labour Code, curtailed the right of work council and unions, as well as constrained the statutory right to strike (Armingeon et al., 2019; Labanino, 2020; Szabó, 2013). Amendments of the unemployment insurance and social assistance systems resulted in a historically low level of access, generosity, and duration of benefits. In fact the three months maximum duration of unemployment insurance is the shortest in the EU (Szikra, 2014). Unemployment assistance was completely abolished and instead the public works programme – started by the previous government – became the means of treating long-term unemployment particularly in rural small settlements. This programme, employing close to 200.000 people at its peak did not provide its beneficiaries with the minimum wage or even an income that reached the subsistence minimum (or any training or education). However, it became the cornerstone of a clientelist social policy and electoral strategy. Several studies have shown that not only was there a statistically significant positive relationship between the number of participants in the public works programme and the vote for Fidesz (for example on the 2014 and 2018 elections and particularly in smaller, rural settlements), but that the funds were allocated strategically. That is, there were more participants in settlements in "swing" electoral districts, where the opposition really stood a chance. According to model estimates Fidesz gained at least 5-6 mandates this way in 2014 (but probably more) and wouldn't have had a 2/3 legislative majority without it (Mares & Young, 2019).

In other policy fields, however, substantial de-liberalisations were implemented. The 1998 partial pension system privatisation was fully reversed, some nationalisations took place in the energy sector, and the government forced several across the board and permanent price reductions on utility providers from 2013 on. The government also allowed borrowers in foreign currencies (mostly Swiss Francs) to pay back their mortgages in full on a lower exchange rate. The reversal of the pension reform and the *de facto* socialisation of the second pillar (the individual contributions to private pension funds) had two benefits: an accrual reduction in government debt and at the same time this immense fortune served as a fund for the government to reduce government deficit.

6.1.4 Partisan competition and policy reforms – Hungary, 2006-2014

The austerity measures and liberalisations implemented between 2006 and 2010 were crisis induced. The socialist prime minister tried to build a political platform on "reformism", fiscal restraint, and modernisation instead of welfare. This would have been challenging even amid better circumstances (as the Polish centre right had to learn the hard way see below). However, as the country was spiralling downwards – even before the global crisis – with constant conflicts and opposition within the socialist party and quarrels with the coalition partner (and the eventual dissolution of the coalition), and corruption scandals he and the MSZP lost all credibility on competent governance (which were their main selling point since 1994: a non-ideological, centrist can-do party). At the same time, Fidesz was credible both on welfare and governance and refused to acknowledge the need for any austerity and structural reforms. Orbán did not lend any legitimacy to the government as there was a recording of the PM being a self-admitted liar (the party mostly boycotted Parliament refusing to share the assembly room with the prime minister).

After his 2010 landslide victory, Orbán's "central force field" worked just as he intended it to. He faced a disintegrated and discredited left as a part of an ideologically fragmented opposition composed of mutually exclusive parties. In absence of any credible contenders, nothing checked his political agenda. Just as Wenzelburger and Zohlnhöfer (2021) argues, if a governing party is sheltered from electoral competition, it will increasingly engage in policy-seeking. Orbán also put a system in place in which programmatic policy issues are very difficult to articulate by anyone other than the government. As Scheiring (2020a) argues that institutional authoritarianism ensures that the political institutional system, the media system, and the courts are rigged in favour of the ruling party. As interest group researchers found, the government denies access to no government-allied organised interests and the formal system of social dialogue was abolished (see e.g., Gerő et al., 2023; Labanino, 2020; Labanino & Dobbins, 2023). At the same time authoritarian populism provides the necessary legitimacy and the political integration of the masses through centrally designed and state-run moral panics, in which redistributive conflicts are turned into zero sum cultural and/or ethnic conflicts (Scheiring, 2020a).

Orbán also made sure that the new electoral system overcompensated the winner. The number of single member districts (direct mandates) were reduced and made first-past-the-post majoritarian (instead of the previous, two-rounds, absolute majority system). All of this led to Fidesz retaining its constitutional majority on the 2014 elections, even though it lost close to 500.000 votes (7.9 percentage points) compared to 2010. In fact, both the MSZP (as part of a left-wing electoral coalition) and the Jobbik gained considerably (and the LMP was able to clear the 5% threshold alone), and the three opposition parties had a combined vote share higher than Fidesz'. In spite all of this, the fact of the matter was that they were utterly defeated and were as powerless to oppose Fidesz let alone provide any credible alternative than before (or ever since…).

6.2. Poland 2007-2015: the rise and fall of market-oriented conservatism

6.2.1. Functional pressures – Poland, 2007-2015

Poland was economically in rather a good shape before the crisis. Unemployment halved from almost 14% of the labour force to close to 7% between 2006 and 2008 (Figure 6.3). GDP growth was at 6% and 7% in 2006-2007, respectively (Figure 6.5). The previously consistently high budget deficit was brought down to 2% in 2007 (Figure 6.1). Debt was again under 55% of GDP (Figure 6.2) and inflation though growing at 2.5% was low (Figure 6.4). Poland was the best economic performer in the OECD in 2009 (OECD, 2010b, p. 22). Indeed, though growth sharply dropped to 4% in 2008 and 2.6% in 2009, this was a far cry from its peers in the region (Figure 6.5).

Still, Poland was too heavily affected by the crisis. Exports contracted by 20% year-over-year in the final quarter of 2008. Though less dependent on exports with its lower shares of exports in GDP (about 40%) than its neighbours and due to its larger internal market, the compression in exports nevertheless impacted domestic activity, particularly industrial production (-10% in 2008 and 2009) (Epstein et al., 2012, pp. 156-157). The country could afford counter-cyclical policies (see below).

However, though growth sharply accelerated and in 2011 was at 5%, the Euro-area crisis affected Poland badly too. As summarised by the OECD (2014a), weak external demand "heavily penalised both exports and private investment, while rising unemployment and fiscal consolidation damped household consumption" (p. 15). Indeed, GDP growth dropped to 1,6% in 2012 and to a mere 0.8% in 2013 (the slowest since the 1989-1991 transition recession) (Figure 6.5). Though economic growth recovered in 2014-2015, unemployment was back at two-digits in 2012-2013 (around

10%), though it also dropped a bit subsequently. Particularly youth unemployment was high (e.g., it stood at 22.3% in 2010) (OECD, 2010b).

In the meantime, the government deficit during the crisis was above 7% both in 2008 and 2009. Poland agreed to reduce its budget deficit with 2 per cent of the GDP by 2012 (Drahokoupil & Domonkos, 2012, p. 289), which it delivered (see below). However, the debt to GDP ratio was and remained high throughout the period, growing from 51.5% in 2007 to over 70% in 2015 (Figure 6.2).

6.2.2. Dimensions of party competition – Poland, 2007-2015

The 2007 election result seemed like to usher in a concentration of the party system akin to Hungary. The combined vote share of PO (41.5%) and PiS (32.1%) was over 73%, and they captured over 80% of the mandates in the Sejm. Apart from the two big parties only a left-wing electoral coalition led by the SLD (13.1%), and the PSL (8.9%) could clear the threshold (Jasiewicz & Jasiewicz-Betkiewicz, 2008). However, party competition unfolded differently than in Hungary, and on the 2011 elections both PO and PiS saw their vote share decrease to 39.2% and 29.9%, respectively. And while the PSL roughly repeated its 2007 result (8.36%), the SLD marginalised further (8.24%). Proving those wrong, who argued that the Polish party system became closed, a new outspokenly anti-clerical, libertarian, and unabashedly neoliberal party led by a former PO deputy got 10% of the vote.

Between 2007 and 2010 the PO-PSL cohabited with Lech Kaczyński as president. The PiS thus did not merely provide a credible, more social opposition to the economically more liberal PO-PSL government but through the president literally vetoed the government's reform programme. As the coalition did not have the necessary 60%

majority to override presidential vetoes, it could not enact most of its programme (e.g., its healthcare reform) (Stanley, 2013). However, according to Stanley (2013) Donald Tusk, the prime minister was not truly keen on the reform agenda anyway. In 2009 he declared that he is not going to give PiS any electoral presents with politically controversial reforms, which would be vetoed by the president anyway. The two governing parties enjoyed high approval ratings and on the June 2009 European Parliament election PO got 25 seats out of 54 (against PiS's 15).

After the Smolensk-tragedy on 10 April 2010 – an air crash in Russian air space claiming the lives of the presidential couple, and among others military leaders and deputies from all parties – the PO candidate, Bronislaw Komorowski won the presidential election. However, the government kept its cautious stance towards reform. The pressure on the government for decisive action grew from the liberal media and economists (e.g., Leszek Balcerowicz installed a debt clock in the centre of Warsaw) (Stanley, 2013, p. 192).

The government strategy paid-off, as the PO-PSL government became the first one to be re-elected in 2011. However, by being weary of liberalising reforms, PO opened the space for a libertarian party led by Janusz Palikot a former PO deputy (Palikot's movement). In addition to being economically liberal, it was anti-clerical, feminist (pro-abortion), and pro-LGBTQI rights (it had Poland's first openly gay MP and the only trans-gender MP in the world at the time) (Stanley, 2013). The party was very popular among young urban voters a core constituency for PO. It's 10% vote share was also anything but marginal.

Between 2011 and 2015 the PO-PSL government enacted a more ambitious reform agenda (also a partial pension reform reversal, see below). Its conflicts with organised labour (see below) led to the largest demonstration wave in decades: in September 2013 the three big trade union confederations overcome their conflicts and organised the "National Days of Protest" (in Warsaw alone over 100.000 people demonstrated against the government), and they jointly boycotted the Tripartite Commission (Czarzasty, 2014). The conflicts over social policy and labour market reforms, and fiscal consolidation was exacerbated by a series of high-profile political scandals and corruption cases involving both the PSL and the PO and leading business figures (for an exhaustive account see Stanley, 2013).

6.2.3. Principal economic and social policy reforms – Poland, 2007-2015

In 2009, a personal income tax (PIT) reform was implemented. The Polish tax system became a semi-dual income tax system. Profits are taxed at the corporate level and at the personal level, but dividends are not subject to PIT but a flat rate of 19 per cent. Labour income is taxed progressively even after 2009. The second bracket was abolished, while the 40 per cent bracket was reduced to 32 per cent with the same threshold as before. The first bracket was reduced with one percentage points to 18 per cent (Armingeon et al., 2019). As the tax reform shows, Poland was able to implement counter-cyclical policies during the global crisis. To reassure investors and to protect its counter-cyclical policies, it adopted in April 2009 IMF's Flexible Credit Line, which was renewed twice, but never used (Epstein et al., 2012).

Several changes to the pension system were implemented during the period. Early retirement options were finally closed in 2009, but the pension system was not completely unified. There were still some occupational groups left with more beneficial pension rules (Armingeon et al., 2019). At the same time, in the wake of the global crisis a partial reversal of the 1999 pension reform took place.

The annual deficit of the PAYG system reached in 2009 reached 1.59 per cent and in 2010 1.89 per cent of GDP, respectively (Drahokoupil & Domonkos, 2012, p. 289). Furthermore, the government agreed with the EU to reduce its budget deficit with 2 per cent of the GDP by 2012 (and the Polish constitution penalised if public debt crossed the 55 per cent threshold) (Drahokoupil & Domonkos, 2012, pp. 292-293). As cutting the PAYG system with reducing existing pensions was out of the question, and because future benefit levels were insecure, and not least because pension funds were major holders of domestic government bonds (that is, public debt), there was ample incentive for (a partial) reform reversal (Naczyk & Domonkos, 2016).

As the Open Pension Funds suffered rather huge losses in 2008 – though they recovered quickly - prominent PO members accused the OFEs with mismanagement and inefficiency (Guardiancich, 2013, p. 181). A plan to redirect 60 per cent of the contributions to the private funds to PAYG system (to the ZUS) was put on hold due to protest of social partners, and prominent economists (Kuźmicz, 2010). However, in March 2011 the contributions to OFEs were drastically reduced from 7.3 to 2.3 per cent, though were set to grow later again (Guardiancich, 2013; Czepulis-Rutkowska, 2011). Finally, in 2014 private pension fund accounts were made voluntary, and open pension funds had to transfer all their government bonds to the social insurance fund and were banned from investing in government bonds. The changes to the pension system were clearly linked to fiscal consolidation: the preventive debt thresholds of 50% and 55% of GDP were set to be reduced to 43% and 48% following the pension reform (OECD, 2014a, pp. 47-48).

After the 2011 elections, the retirement age was raised, which was of course a politically very contentious issue. The retirement age was set to gradually increase to 67 for men by 2020 and for women by 2040 (Armingeon et al., 2019).

Labour market liberalisation (commodification) and unilateral wage policy was continued. Unemployment insurance was further retrenched. Although the level of the flat rate, lump sum Polish unemployment benefit was raised by 30 per cent starting January 2010 for the first three months of the duration of payments, it was then set to decrease by around 21 per cent. Moreover, starting 2009, the period for ineligibility for benefit collection because of the refusal of a job offer were extended and the number of refusals significantly increases this period (starting from 120 to 180, and to 270, etc.) (Armingeon et al., 2019)

Although there were signs that the PO-PSL government will revive social dialogue, instead it gradually abandoned it. Despite of the fact that the government accepted the anti-crisis package submitted by the social partners in 2009, it set the minimum wage unilaterally since 2010 (and it did not reach the level set by the package) and froze the Labour Fund also without any social dialogue in 2011 (Czarzasty & Owczarek, 2012).

Some marginal changes were also implemented to the farmers' social insurance system, the KRUS. The small healthcare contribution rates for so-called special agricultural production activities were marginally increased; the possibility to benefit from early retirement were set to be eliminated. However, as a compensation, a new preretirement allowance was introduced for women and men aged 62 and 65, respectively, amounting to half the regular farmers' pension (OECD, 2014a, p. 61).

6.2.4 Partisan competition and policy reforms – Poland, 2007-2015

The 2005-2007 radical right coalition of PiS polarised Polish politics around socio-cultural issues, economic-redistributive issues were not high on the political agenda (H1). In the 2007 elections – with two post-Solidarity parties emerging as the main parties – the post-communist divide lost its importance and a more programmatic competition around economic-redistributive issues took its place (Szczerbiak, 2008). Still, the salience of economic and social policy is a necessary, not a sufficient condition for reform. In fact, Poland between 2007 and 2011 provides evidence that the concentration of the party system increasingly constrains the policy options of the two main parties (H5). However, the PO being cautious on liberal economic and social policy reforms – although many of its voters wanted progress on this front – opened the space for a neoliberal party. Although the Palikot's Movement appeal was not solely neoliberalism but cultural and "moral" libertarianism and anti-clericalism, it was clearly on the right in economic policy to PO. Moreover, it gained support among a core group of POs constituency.

After a government cycle of a more ambitious reform policy agenda – with the salience of economic and social policy reform elevated (H1) – and several scandals and corruption cases PO eventually lost big to PiS in October 2015 (which pushed Poland down the path of increasing authoritarianism for almost a decade). However, apart from a general anti-establishment populist movement led by a rock musician (Kukiz'15), another new party (Modern) entered the Sejm on the basis of liberal economic and cultural values (accusing PO of being sell-out on these) (Jasiewicz & Jasiewicz-Betkiewicz, 2016).

6.3 Slovakia 2006-2016: Resilient neoliberal status quo

6.3.1 Functional pressures – Slovakia, 2006-2016

As a small, export oriented dependent market economy, Slovakia experienced a sharp downturn in output during the global financial crisis. GDP growth was over 10% in 2007 and still above 5% in 2008. In 2009, however, the economy contracted by 5.4% (Figure 6.5). Growth resumed in 2010 but was falling again as the Eurozone crisis affected the markets of Slovakia's foreign owned export sector negatively. Though the economy did not contract again in 2013 it was very close to it (0.6% GDP growth). The general government deficit grew by almost 6 percentage points to 8.1% in 2009 and decreased only marginally to 7.5% in 2010 (Figure 6.1). The European Council launched an excessive deficit procedure against Slovakia in January 2010 (European Council, 2010). The Council ended the procedure in June 2014 (as in 2013, the deficit was below 3% again). Despite implementing a constitutional debt ceiling in 2011 (see below), government debt gradually increased from 34.8% in 2008 to over 60% in 2012 reaching 67.7% in 2014.

During the crisis unemployment grew again to over 14% by 2010, and it remained high hovering between 13-14% until 2014. Eventually it decreased again under 10% only in 2016. The aggregate data, however, masked one of the highest regional disparities among OECD countries. Two-thirds of the unemployed lived in the east of the country, and more than 40% of the unemployment increase since 2009 concentrated there (with 70% being long-term unemployed). GDP per capita was twice the national average in Bratislava, while in the eastern regions it was just 60% of the national average. In the eastern regions the average income was less than half than in the capital. The situation of the country's Roma minority was particularly desperate: only 20% of the men, and 10% of the women participated in the formal labour market (OECD, 2014b, p. 85).

6.3.2 Dimensions of party competition – Slovakia, 2006-2016

On the 2006 elections Robert Fico and his party Smer, was able to capitalize on the disenchantment with the technocratic reform policies of the Dzurinda government. As Greskovits (2008) noted many citizens opted for exit and withdrew from democratic participation. Voter turnout dropped from 69.9 per cent to 54.7 in 2006 (Armingeon et al. 2013). Fico won the elections and formed a coalition government with the SNS and Mečiar's HZDS. Although campaigning on a left-wing and national populist ticket, Fico did not want to reverse the reform process, nor endanger EMU accession. The left-nationalist government, thus, introduced some reversals, particularly in healthcare reform, but left the neoliberal agenda intact.

On the 2010 elections Smer-SD was defeated mostly by the weakness of its coalition partners. Smer even increased its vote share with 5.6 percentage points to 34.8%, but the HZDS failed to clear the 5% threshold and the SNS barely got into parliament. All of the other parties, the SDKÚ-DS, a new market liberal party, the Freedom and Solidarity (SaS), the Christian Democrats, and a splinter Hungarian party, the more centrist, "less ethnic" (it even had ethnic Slovak politicians) Most-Híd (Bridge) formed a government (Malová & Učeň, 2011). However, it was a short-lived coalition, as it was beset by internal strife within the SDKÚ and conflicts between the different parties. One of the biggest corruption scandal of the country also shook the coalition to the core (leading politicians of the SaS and SDKÚ were involved). The coalition ended over the governments' support for the European Financial Stability Facility aid package to Greece, which SaS objected.

On the 2012 election, Fico won with a landslide (44.4%) and the second party – the Christian Democrats – only got 8.8%. He was able to form Slovakia's first one party government (Malová & Učeň, 2013). Voters, however, stopped him from assuming the presidency in 2014, favouring instead Andrej Kiska, a political newcomer, a philanthropic millionaire (who, however, earned his fortune by offering very expensive consumer credits) (Baboš & Malová, 2015).

6.3.3. Principal economic reforms – Slovakia, 2006-2016

Although campaigning on a left-wing and national populist ticket, Fico did not want to reverse the reform process, nor endanger EMU accession. In 2009, Slovakia introduced the Euro as a currency. The left-nationalist government, thus, introduced some reversals, particularly in healthcare reform, but left the neoliberal agenda intact. In fact, reversals concentrated on the unpopular healthcare reform. User fees were reduced, selective contracting with providers was abolished. In 2008, no distinction was made between priority and non-priority diseases, which meant the effective abolishment of the flexible basic benefit. In 2007, all health insurance companies were obliged to use all their profits to purchase healthcare and their profits and administrative spending were limited to 4 per cent of their total expenditure. This latter amendment to the Health Insurance Act was eventually ruled unconstitutional by the Constitutional Court in 2011, however (Armingeon et al., 2019). Otherwise, the Fico-government did not alter the new policy status quo. The flat tax was left intact. It did increase pensions and the pre-child allowance (Deegan-Krause, 2013).

After 2010, a new right-wing, liberal, and ethnic Hungarian coalition government implemented some further liberalizations particularly in the field of employment protection legislation. The rights of organized labour were also further curbed, the two most important changes being the imposition of a 30 per cent representation threshold for trade union organisations established after September 2011, and making the legal extension of collective agreements conditional on employers' consent. Similarly to Poland, to consolidate government finances the contribution rate to the second pillar in the pension system was reduced (Armingeon et al., 2019). A constitutional debt ceiling law was adopted by unanimous support of all parties in parliament showing that fiscal restraint became a valence issue in Slovakia (Malová & Učeň, 2013). The law stipulates that at 57% debt to GDP ratio, a balanced budget had to be submitted (Malová & Učeň, 2014).

The Smer-SD government adopted a reversal of the flat tax: a new income tax bracket was implemented at in addition to the 19% rate, a 25% rate on earnings from €3300 per month. Corporate income tax was increased with four percentage points to 23%, and a 5% supplemental tax was levied on member of parliament and the government (Appel & Orenstein, 2018, p. 157).

6.3.4. Partisan competition and policy reforms – Slovakia, 2006-2016

Smer-SD became Slovakia's biggest party by far with providing opposition to the neoliberal reform agenda. Moreover, the demise first of the HZDS and then the SNS elevated the importance of the redistributive issue[18]. Still, once in government, Fico did not question the new neoliberal equilibrium except for the healthcare reform. Fiscal restraint, EMU accession, labour commodification, and attracting foreign direct investment became valence issues or the elements of good governance for all parties. The unanimous support for a constitutional debt ceiling shows epitomised this.

Market liberalism remained electorally relevant in Slovakia. On the 2012 election an anti-corruption, economically liberal, centrist populist party (Engler et al., 2019) got the third most votes (8.6%), which showed that new issues became important for voters. Together with the neoliberal SaS, economically liberal parties had a vote share over 14%.

Though Slovak politics was dominated by Fico and his party during the period (and ever since), and the right and liberal parties remained volatile, their share in the electorate remained quite stable at every election. That is, although the economic-redistributive issues gained importance (H1) and the party system was not concentrated between two parties, this particular constellation and the "new facts on the ground" (EMU membership, high international integration with a foreign-owned complex export industry) seems to safeguard the new neoliberal status quo. This is not to say that Smer-SD does not offer welfare to its mostly rural and older voter base as it clearly does, but Fico also runs on expertise and stability in governance (Haughton & Malová, 2023).

[18] The waning importance of the national question was laid bare in 2016, when Fico formed a coalition government, which included both the ethnic Hungarian Híd-Most and the Slovak nationalist SNS.

6.4. Czechia 2006-2014: Neoliberal overreach and electoral backlash

6.4.1. Functional pressures – Czechia, 2006-2014

Before the global financial crisis, Czechia enjoyed high economic growth, in 2006 and 2007, GDP growth was 6.9% and 5.5%, respectively. Government deficit was also low at just 0.6% in 2007 and 1.9% in 2008. Government debt was also low at just 30.5% of GDP in 2007 (Figure 6.2). The time of relatively high unemployment also seemed to be over. After being still over 7% in 2006, unemployment shrank to just 4.4% in 2008.

The crisis, however, affected the export-driven open Czech economy severely (but not as badly as Slovakia or Hungary). Exports fell in 2009 with 10.2% (Myant et al., 2013) and the economy contracted by 4.5% (Figure 6.5). Government spending grew – in 2008 3.4%, in 2009 4% – but not at the magnitude as in Poland or Slovakia (e.g., in Slovakia in 2009 the corresponding number was 13.1%, in Poland in 2008 7.6%) (Myant et al., 2013). Consequently, the deficit though increased and peaked at 5.4 in 2009, it dropped to 2.7% already in 2013. Government debt increased to 44% in 2010 and then over 50% (but never reaching 60%) for the remainder of the period. Unemployment though increased significantly and was at 7.3% in 2010, it decreased somewhat to 6.7% in 2011 and remained between 6% and 7% until 2014 (Figure 6.3). Just as growth started to resume after the 2009-crisis (and rather slowly at 2.2% in 2010 and 1.7% in 2011), the country sank into recession again because of the crisis if the Euro area in 2012 and 2013. However, this recession was not as severe as the 2009-crisis, the economy rather stagnated than contracted (see Figure 6.5).

6.4.2. Dimensions of party competition – Czechia, 2006-2014

Just as the previous two elections, the 2006 election did not bring clear governing majorities either. Both sides had exactly 100 seats out of 200 in the Chamber of Deputies. As a grand coalition between the ODS and ČSSD was out of the question, and a coalition with the communists was still not an option for the social democrats, the ODS had the chance of forging a conservative-liberal coalition (Linek, 2007). This proved to be highly unstable again, and in 2009 it lost of a vote of confidence. A new right-wing coalition government formed after the 2010 elections (formally won by the ČSSD), which for the first time in 14 years had a clear majority having 59% of the seats in the lower chamber of the parliament (Mansfeldová, 2013). Nevertheless, this government did not last three years (Linek, 2011, 2014). In 2011, the governing parties lost deputies through expulsions or defections, and one of the coalition partner, Public Affairs (VV) experienced a significant split in 2012. Due revelations about the misuse of the military intelligence service by the Prime Minister and investigation of a bribery case involving the Prime Minister, the government fell in June 2013 (Linek, 2014).

Until the legislative elections in 2013 Czech politics was dominated by the ČSSD and the conservative ODS for over a decade. The KDU-ČSL and the Communists were the two other stable parties, although the Christian Democrats failed to enter parliament in 2010 but returned in 2013. Until 2010 the liberal centre was the most instable, although its voter base was stable (Haughton et al., 2011). In 2010, however, the two big parties lost together more than 20 per cent of their voters, and two new parties entered parliament (Linek, 2011). 2010 in retrospect only seems to be the beginning of the erosion of the Czech party system. In the 2013 legislative elections the ODS marginalized gaining only 8 per cent of the vote. Although, ČSSD was able to retain its position as the largest party, with its lowest share of votes since

1996 (21 per cent) the clear winner of the election was not them but rather ANO, a new populist party, which gained 19 per cent. Beside the Communists, the conservative liberal TOP 09, the Christian Democrats, and Dawn, a newly formed right-wing populist party with strong anti-Roma sentiments was able to clear the 5 per cent threshold (Linek, 2014).

6.4.3. Principal economic and social policy reforms – Czechia, 2006-2014

Between 2006 and 2009 flat personal income taxation was implemented (an old policy goal of the ODS), and the capital income tax was also drastically cut. The adoption of a new labour code in 2006 and its subsequent amendments led to a flexibilisation of employment protection legislation. Working time arrangements, temporary and part-time work, contractual freedom, overtime regulation were all affected. In addition, the Topolanek-government continued the tightening of the unemployment insurance system, and it strengthened job search requirements in social assistance. It also started the reform of the pension system by introducing a gradual increase both in retirement age and the minimum contribution period.

Although, as shown in Chapter 5, the minority and the coalition Social Democratic governments also introduced significant liberalisation measures, particularly in financial markets and corporate governance, and initiated large-scale privatisation (financial sector, utilities), it was the right-wing coalition government of Topolanek that attempted ambitious liberalisation policies. Perhaps the most straightforward case is 2007 tax reform package which introduced a flat rate personal income tax on ‘super-gross’ earnings first with a rate of 15% in 2008, further reducing it to 12.5% from 2009. The corporate income tax was set to gradually decrease to 19% by 2010. Moreover, all withholding tax on capital returns were unified at a 15% rate. A waiting period of three days has been implemented to sickness benefits, which means that the employers gained discretion over whether to pay benefits for the first three days of illness (Armingeon et al., 2019).

Perhaps the most important social policy change was however the decoupling of many benefits from the minimums living standard expressing them in cash amount. Another important issue was the 2007 amendment of the new Labour Code adopted in 2006. The new Labour Code already introduced a profound change by securing stronger contractual freedom. The 2007 amendment liberalised working time along with weekend and shift work (Armingeon et al., 2019).

However, the universal and relatively high-quality Czech healthcare system was largely left intact without any major liberalisation. Thus, the 2007 decision to implement user fees in healthcare with effect from January 2008 was a significant step (the rather modest amount was capped at CZK 5000 per individual). Regarding pensions, further increase of the retirement age and the minimum contribution period was increased. The latter was not only increased by ten years to 35 over a ten-year period, but certain non-contributory periods – like time spent in higher education – will be excluded. The maximum duration of unemployment benefits for prime-age employees were shortened from six to five months. Public works requirement was introduced in social assistance in 2008. Those who refuse are only entitled to reduced benefits (Armingeon et al., 2019).

The parties forming a coalition government under the premiership of Petr Nečas in 2010 campaigned with liberal economic and social policies in the context of a severe economic downturn due to the crisis, and once in power they implemented neoliberal policies. The single most important reform introduced by the Nečas-government is the pension reform.

First, following a ruling of the Constitutional Court the highly progressive benefit formula had to be changed. The Court found that the system did not provide adequate pensions in relation to earnings. The econometric analysis of Klazar and Slintáková (2012) arrived at the same conclusion. The Czech pension system redistributed earnings from those with higher income to those with lower ones, and from men to women. The change in the benefit formula indicate that the replacement rate will grow for the top 20% of retirees, and everyone else's will decline except for the bottom 10%.

The Nečas-government, however, did not stop here. Against large political pressure from the opposition, the president of the republic, and trade unions a voluntary third pillar (second pillar in the World Bank terminology) was introduced (OECD, 2011). This change in fact only constitutes a modest privatisation (Drahokoupil & Domonkos, 2012). For those who chose to participate in the new system 3 percentage point will be diverted from their PAYG contributions together with an additional 2 percentage points from their own funds into a funded pension plan of their own choosing. The earnings-related benefit component of the pension benefit accordingly will be calculated from a reduced contribution rate of 25 per cent (OECD, 2011). In a critical account Loužek (2014) characterises the reform as 'hastily introduced', as it will not relieve financially the Czech budget, it will not lead to a competition of pension funds, and those with average or below average earnings will be worse off after the reform. The retirement age was raised again. It is set to reach 66 years and 8 months statutory retirement age for both men and women (OECD, 2011).

The Nečas-government introduced a set of measures that provide financial incentives for later retirement. It amended the Labour Code on several occasion making among others the use of fixed-term contracts easier, and most importantly changing the hitherto universal severance payment dependent on tenure. That instead of a universal 90 days, effective from

January 2012 below one year of employment one is entitled to 30 days, between two and three years 60 days, and above three years 90 days (Armingeon et al., 2019).

The Nečas-government temporarily rescinded the flat tax system in 2012 by introducing a 7% solidarity tax on high income earners for a period of three years (however, the next government kept it as it yielded high revenues for the budget) (Appel & Orenstein, 2018, p. 158).

6.4.4. Partisan competition and policy reforms – Czechia, 2006-2014

The Topolánek-government introduced a not crisis-induced liberalisation wave before the onset of the global financial crisis lending support to H2 that right and market liberal parties will opt for liberalising reform without any functional pressures. However, the right-wing governments in power throughout this period also show the limits of a neoliberal agenda in Czechia. At the first direct presidential elections in 2012, Miloš Zeman a veteran ČSSD leader and former prime minister between 1998 and 2002 was elected as president. His success against Karel Schwarzenberg, a conservative-liberal aristocrat (from one of the richest noble families of the Habsburg empire), former foreign minister and TOP 09 leader signalled an overreach of the right in liberalising policy measures.

However, just as in Slovakia, two new populist parties emerged, the bigger of them the centrist populist ANO with the billionaire (and media mogul) Andrej Babiš at its helm. On the 2013 elections the pendulum – as presaged by the victory of Zeman a year earlier – swung back to the left. The vote share of the social democrats declined marginally (with 1.6 percentage points to 20.46%), but the communist gained considerably (and received 14.9%), and ANO came in second (18.6%) with an anti-corruption, anti-elite, but technocratic, competent-governance image (Linek, 2014). The success of the left after the most comprehensive neoliberal wave of the country (apart from the transition policies) again highlighted the salience of redistributive issues and the strength of the original Czech socio-liberal policy mix. Voters assigned blame with precision: the TOP 09 and particularly the ODS was punished, the latter losing 12.5 percentage points and receiving just 7.73% of the vote.

6.5. Reconfiguration without departure

The period between 2006 and 2010 marked a significant shift in political dynamics and policy direction across Hungary, the Czech Republic, Slovakia, and Poland. Austerity measures and liberalisations were implemented as a response to crises, particularly evident in Hungary where the socialist government attempted to build a platform on reformism and fiscal restraint. Nevertheless, the Great Recession did not alter the countries' growth models. Indeed, as Petrova and Sznajder Lee (2024) find in their analysis of the global economic integration of the EU's Eastern European member states that the export profiles in the region proved to be very resilient to change during the 2010s.

As the case studies in this chapter showed, however, this resilience in growth regimes did not rule out significant political turmoil. In Hungary, internal conflicts, corruption scandals, and the inability to address the country's downward spiral eroded the credibility of the ruling party, MSZP, paving the way for Fidesz's dominance under Viktor Orbán's leadership. His landslide victory in 2010 allowed him to consolidate power and to implement policies largely unopposed. His government's authoritarian tendencies, coupled with electoral system modifications favouring Fidesz, ensured minimal opposition influence. The erosion of democratic institutions, media control, and the abolition of social dialogue further entrenched Fidesz's rule, fostering an environment of authoritarian populism where redistributive conflicts are framed as zero-sum cultural issues.

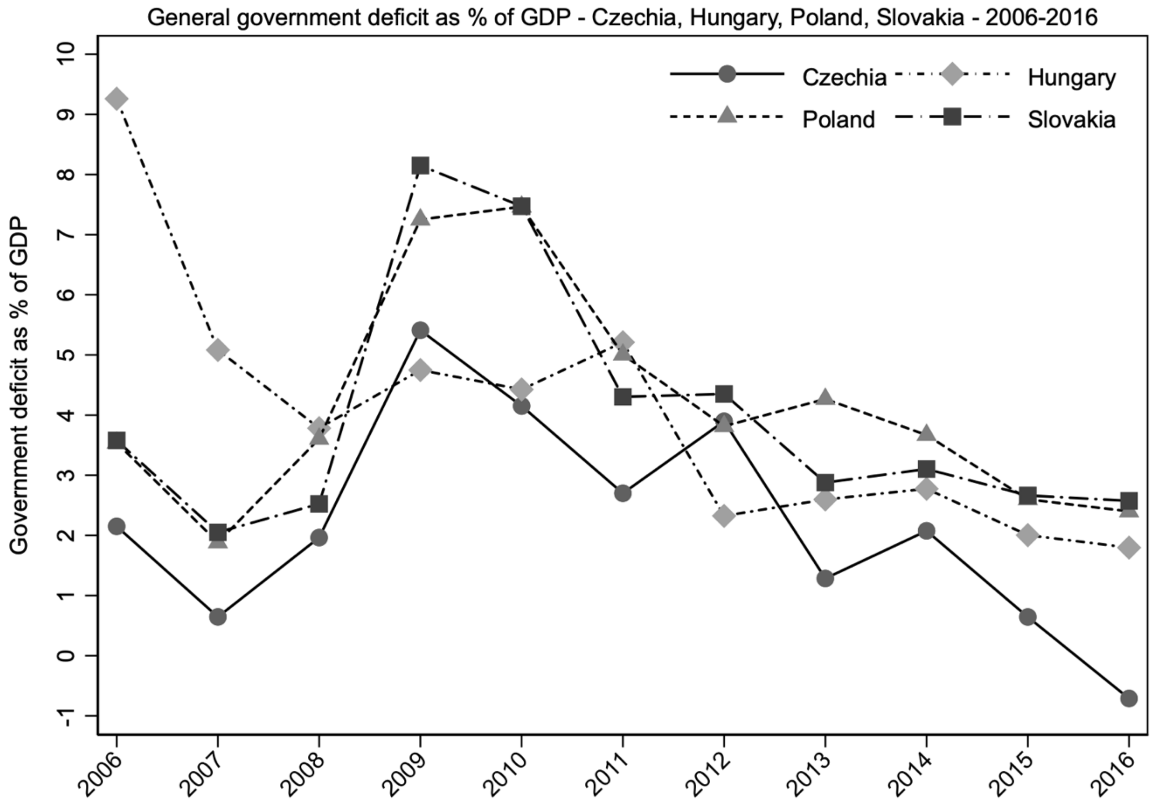
The Czech Republic experienced a wave of liberalization under right-wing governments before the global financial crisis. This lends further evidence to H2 that right-wing parties pursue liberalising policies also in CEE independently from functional pressures. However, the election of Miloš Zeman as president in 2012 demonstrated a public backlash against excessive liberalization, highlighting that the original Czech “socio-liberal” model enjoys widespread support even if there is support for liberalisation. In Slovakia, Fico’s electoral victory in 2006 did not lead to a reversal of the new neoliberal status quo. However, the returning right-wing coalition learned that any serious rightward move from the status quo is equally difficult. Nevertheless, market liberalism remained electorally relevant in Slovakia throughout the period.

In Poland, the radical right coalition of PiS polarized politics around socio-cultural issues, overshadowing economic-redistributive concerns. Between 2007 and 2011 a higher concentration of the party system limited policy options, with cautious reforms by the PO opening space for neoliberal parties like the Palikot’s Movement. Viable neoliberal challengers and functional pressures elevated the salience of economic policy and redistributive issues prompting the PO to embark on a more ambitious liberalising reform agenda between 2011 and 2015. However, an unprecedentedly strong protest movement against the liberalisation agenda led by trade unions, as well as a cycle of scandals and corruption cases eventually led to PiS's rise to power in 2015, marking a shift toward increasing authoritarianism.

In conclusion, the period between 2006 and 2010 witnessed significant political and policy transformations across the Visegrád states, characterised by crisis-induced measures, shifts in ideological landscapes, and the consolidation of power by authoritarian ruling parties (eventually even in Czechia with the rise of Babiš' Ano party and in Slovakia by Fico's increasingly illiberal and authoritarian stance). However, all things considered the existing growth models proved to be resilient to change. The high support for authoritarian parties nevertheless signalled a widespread and deep public dissatisfaction with the socioeconomic and political development in all four Visegrád states.

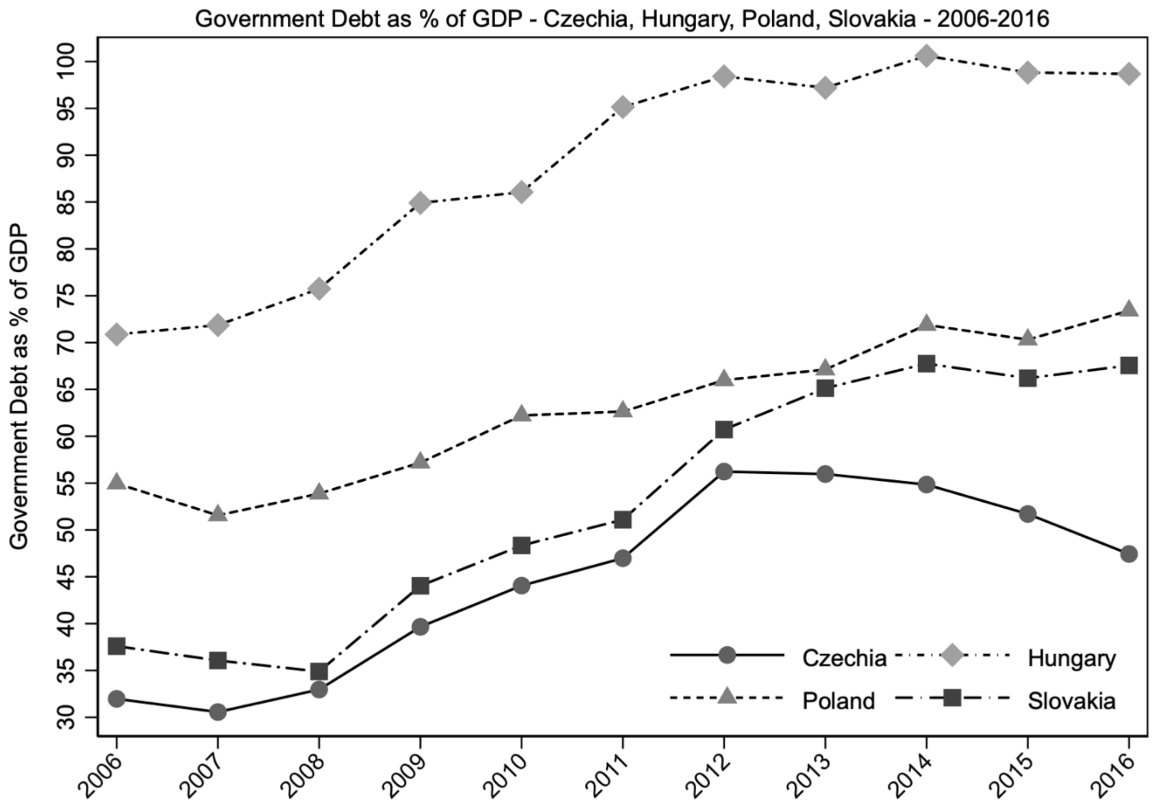
Figures

Figure 6.1 Government deficit as % of GDP – Czechia, Hungary, Poland, Slovakia, 2006-2016



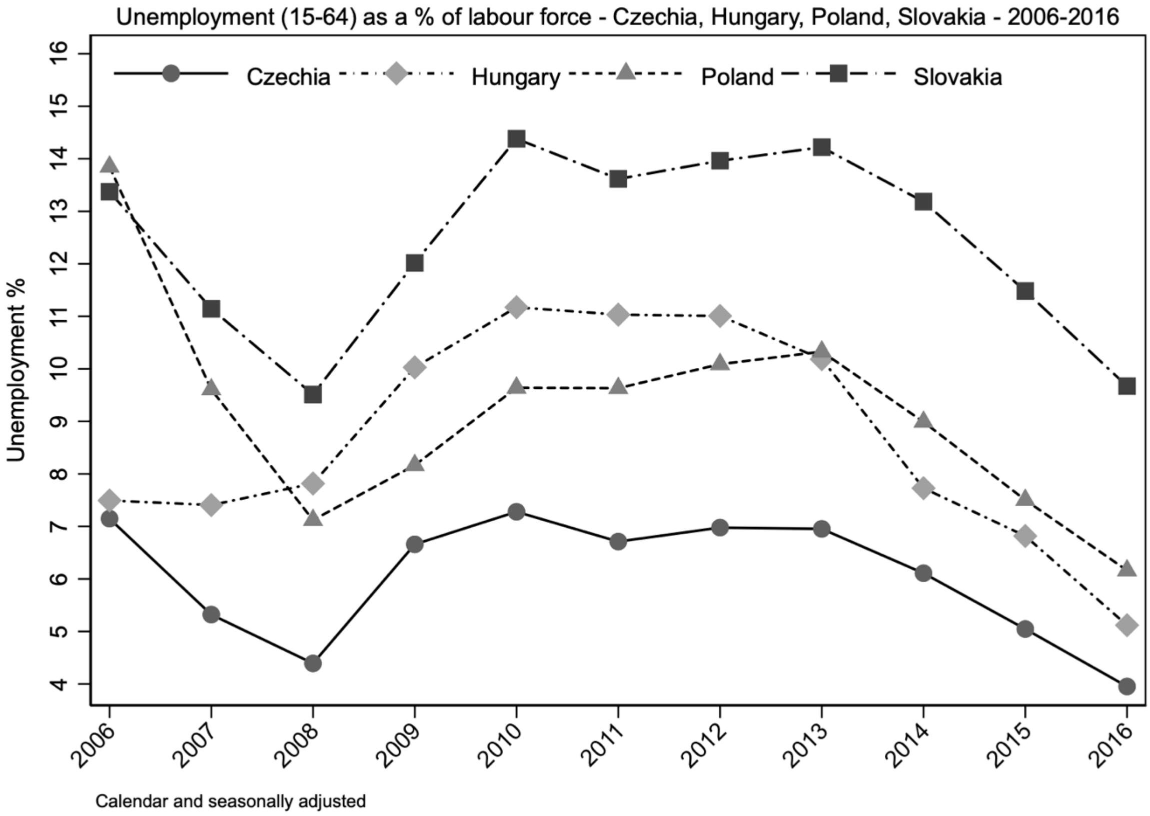
Source: OECD (2024b)

Figure 6.2 – Government Debt as % of GDP – Czechia, Hungary, Poland, Slovakia, 2006-2016



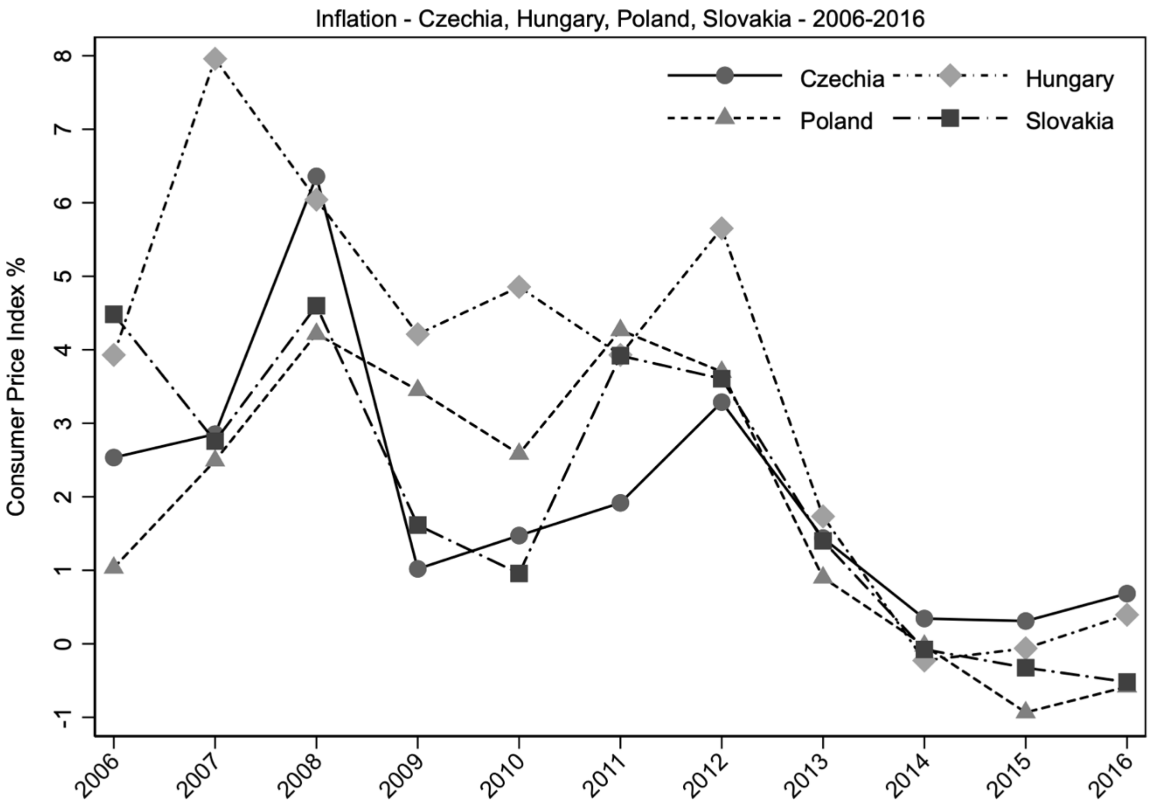
Source: (OECD, 2024a)

Figure 6.3 – Unemployment (15-64) as a % of labour force - Czechia, Hungary, Poland, Slovakia - 1997-2006



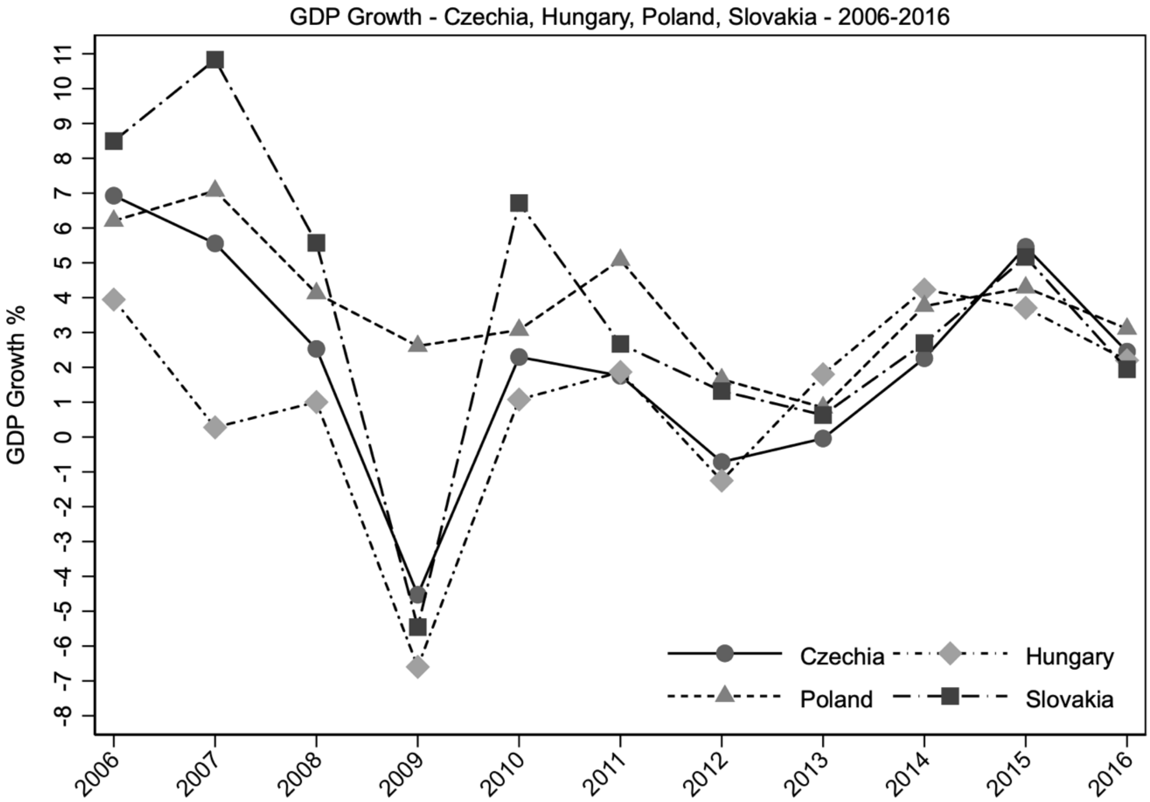
Source: (OECD, 2024e)

Figure 6.4 - Inflation - Czechia, Hungary, Poland, Slovakia - 2006-2016



Source: (OECD, 2024a)

Figure 6.5 - GDP Growth - Czechia, Hungary, Poland, Slovakia - 2006-2016



Source: (OECD, 2024d)

Chapter 7 – Party competition and (de)liberalising policy reforms in dependent market economies

Introduction

There is a consensus among welfare state researchers that since the late 1970s and early 1980s we have been living in the age of permanent austerity (Pierson, 2002, 1996). The debate is not about whether there was any retrenchment but whether it had been incremental (Korpi & Palme, 2003; Allan & Scruggs, 2004), or whether social policy is universally salient (Armingeon & Giger, 2008; Giger & Nelson, 2011; Giger, 2011), or under what conditions is retrenchment rewarded electorally (e.g., Buti et al., 2010; Alesina et al., 2011; Alesina et al., 1998). If mature Western European and North American welfare states have been the subject of permanent austerity and liberalisation in the past almost 40 years, post-communist countries arguably lived through much harder times. As I showed in Chapter 4, the economic and social consequences of the collapse of their communist command economies and the transition to market economy even in these four "frontrunner" countries can be compared to the depression of the 1930s or an aftermath of a war.

CEE countries did not only face an economic collapse but also had to live within powerful external constraints. First, as Appel and Orenstein (2018) argue, perhaps no other region in history relied more on foreign capital as CEE. Indeed, in lack of domestic capital eventually all CEE countries converged on some form of FDI-driven strategy to reinvigorate their economies. Second, many – but not all – of these countries were heavily indebted to Western creditors by the end of the 1980s. Third, the EU accession process and later membership also thoroughly shaped the politics of these countries (Vachudova, 2008b, 2005) and offered opportunities and incentives for their particular European and global economic integration (Bohle & Regan, 2021; Bohle, 2021).

These conditions and constraints had their consequences. The empirical analysis of liberalising and deliberalising reforms implemented across 10 economic, labour market and social policy fields in Czechia, Hungary, Poland, and Slovakia between 1990 and 2014 presented in this book confirmed the findings of former studies of CEE political economies (such as Appel & Orenstein, 2018; Bohle & Greskovits, 2012): policy reforms following a neoliberal blueprint dominated policymaking. Nevertheless, reform trajectories were not simply path dependent or defined by external structural constraints. My analysis also found that domestic political agency indeed played a role in reform outcomes and parties in CEE indeed matter. Nevertheless, as opposed to O'Dwyer and Kovalcík (2007), Tavits and Letki (2009) or Careja and Emmenegger (2009), I did not exclusively concentrate on the ideological orientation of the governing parties or the centre of (ideological) gravity of a coalition government (Makszin, 2013) to explain reform outcomes but on the effect of party competition. Building on the new partisan (Gingrich & Häusermann, 2015; Häusermann et al., 2013; Green-Pedersen, 2002; Kitschelt, 2001; Picot, 2009) and the party-agency (Wenzelburger & Zohlnhöfer, 2021) frameworks, I based my analysis on the assumption that parties are flexible regarding their preferred policies based on the spatial configuration of the party system at a given time period, and do not necessarily pursue static ideological policy programmes. The analysis found that even among the constraints of post-communist transitions, the functional pressure for liberalisation – be it external or domestic – was moderated by the party system.

The chapter continues as follows; the next three sections summarise the findings of the three empirical chapters with a focus on hypothesis testing. The fourth section contrast the findings with the theoretical framework.

7.1 Political agency during double and triple transitions, 1990-1998

The four countries exhibited a large variance in their economic, welfare, and labour market policies. Although they all implemented a rapid economic liberalisation programme following the Washington-consensus (Williamson, 2004), there were significant differences in their privatisation, financial market, and corporate governance policies. They also implemented different policies alleviating the shock of economic transition. Initially, neocorporatism was stronger in Hungary and Slovakia than either Poland or Czechia, the latter constituting a middle case. However, neocorporatism eroded quickly in both countries by 1998.

How each country decided to privatise its vast state-owned enterprise sector was decisive for social policies, as different privatisation strategies generated different levels of unemployment. As during communism most social provisions were provided by firms (and trade unions) and savings were devalued with currency convertibility, and price liberalisation led to high inflation, how unemployment was handled was the single most important issue for electorates. Hungary and Poland, both heavily indebted, opted for direct sales to foreign investors as the dominant privatisation, and consequently hard budget constraints (i.e., strict bankruptcy regulation) were implemented early on, particularly in Hungary. The main method of alleviating the resulting mass unemployment was entry into early and disability pensions ("abnormal pensioner boom”). Czechia and Slovakia, facing much milder transition shocks could opt for “soft budget constraints” regimes, and in effect delayed the privatisation of their large enterprises (though with very different methods, see Chapter 4). Slovakia, where unemployment was higher, kept its generous unemployment scheme. Czechia kept people working and implemented a very effective active labour market policy regime on par with the contemporary Swedish regime (Boeri & Burda, 1996).

The abnormal pensioner booms in Hungary and Poland gave strong incentives to implement pension privatisation. Poland also institutionalised the main features of its “communist era” social policy regime: a separate social insurance scheme for the rural populations, and it kept special entitlements to privileged “uniformed” occupational groups.

However, these policy outcomes were not predetermined by structural factors alone. Domestic political agency mattered. The breakup Czechoslovakia and the different reform trajectories of the former constituent republics shows that not only public opinion mattered but political entrepreneurs that politically organised and exploited it as an opportunity for their own ends. Slovak resentment against the Czech neoliberal economic reform agenda helped Mečiar to connect nationalism and anti-liberal economic policy and together with the Czech premier, Vaclav Klaus, who in turn did not want Slovak obstruction against his reforms they quickly negotiated the dissolution of the federation. Occupying both the pro-welfare and nationalist poles of the party system against an opposition divided along economic policy, religious-secular and ethnic lines proved to be a winning formula until 1998.

The salience of redistributive issues was found indeed a necessary condition for visible reforms beyond the immediate reforms of the economic transition amid the collapse of the Soviet bloc (H1). The analysis of elections clearly showed that even in Hungary and Poland economic and redistributive issues were salient in every election during the period crosscut by socio-cultural issues. However, the salience did not per se determine the direction of reform (H1). For example, the 1993 Polish elections brought the post-communist social democrats to power, who moved social policy clearly to the left.

During the period social democratic or centrist governments did not introduce austerity or visible liberalisations without external pressures (H2), whereas the Czech right-wing, market liberal government clearly did so even in the face of mass protest. Visible social policy expansion beyond emergency social policy measures was contingent on strong social democratic or centrist parties (H3). E.g., for Czech active labour market policies and a minimum income guarantee scheme social democratic wing of the Civic Forum was a necessary condition, and so was the right-wing centrist Hungarian Democratic Forum leading the governing coalition in Hungary for a strong mandate for the peak tripartite forum.

Until the late 1990s economic – but not social policy – liberalisation was a valence issue in Czechia, Hungary, and Poland. In Slovakia, however, the coalition governments led by the independence right HZDS were increasingly anti-liberal in their economic policies (H4). During this period the Czech party system was the only showing signs of concentration. By 1996 the Czech party system was increasingly concentrated with the social democrats achieving near parity with the ODS. The ODS could not build a majority government anymore and its economic policy agenda was increasingly checked by the social democrats lending a tentative support to H5.

7.2. Reform trajectories in the context of EU accession and the emergence of the FDI-driven export-led growth regime, 1998-2006

The Visegrád states embarked on divergent paths toward FDI-driven export-led growth, their commonalities in aggressive investment incentives notwithstanding. Hungary and Slovakia, for instance, exhibited contrasting strategies even in "quiet policies". Hungary favoured statist industrial and vocational policies all along, while Slovakia adopted a more market-driven neoliberal approach post-Mečiar era. Czechia transitioned to a competition state strategy after its experiment with insider-oriented capitalism ended in a exchange rate crisis and recession, though its neoliberal restructuring in labour and social policies was not coherent. Poland witnessed a shift from liberalisation being uncontested to being politically contested, especially with the emergence of PiS and even more radical parties.

The case studies in Chapter 5 showed that neoliberal reforms in Visegrád states were not merely virtue signalling to investors. Indeed, as argued by Bohle and Greskovits (2012), TNCs prioritized investment incentives (direct subsidies and tax breaks) over social and labour market policies. Furthermore, EU status played a pivotal role in attracting FDI and to the establishment of FDI-driven export-led growth regimes. However, during this period too, party competition dynamics shaped policy trajectories. Czechia's lack of clear majorities and close elections prevented radical shifts (as predicted by Wenzelburger & Zohlnhöfer, 2021). The social democrats first relying on an agreement with the ODS to govern and then leading an ideologically incoherent coalition government with a slim majority could only implement incremental deliberalisations. Slovakia's restructuring after the ouster of Mečiar also was shaped by party system dynamics. First, economic decline, a lack of FDI-inflows, and not becoming EU-candidate status with its Visegrád peers made economic policy salient (H1). Nevertheless, between 1998 and 2002, under a rainbow coalition of market-liberals, conservatives, social democrats, and ethnic Hungarian parties both liberalisations (crisis induced, H2) and deliberalisations (the latter for example in labour market policy) were introduced. These developments lend support to H3 on the importance of strong centrist or social democratic parties for visible deliberalisations. Though the reforms proved more than enough to secure EU candidacy and huge FDI-inflows, between 2002 and 2006 a radical neoliberal restructuring took place. In my analysis I argue that though a coherent right-liberal government was a necessary condition for this not crisis induced liberalisation wave (H2), so was, however, a divided opposition unable to oppose it effectively with Mečiar's HZDS (which showed signs of disintegration) competing against an emerging new populist force from the left, Josef Fico's Smer. All of this made liberalisation electorally less costly as it otherwise could have been. Or as Wenzelburger and Zohlnhöfer (2021) stated, being sheltered from electoral competition provides incentives for governing parties to follow policy-seeking instead of catering to the median voter.

In Hungary, a concentrated party system saw both major parties, the social democratic MSZP and an increasingly right-wing populist Fidesz, gravitate towards welfare populism, hindering fiscal consolidation and structural reforms. On all three elections between 1998 and 2006, the combined vote share of the two equally sized big parties grew (peaking at 85.2% in 2006), leaving no ground to any alternative independent political pole within the party system. This high concentration and a cut-throat electoral competition did not leave much room for distinct policy profiles for the two big parties (they competed on socio-cultural issues) (H5). Poland experienced transition fatigue, with radical parties like PiS emerging, which built its political profile on hostility with Third Republic (and the 1997 Constitution). PiS occupied both radically right-wing sociocultural and left-wing social positions, while liberalising reforms remained electorally viable, as evidenced by market liberal, conservative PO's victory in 2007. However, liberalisation became increasingly politically costly over time.

7.3 Economic crises and the rise of illiberalism, 2006-2014

During the period Hungary, the Czech Republic, Slovakia, and Poland experienced significant political and policy shifts. The effect of the Great Recession varied across the four countries, with Hungary being the most vulnerable. It suffered from high debt and government deficit and sluggish growth even before 2008, and it was the first CEE country to turn to the IMF as the crisis hit. The Hungarian recovery was much slower than either the Czech (still relatively slow) and the Slovak (fast but volatile). Whereas Poland did not experience recession though growth decreased significantly in 2008-2009 there too. The CEE countries also had to adhere to the Maastricht criteria as EU member states, which provided a further external constraint on policymaking. The most problematic case in this respect was again Hungary, which was under excessive deficit procedure between 2006 and 2013. Both austerity measures and crisis induced deliberalisations took place, such as in Hungary and Poland the pension reform reversals (full in the former and partial in the latter case). Despite these changes, the countries' growth models remained largely unchanged, demonstrating resilience in these countries' export profiles (Petrova & Sznajder Lee, 2024).

However, this resilience did not prevent political turmoil. Party systems changed significantly. In Hungary, the MSZP lost half of its voters (and eventually split) and new parties emerged (a green and the radical right party) and the two-party system gave way to a dominant party system with Fidesz at its centre. The 2010 elections marked the change of the Czech party system with the social democrats and the ODS losing over 20% of their combined vote share and new parties emerging, particularly ANO. In 2013 the ODS vote collapsed and although the ČSSD remained the largest party it had its lowest vote share since 1996 (20.5%). In Poland, the once mighty post-communist social democrats could not recover from their electoral defeat in 2005. The party system was dominated by two post-Solidarity parties, the conservative-liberal PO, and the populist and increasingly authoritarian PiS. The Slovak party system increasingly resembled the one in the 1990s: instead of the HZDS Fico's Smer-SD in a dominant position now firmly nationalist and on the left (with occasional far-right coalition partners) facing volatile conservative, Christian, liberal and ethnic Hungarian parties. Due to its landslide victory on the 2012 legislative election (44.4%), Smer-SD could form the first one party government in Slovakia's history (Malová & Učeň, 2013). In Czechia, Poland and Slovakia new, anti-corruption centrist populist parties emerged at every election, usually espousing (market-)liberal economic policies – even if labelling them technocratic, expert solutions (Engler, 2023).

Between 2006 and 2010, crisis-induced austerity measures and liberalisations were implemented in Hungary. The socialist prime minister attempted to build a platform on reformism and fiscal restraint. In the concentrated party system with a united, well-organised and similar sized opposition, the realisation of an ambitious (crisis induced) reform agenda would have been difficult and electorally costly under better circumstances too (H5). However, the little legitimacy the prime minister still enjoyed after the violent protests during the fall of 2006 – sparked by a recording of him admitting to misleading the public about the real state of the economy for years – was quickly eroded by internal conflicts, corruption scandals, and an economic downturn even before the recession. Fidesz led a fierce campaign against austerity and structural reform – eventually defeating the government's policy agenda on a 2008 referendum – and gained credibility on welfare and governance. After Orbán's landslide victory in 2010, his centralisation of power marginalised the fragmented opposition. Orbán's regime engaged in institutional authoritarianism, rigging political and media systems in favour of his party while denying access to dissenting voices. Authoritarian populism has been legitimising his rule through state-run moral panics ever since, framing redistributive conflicts as cultural or ethnic disputes. The consolidation of power stifled dissent and centralised policymaking within the ruling party.

The 2005-2007 PiS-led radical right coalition in Poland shifted political focus to socio-cultural issues, overshadowing economic-redistributive concerns (and no visible liberalisations or deliberalisations were implemented, H1). By 2007 elections, post-communist divisions waned, replaced by programmatic competition on economic issues. However, the concentration of the party system constrained the options of the PO-PSL government on liberalisation (H5). Donald Tusk, the prime minister openly decalred before the 2009 European Parliament elections that he does not intend to give PiS any presents embarking on controversial reforms (Stanley, 2013). The cautious stance of PO regarding economic and social policy reform, however, gave room for the neoliberal challenger Palikot's Movement on the 2011 elections, which appealed to PO's core constituency. Between 2011 and 2015 the PO-PSL government enacted a more ambitious reform agenda, however, its conflicts with organised labour led to the largest demonstration wave in decades in 2013 (in Warsaw alone 100.000

people marched against the government) (Czarzasty, 2014). The conflicts on social policy and labour market reforms coupled with high profile corruption scandals led to PiS's victory in 2015 (which marked the beginning of a 9-years long slide towards authoritarianism). Yet, the electoral success of new centrist populist and market liberal parties indicated a broader anti-establishment sentiment and continued support for liberal economic values.

Smer-SD became Slovakia’s biggest party by providing opposition to neoliberalism. However, once in government, Fico did not question the new neoliberal equilibrium. Fiscal restraint, EMU accession, labour commodification, and attracting foreign direct investment became the elements of good governance across the political spectrum (see the unanimous support for a constitutional debt ceiling). Furthermore, despite the volatility of the respective right-wing and liberal parties, their vote share remained constant. Although the economic-redistributive issues gained – or rather never really lost – importance (H1) and the party system was not concentrated, the resilience of the right-wing and liberal electorate, and the country’s high European and global economic integration perpetuated the neoliberal status quo. Thus, while Fico’s Smer-SD caters to its older and rural base it also runs on expertise and stability (Haughton & Malová, 2023). The Smer-SD did not face any other party credible on welfare either.

The liberalisations of the Czech right-wing governments in this period lend support to H2 that economically liberal parties will opt for liberalising reform without any functional pressures. However, they also show the limits of a neoliberal agenda in Czechia. The liberalisation overreach of the Topolánek-government led to the victory of the social democrat Miloš Zeman (prime minister between 1998 and 2002) in 2012 on the first direct presidental election. After the most comprehensive neoliberal wave of the country, on the 2013 legislative election the pendulum swung clearly to the left electorally, which highlighted the salience of redistributive issues and the strength of the original Czech socio-liberal policy mix. It also marked the emergence of ANO as a major party – it received the second most votes – with an anti-corruption, anti-elite, but technocratic, competent-governance image (Linek, 2014).

7.4 Party competition and (de)liberalising policy reforms in CEE

Issue salience

I hypothesised that the salience of economic-redistributive issues is a necessary condition for visible policy reform, but it does not determine its direction (that is, whether liberalising or deliberalising). I could not find any exception to this rule, that is, no visible, significant liberalisations or deliberalisations were implemented without economic and/or social policy issues being salient. The most important cases though are those where no liberalisations or deliberalisations took place despite issue salience. The two most notable cases are the first Fico-government between 2006 and 2010 in Slovakia, and the first Tusk-government in Poland between 2007 and 2011. Though campaigning against the neoliberal agenda of the previous government, as prime minister, Fico did not reverse the new neoliberal status quo. Reversals almost exclusively were confined to the unpopular healthcare reform. Indeed, Slovakia joined the EMU under his government and FDI kept flowing into the country. There was no true left-wing challenger to Fico's Smer-SD – HZDS being a coalition partner – and by choosing "responsible governance" (EMU, FDI), it became credible on expertise and stability too. The Polish Tusk-government's rather cautious stance on liberalising reforms between 2007 and 2011 can be explained by the concentration of the party system with Tusk's PO and the right-populist PiS emerging as the two big parties (in 2007 with a combined vote share over 73%). Nevertheless, PO had a mandate for reform and was heavily criticised throughout the term with inaction on economic and social policies. PO's strategy paid off in the 2009 European Parliament elections, which they won with 44.4% (a 17-percentage points lead ahead of PiS). On the 2011 legislative elections, however, a new market-liberal force lead by a former PO MP, Janusz Palikot became the third biggest party with 10% of the vote (largely getting votes in PO strongholds), while PO lost 2.3 percentage points compared to its 2007 performance. This showed that liberalisation was salient and supported by a significant part of the electorate. The PO-PSL government embarked on a more ambitious agenda in its second term between 2011 and 2015, which in turn led to an electoral backlash favouring PiS just as Tusk feared.

The role of external shock

My analysis did not find that the left was right as Tavits and Letki (2009) argued. Indeed, left-wing parties in government introduced visible and significant liberalisations in economic, labour market and welfare policies alike. However, this happened in every case in the context of economic crisis or recession. Privatisation policy is an exception to this, however, in the CEE context privatisation was different than in the Western one, as it was a necessary condition of the economic transition and an important source of FDI and revenue. Nevertheless, crisis was not some kind of an automatic trigger, there were left-wing governments that either delayed action as in Hungary between 2004 and 2006 – due to electoral considerations and because well they could until they could not – or did not introduce liberalisations beyond the absolute necessary – i.e., dealing with the crisis and the causes that led to it in the first place – as in Czechia between 1998 and 2002. In Hungary, the inaction of the socialists can be explained with the concentration of the party system – a two-party system was in place between 1998 and 2006 with two equally sized parties. In Czechia, the main cleavage in the party system was economic-redistributive, and the social democrats had a strong communist party on their left too.

The role of centre and social democratic parties in social and labour policy expansion

I hypothesised that strong centre or social democratic parties are a necessary condition for visible labour market or social policy expansion. During the immediate transition centre parties or leftist and social democratic parties were in government in Hungary and Slovakia. In Czechia there were social democrats within the governing anti-communist "umbrella party" and they defined the welfare policy blueprint of the Czech economic transition (see M. Orenstein, 2001; Inglot, 2008b). In these countries social and labour market policies went beyond mitigating the emergency of economic collapse. E.g., in Czechia a minimum income guarantee scheme and a powerful active labour market policy regime was implemented; in Hungary the national level social dialogue and bargaining forum received a powerful mandate – e.g., even the budget and tax bill proposals had to be presented in front of it before parliament – and self-governing pension and health insurance funds with free elections of their boards were set up. These were deeply ideological and not emergency policies. Later too, social and labour market policy deliberalisations – which are not compensations for some crisis and visible – were implemented by either social democratic or centrist parties. Again, this is only a necessary condition, left-wing parties introduced austerity too as a response to economic crisis or were not able to implement as substantial social policy deliberalisations as they intended to (such as the Czech social democrats between 2002 and 2006).

At first sight Fidesz, which is a right-wing party seems to be an exception to the rule. When it was first in government between 1998 and 2002, it indeed reversed several symbolic austerity measures in social policy of the previous government (such as means testing of family benefits). However, it effectively abolished social dialogue, retrenched unemployment insurance and particularly social assistance, and – as right-wing parties usually do – provided transfers rather through tax benefits. The same logic applies to its rule since 2010. Although it introduced (or rather expanded) public works programmes – until the end of the decade when these were drastically scaled back – it basically abolished social rights (and welfare schemes) and provided transfers through tax benefits and subsidies loans (e.g., for housing).

Independence right and national communist parties oppose liberalisation

The only country in the sample where such a party was in power was HZDS in Slovakia between 1993 and 1998, an independence right party (Vachudova, 2008a). It indeed blocked further economic and social policy liberalisation, albeit at a very high level of economic liberalisation. Thus, the Slovak partial reform equilibrium (Hellman, 1998) was not as severe as in Romania or in many countries of the former Soviet Union. Nevertheless, it led to crisis and increasing international isolation – as it was coupled with cronyism and authoritarianism – and to the electoral salience of economic-redistributive issues.

The question of party system concentration

When two big parties emerge getting an increasing (and overwhelming) share of the votes, both pursuing a catch-all strategy, all the conditions are in place, which according to Wenzelburger and Zohlnhöfer (2021) inhibit policy-seeking and incentivise parties to follow voter preferences: mainstream parties are ceteris paribus more likely to follow the median voter than niche parties; electoral uncertainty becomes higher as elections decided at the margins often by a swing of a small proportion of the electorate – and the importance of elections also increase as changes in government are usually wholesale I might add; higher electoral competition pressure parties to follow voter preferences rather than their ideology.

This is exactly what my analysis found in CEE independently from the period (that is, before or after EU accession). In Hungary, between 1998 and 2006 the combined vote share of the two big parties was above 80%. Both Fidesz and MSZP pursued welfare populism and tax cuts. To win the 2006 elections, the MSZP did not change course even in the face of an impending crisis – high deficit and debt, decreasing growth – and an EU excessive deficit procedure. A much lower concentration led to a very cautious economic and social policy agenda of the PO-PSL government in Poland between 2007 and 2011. The prime minister, Donald Tusk was very open about the electoral considerations of holding back on potentially unpopular reforms. At the time there was no party to its right economically, that is, even though liberalisation was salient and particularly important for its core constituency and to the “epistemic community” of neoliberal intellectuals and business interests around the party (for a description of this mounting pressire see Stanley, 2013), it could afford to cater to the median voter. Tusk’s calculation led to a huge victory for PO on the 2009 European Parliament election. However, on the 2011 legislative election the PO had a market liberal challenger successfully attracting its core voter base, which in turn explains the more ambitious liberalisation policies of the PO-PSL coalition between 2011 and 2015.

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