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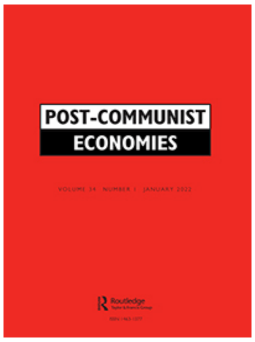

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Populism and economic policy: lessons from Central and Eastern Europe

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ABSTRACT

A growing literature has identified a coherent economic model associated with populist governments in Central and Eastern Europe. This model runs counter to some aspects of the former neoliberal consensus in the region and to established theories of good governance. Considering three cases which are representative of these developments – Poland (since 2015), Hungary (since 2010), and Romania (2016–19) – we argue that a major unexplained puzzle is the relatively good economic performance of such governments. We develop three interrelated explanations for this apparent puzzle and test them using quantitative data. First, macroeconomic data show that the populist rhetoric of these parties is not associated with classical macroeconomic populism. Second, government accounting data show that public spending has been targeted towards specific groups and has not led to increasing tax burdens. Third, firm-level data on business confidence and institutional perceptions show no obvious negative effects associated with these governments.

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1. Introduction

The rise of populism over the past two decades is widely regarded as a major challenge to European and global politics. The emergence of parties and governments which have been characterised as populist has already generated extensive academic debate, especially on its causes and its implications for democratic governance and democratic backsliding (for a general overview, see, Rovira Kaltwasser et al., 2017), as well as for the emergence of new hybrid regimes (Kornai, 2015; Levitsky & Way, 2020). By contrast, there is a growing literature on the economic policies associated with contemporary populism (Guriev & Papaioannou, 2020), but this dimension has received less attention so far.

Given the fluidity of the concept of populism, some analysts have argued that the similarities between various cases labelled as populist relate primarily to political style and ‘bad manners’, that is attempts to spark outrage and mobilise various groups into action (Moffitt & Tormey, 2014), rather than economic policy. As a variant of this view, others have argued that a common core of populist governance related to discourse and to majoritarian institutional interventions can be consistent with heterogeneous economic

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policy stances, including liberal and heterodox elements (Bartha et al., 2020). Yet others have argued that there are some commonalities between the economic policy approaches of various populist movements. According to this view, while populists may endorse some neoliberal policies, such as low taxes and limited regulation, they tend to question other aspects of liberal economics, such as free trade, and key institutions and governance practices underpinning such agendas both at the domestic and international level (Bisbee et al., 2020; Feldmann & Morgan, 2021). The assessment of populist economic policy is further complicated by the fact that populism is associated with movements both on the left and the right (Rooduijn, 2014), and by the fact that many influential populist parties (such as the French *Rassemblement National*, previously known as the *Front National*) have not served in government, which means they have not been in a position to implement their economic policies.

Understanding the economic policies of populist parties that do make it into government is therefore important, not only for gaining a deeper understanding of this political phenomenon, but also because their viability in office is likely to depend in part on their ability to translate populist rhetoric into satisfactory economic outcomes. While an emerging literature has started to analyse the economic approaches of such governments in the context of case studies (Bartha et al., 2020; Csaba, 2019; Fazekas & Tóth, 2016; Johnson & Barnes, 2015; Markowski, 2019; Naczyk, 2021), or comparative research (Ban & Bohle, 2020; Bluhm & Varga, 2020; Orenstein & Bugarič, 2020; Toplišek, 2020), we believe there are still key puzzles regarding the effects of these approaches on economic outcomes.

In this article, we focus on the effects of the economic policies of governments in three Central and Eastern European (CEE) countries which have been highlighted in the literature as representative of populist developments in the 2010s: Hungary (since 2010), Poland (since 2015), and Romania (2016–19). Hungary and Poland are widely perceived as key examples of a distinctive populist model, which has also been associated with a distinctive form of economic policy underpinned by elements of economic nationalism and conservative ideas (Bluhm & Varga, 2020; Orenstein & Bugarič, 2020). Most analysts agree that this model represents a challenge to liberal economic orthodoxy, and critics have expressed concern that elements of the model will turn out to be unsustainable, either by being financially unviable or by deterring foreign investors, who have been central to these countries' economic growth (Nölke & Vliegenthart, 2009).

We also examine the case of Romania between 2016 and 2019, when the Social Democratic Party (PSD), the key post-communist successor party, was in power. Under Liviu Dragnea's leadership the PSD adopted a very similar nationalist and populist rhetoric, which also influenced economic policy during this period (Ban, 2021). The connection between political developments, economic policy, including the commitment to an FDI-dependent growth regime (Ban, 2019), and economic outcomes during these years in Romania remains, however relatively unexplored.

The working hypothesis of negative effects on economic outcomes resulting from these governments' policies can be justified by drawing on highly influential arguments from the institutionalist and good governance literatures. The first question we ask is whether this hypothesis is indeed validated in the three CEE cases. After answering mostly in the negative, we formulate a set of hypotheses regarding the reasons behind this and test them using data from our cases. To our knowledge, this is the first treatment of economic policy in the three cases that makes use of granular quantitative data on government spending and private sector responses, and our findings complement many of the arguments put forward in the extant case study literature.

Our theoretical argument does not seek to dismantle institutionalist arguments regarding the relevance of non-extractive institutions to economic growth, but it qualifies them in several ways. Our first hypothesis relates to the distinction between macroeconomic and microeconomic populism, recently suggested by Rodrik (2018b) and Edwards (2019). We argue that, as opposed to historical cases of populist economic policy, such as in Latin America in the 1980s, our cases are generally characterised by restraint in macroeconomic policy, and we illustrate this using aggregate economic data as well as the case study evidence from previous work. The second and third hypotheses relate to the nature of these governments' microeconomic interventions. We argue that, while clearly furthering the political interests of the parties in question, these interventions have been relatively targeted rather than indiscriminate, and moreover that their effects are not perceived as negative by the private sector on average. These claims are verified using government accounting data, as well as two sets of repeated firm surveys, on business confidence and business perceptions of the institutional environment. Our results show no declines in business confidence during the terms in office of these governments, or when they first come to power, no clear indication of a decline in perceptions of institutional quality using nine separate indicators, and even positive developments in some areas. In two of the cases, we find evidence of a divergence in perceptions between state-dependent and non-dependent firms, which confirms existing arguments from the literature, but is not enough to negate the results from the full sample; and we also find no evidence of a particularly negative effect on the financial industry. Our qualitative discussion also illustrates the nature of the microeconomic interventions and supports the conclusions of the statistical analysis.

Our results suggest an explanation for the surprising, and continued, success of populist approaches in these cases and elsewhere. On the one hand, these governments have adopted an economic rhetoric featuring strong elements of illiberalism and enacted targeted microeconomic interventions designed to further the political objectives of the government. On the other hand, their policies also reflect macroeconomic restraint and a substantial degree of microeconomic orthodoxy. Combined with a very favourable set of external conditions, this hybrid model appears to have led to good economic performance so far, and also to sustainability in power in two of the three cases. We argue the challenge that these cases pose to the liberal tradition may be underappreciated. Far from conforming to a simple set of expectations regarding bad institutions leading to poor economic outcomes, they suggest the possibility that such populist regimes may be sustainable in other countries as well.

2. Theory and literature

The populist turn has already generated a substantial literature, with a variety of contributions analysing its causes and consequences. Populism is associated with a form of 'anti-system politics' (Hopkin, 2020), usually involving parties and social movements rallying against various aspects of the domestic or international status quo. It generally involves a juxtaposition of the elite and the people (Müller, 2017), and it has also been described as a 'thin-centred' ideology that can be combined with a range of other ideas and policies (Elchardus & Spruyt, 2016; Mudde, 2004; Stanley, 2008). As a consequence of its thin-centred character, the label populism may encompass a wide range of political movements and say little about the substance of policy – populism usually emerges in combination with other ideologies that shape policy priorities, as reflected in different types of right-wing and left-wing populism associated with conservatism and socialism respectively (Mudde, 2021).

Much of the existing literature focuses on the causes rather than the effects of populism, seeking to assess for example, whether the rise of populism is best seen as driven by economic or cultural factors. Economic accounts stress the uneven effects of economic liberalisation and of the rise of the new knowledge economy in recent decades (Iversen & Soskice, 2019), which has led to stagnant incomes, especially in the lower half of the income distribution or in rust belt communities, where old industries are in decline and many people have lost previously stable manufacturing jobs. Other studies have examined the effects of rising unemployment following the global economic crisis in 2007 (Guriev, 2018). Cultural accounts see populism primarily as a cultural backlash against globalisation and its key manifestations, including migration (Inglehart and Norris 2019). There are also some contributions that seek to combine both economic and cultural explanations to probe into their interactions (Gidron & Hall, 2020). This literature has sought to assess who supports populist parties or initiatives (Becker et al. 2017), and under what circumstances support rises, i.e. whether this occurs during times of crisis or relatively good times as a result of envy or resentment (Rooduijn & Burgoon, 2018).

There is also an emerging literature on the political economy of populism, looking at different global contexts (Roberts, 2019; Rodrik, 2018a), including Central and Eastern Europe (CEE). There is a broad consensus in this literature that two key CEE cases, Hungary and Poland, should be classified as examples of right-wing populism. Most studies agree that Hungary and Poland have adopted a distinctive economic policy model, which reflects conservative and nationalist ideas, emphasising the role of traditional family values, workforce activation and nationalism (e.g. Bartha et al., 2020; Bluhm & Varga, 2020; Orenstein & Bugarič, 2020). In our reading, previous studies, focusing especially on Hungary and Poland, have several implications for understanding the key features of this economic model, and the extent to which it departs from the neoliberal consensus.

First, while policy regimes in several CEE cases contain heterodox elements, the overall stance of macroeconomic policy is relatively orthodox, in that it is not generally associated with high inflation or unsustainable deficits (Toplišek, 2020). The heterodox elements of these policy programmes have generally been consistent with or even contributed to macroeconomic stability, as in the case of the financial nationalism that was supported by international bond markets and enabled Hungary to resist IMF and EU pressure and to contain deficits and public debt (Johnson & Barnes, 2015).

Second, these policy regimes have led to shifts in social policy, putting greater emphasis on family policy, as reflected in the well-known example of the 500+ programme in Poland. The PiS government introduced a monthly 500 złoty (approximately €110) child benefit, initially for the second child and subsequent children in a family and for the first child in low-income families (Toplišek, 2020, p. 395) While social policy reforms in Poland and Hungary have increased the disposable incomes of key constituencies, like families with multiple children, there have also been cutbacks targeting other groups portrayed as 'undeserving poor', which often include specific groups like the Roma or reflect a general commitment to workfare (Bohle & Greskovits, 2019, p. 1080; Lendvai-Bainton & Szelewa, 2021).

Third, the literature argues that populist governments in these countries have also reshaped their growth regimes or 'the complex of policies (...) that governments implement to secure and distribute economic growth' (Hall, 2020, p. 185). Prior research has analysed various microeconomic interventions, including a greater emphasis on industrial policy, some strategic use of fiscal policy and, in the Polish case, special economic zones (Toplišek, 2020, p. 396). Similarly, Ban and Bohle (2020) and Naczyk (2021) have analysed changes in financing arrangements that benefit certain categories of domestic firms, notably SMEs, While some scholars view this as a new kind of policy regime underpinned by conservative ideas (Bluhm & Varga, 2020), other analyses have also shown that the degree of change should not be overestimated, as populist mobilisation has not generally undermined the key FDI sectors that are most central to these economies, notably car manufacturing (Bohle & Regan, 2021). The policies have instead focused on sectors that are less important to economic growth and exports, such as the retail and banking industries (Ban, 2021; Ban & Bohle, 2020).

Fourth, there is some debate in the existing literature about the extent to which these policy changes have led to a reconfiguration of state-business relations. On the one hand, some analysts have associated the populist turn with the rise of new economic elites (Szanyi, 2019), many of whom have been long-standing supporters of these politicians (Scheiring, 2020). Based on Max Weber's classical theory, the emerging system has also been characterised as a new form of prebendalism, where property rights are less secure and now conditional of being favoured by the regime (Madlovics & Magyar, 2021; Szelényi, 2016). Others have described Hungary's economic system as a form of authoritarian capitalism, in which the public-private divide has been renegotiated in profound ways (Sallai & Schnyder, 2021). On the other hand, an alternative perspective suggests that growth policies are largely determined by 'quiet politics', including informal interactions between leading foreign investors and the government. The centrality of such connections has not been affected by the 'noisy politics' associated with populism, as it typically targets social policy rather than key business-related policies (Bohle & Regan, 2021).

However, there are a range of issues that this growing literature has yet to examine. First, there is a lack of studies that examine the fiscal policy stances of these governments using fine-grained quantitative data. Such an examination is important, as it would help assess whether the characterisation of these growth regimes is reflected in the spending priorities of these governments.

Second, there is a debate about the generalisability of these findings beyond the Hungarian and Polish cases. The populist label has also been used to characterise other countries in the region, such as Czechia (Czech Republic), Slovenia and Serbia (Cianetti et al., 2018; Orenstein & Bugarič, 2020), Another example of the populist turn is Romania in the period 2016–19, when the PSD, the longstanding dominant party, is widely perceived to have changed key elements of its political rhetoric and policy to adopt a populist agenda (Ban, 2021). The PSD government enacted some institutional interventions that bear similarities to the other two cases, and that attracted official reprimands from EU institutions. Such interventions included, for example, establishing a new PSDcontrolled body to investigate the prosecutors who were investigating its leaders, and using it to charge the leading anti-corruption prosecutor with corruption herself, and also promoting the fight against a 'parallel state' supposedly made up of anti-PSD prosecutors and law enforcement. While nominally a left-wing party, developments during the PSD's time in power show little overlap with Western left-wing populism, and instead point towards substantial similarities with the other two cases, especially with respect to nationalist rhetoric. We compare the Romanian case to Hungary and Poland to assess similarities and differences, and to gain further insights into the effects of such regimes on economic outcomes.

Third, there are few systematic assessments of the effects of these governments on representative samples of businesses, as opposed to narrower sets of firms which may be targeted by microeconomic interventions. It is unclear to what extent policy changes in these cases, which represent a departure from key elements of the neoliberal policy regime, have observable effects on the business climate.

The highly influential literature on institutions and growth, (reviewed in Lloyd & Lee, 2018, see also, Acemoglu, 2009) is a natural reference point for our theoretical argument. This literature has argued that political institutions are the key determinants of economic performance and that extractive institutions, which disincentivise innovation and investment, lead to poor economic outcomes. These claims have received a wide range of empirical support and have been highly influential in the public discourse, for example, in the reorientation of the 'Washington consensus' from a narrow focus on macroeconomic stability and microeconomic liberalisation towards 'good governance' after the 1990s, although some scholars have expressed doubts about their validity (Glaeser et al., 2004).

From an institutionalist perspective, it would be reasonable to characterise the political developments in these cases as amounting to a move towards more extractive institutions, and therefore to hypothesise a negative effect on economic outcomes. An anonymous Hungarian business-person, cited by Reuters, summarises this hypothesis as such: 'In a country where former contracts can be redesigned on an ad hoc basis, who will come here to invest?' (Roddy, 2011). Similar perceptions were expressed by, for example, the German-Hungarian chamber of commerce: 'The lack of accountability and reliability generally reduces the appeal of a potential site for investments. This may not be reflected within some months, but in two or three years' time.' (Than, 2010). These ideas resonate with arguments in the academic literature, not least the analysis of prebendalism or the emergence of a more conditional nature of property rights (Szelényi, 2016). Similarly, the analysis of authoritarian capitalism in Hungary, or the weakening of the public-private divide, also suggests that business may fear greater encroachment by the state as a result of selective nationalisations, greater state dependence of economic actors, a weakening of economic pluralism and greater use of the state for private rent extraction (Madlovics & Magyar, 2021; Sallai & Schnyder, 2021). On a related note, much of the political programme of the PSD in the 2016–2019 era has revolved around fighting against the legal and law enforcement system which was investigating its leaders for corruption, and indeed the rule of Liviu Dragnea was ended by him going to jail in a corruption case in 2019. While developments in Romania and Poland have not proceeded as far in terms of the renegotiation of property rights or the weakening of the public-private divide, the common elements regarding both economic policy (Orenstein & Bugarič, 2020; Ban, 2021; Bluhm and Varga 2020) as well as institutional interventions, justify formulating the same working hypothesis of a negative effect on economic performance. However, we argue there are several reasons for caution before accepting the simple hypothesis of a uniform negative effect in the three cases, at least in the short and medium run.

First, a distinction between discretionary policies which lead to macroeconomic instability, and therefore affect all economic agents, versus microeconomic interventions that have the potential to leave many agents relatively unaffected is proposed by Rodrik (2018b) in the context of a discussion of populism. This suggests examining the hypothesis of negative macroeconomic developments under the governments we analyse, which can be tested using standard measures of macroeconomic stability such as output, inflation, unemployment, and budget deficits, as well as evidence from the existing literature.

Second, targeted microeconomic policies designed to reward key supporters and advance the government's political objectives can coexist with relative restraint in terms of extractive behaviour from the rest of the tax base. Spending behaviour which may appear populist and politically motivated can have limited negative effects on most economic agents if limited in nature and targeted for maximum political advantage, especially in a favourable global economic climate. Such a qualification is consistent with the analysis of Bohle and Regan (2021), who argue that populist mobilisation has not affected the most important export industries in Hungary, which have been able to maintain a favourable economic environment and to exercise influence by means of quiet politics. This suggests examining the hypothesis of a targeted reorientation of budgetary priorities towards key support groups in our cases, as opposed to more indiscriminate spending increases that might lead to macroeconomic instability.

Third, microeconomic interventions affecting firms can be populist and even extractive, without being generalised. To provide strong evidence for extractive behaviour affecting the business environment, it is not enough to focus on several cases, but instead to examine representative samples of economic agents. The hypothesis of declines in business investment confidence and in perceptions of the quality of the institutional environment therefore has to be tested using large-scale, representative, firm-level data. The extant cross-national empirical literature on business perceptions and business confidence suggests caution before predicting a simple connection between institutional interventions and firm perceptions. The empirical literature has shown that while business confidence can be a very good predictor of future output (Taylor & McNabb, 2007), its determinants are complex, and generally include a mix of political-institutional factors and more proximate economic factors (Dethier et al., 2011). Hellman et al. (2000) and Hellman et al., (2003) for example, use firm-level data from post-communist countries in the transition era to illustrate the mix of factors influencing firm perceptions of the business environment, and to show how firms can adapt to corrupt environments. Similarly, Blagojević and Damijan (2013) find substantial heterogeneity in how Eastern European firms relate to a corrupt institutional environment; and Gelb et al., 2011) analyse the mix of political and macroeconomic, infrastructure, and regulatory factors affecting African business confidence, and conclude there is no single binding constraint on firm performance. These works suggest examining the full range of factors that may be related to business confidence, as well as considering the hypothesis that changes in institutional factors may not be clearly reflected in negative evolutions in overall confidence.

3. Empirical analysis

3.1 Macroeconomic outcomes

The three governments were in office (at least until the global disruption caused by the Covid-19 pandemic) during good economic times (Table 1). Output growth in these economies during the second part of the 2010s was high, especially when compared to the rest of Europe and the world. In a global ranking of GDP/capita growth for the years 2015–2019, the three cases are 10th (Romania), 28th (Poland), and 29th (Hungary) among more than 200 territories in the world, and second, fourth, and fifth in the EU (data from World Bank 2020). Unemployment levels were also record-low in all three towards the end of the decade. These numbers imply that the political and economic strategies adopted by these governments did not hurt output, at least in the short run. They also suggest that the survival in power of two of our populist parties as of the time of writing cannot be separated from the underlying good economic performance.

Previous experiences of populist politics, in Latin America and elsewhere, direct us to examine the orthodoxy of fiscal and monetary policies in these cases. By orthodox we mean a fiscal policy characterised by low or moderate budget deficits, low inflation, and predictable and non-punitive taxation. These features are present in the three countries, with a relatively small caveat in the case of Romania, which saw a 4.2% budget deficit in 2019. Income taxation is non-progressive in Hungary and Romania, and progressive with a low top rate in Poland. The very large reduction in the flat income tax rate, from 16% to 10% by the PSD government in 2018 is more consistent with the traditional neoliberal ideas which were prevalent in the region (Appel and Orenstein 2018) than with populism, as it disproportionately benefits the rich. Consumption taxes, in the form of value-added tax, are the main source of government revenue, again pointing away from obvious economic populism.

How did these orthodox macroeconomic outcomes arise? On the one hand, all these governments do maintain fiscal generosity towards key supporters, as will also be illustrated in the next section. The Polish PiS and Romanian PSD are explicitly redistributive parties, and both promoted significantly higher spending on pensions, child benefits, and government salaries while in office. Fidesz started its term in office during the turmoil of the global financial crisis, and for the first three years promoted a mixture of heterodox policies including an early exit from an IMF programme and a special levy on financial institutions, with unpopular spending restraints. During the 2014 election campaign however, it too moved towards the same targeted social expenditures for pension increases and work-fare arrangements that benefited poor rural areas.

Table 1. Main economic indicators, CEE.

Country	GDP growth %	Unemployment %	Budget deficit %	Inflation %	Bank rate %	Income taxation %	Consumption taxation %
Hungary	2.98	11.17 to 3.4	−2.79	2.49	5.0 to .9	15 flat	25 inc to 27
Poland	4.37	7.5 to 3.5	−1.20	1.32	1.5	32 top	23
Romania	5.30	4.9 to 4.0	−3.66	3.26	.25 to 1.5	16 flat, to 10	24 red to 17

Note: Columns 1, 3, and 4, show average figures over the years under analysis: Hungary 2010–2019; Poland 2016–2019, Romania 2017–2019. Sources: see Appendix.

On the other hand, in all three cases, this relative generosity did not translate into increasing deficits for at least three reasons. First, the transfers are targeted towards key constituencies that form the basis of support for the government, especially pensioners and the rural poor (see the next section). Second, relatively high growth rates allowed this generosity to be compatible with a decrease in the government spending to GDP ratio. Third, and crucially, a very favourable international financial climate allowed all three governments to borrow cheaply, while also decreasing the debt-to-GDP ratio. The very low interest rates prevalent throughout the world in the 2010s are reflected in low rates on government debt (yields on 10-year government bonds matched or barely beat inflation in all three cases in 2019), as well as being matched by highly accommodative monetary policy from their central banks. In Poland and Hungary, governments appointed trusted associates as central bank chiefs, and they provided record-low base rates well into the expansionary part of the economic cycle, while also experimenting with unconventional monetary policy in the latter case. In Romania the head of the central bank is an independent, but here as well the extent of monetary loosening allowed by the international environment is extraordinary by historical standards.

The hypothesis that political populism would be reflected in heterodox fiscal or monetary policy therefore receives no support in this aggregate-level data, but it should be noted that the highly favourable economic climate of the late 2010s has not allowed testing for the behaviour of such governments in more challenging climates, when pressures towards inflationary spending and borrowing may be stronger. While deficits increased in both Hungary and Poland during the Covid-19 pandemic during 2020, this was not to an unusual degree compared to the other OECD economies, further contributing to our conclusion.

Classical populism was also associated with heterodox trade policy and the protection of domestic industry through import barriers or direct subsidies (Kaufman & Stallings, 1991, Frieden 1992). European Union membership has largely removed these policy options from the choice set of the regimes we analyse, arguably removing another potential source of economic inefficiency. EU-related constraints on macroeconomic policy can also be hypothesised to have contributed to fiscal discipline – EU countries are bound, through the Stability and Growth Pact, to pursue a budget deficit of less than 3% of Gross Domestic Product. EU constraints regarding trade policy and fiscal discipline can therefore, paradoxically, strengthen the negotiating position of populist governments relative to their domestic constituents, by imposing external limits on the amount of inefficient economic interventions that such regimes can engage in.

3.2 Targeted spending policies

To examine the spending behaviour of the three governments, we have used data on government accounts from the respective countries, using the common COFOG (Classification of the Functions of Government) accounting standard as recorded by Eurostat (2020). We focus on central government spending, and first use a classification of expenditure by functional area (such as old age pensions, primary education, or religious services). For each country, there are 160 such areas, recorded by year. We have calculated the index *E(t)/E(t-1)* where *E(t)* is the nominal level of expenditure in year *t*, and took the average of these indices for the years under analysis for which data was available for each government (2010–2019 for Hungary, 2016–2019 for Poland, 2017–2018 for Romania). This average index measures the fiscal priorities of each government, by indicating which spending areas have increased and decreased the most in relative terms, during the period of observation. Many of the categories are small in terms of expenditure levels, and therefore we have selected only the categories with above-median levels of expenditure in each country, which together make up the vast majority of public spending.

In the first part of Table 2, we present the top and bottom five categories of expenditure, in terms of relative change. These indicate expenditure areas which were particularly favoured or dis-favoured by these governments. Qualitative perceptions of their priorities are clearly reflected in these figures, especially in terms of increases. Hungary saw the special prioritisation of workfare (under *social protection not elsewhere classified*), old age pensions, and the funding of religious institutions. Poland saw increases in family and children's allowances, agriculture, and again old age pensions. Spending priorities in these two cases therefore suggest a focus on retirees, on those in rural areas in the Polish case, and on those with traditional values. Romania saw significant increases in broad government functions (arising from increases in public sector salaries), but also again in old age pensions, which lie just outside the top five, as well as on cultural and religious services. The decreases column shows that all three governments benefited from declining debt burdens, due to decreasing interest rates, as well as decreasing social protection obligations due to the favourable economic environment. Interestingly, in all cases, decreases in research and development spending are also recorded.

Table 2. Fiscal priorities.

Government functions		
	Increases	Decreases
Hungary	General govt services (2.30)	Housing (.78)
	Social protection n.e.c. (1.82)	Unemployment (.98)
	Transfers betw levels of govt (1.73)	Public debt (.99)
	Old age pensions (1.52)	Basic research (1.01)
	Religious services (1.50)	Agriculture (1.01)
Poland	Family and children (1.64)	Sickness and disability (.90)
	Health n.e.c (1.36)	Housing development (.92)
	Agriculture (1.19)	Survivor pensions (.98)
	Cultural services (1.16)	Public debt (.98)
	Old age pensions (1.12)	R&D education (.99)
Romania	Secondary education (9.85)	Transfers btw levels of govt (.66)
	Pollution abatement (2.39)	Transport (.85)
	Mining, manufact, construct (1.67)	Housing development (.90)
	General govt services (1.47)	R&D general (.96)
	Recreation, culture, religion (1.35)	General econ affairs (.97)
Transaction types		
Hungary	Capital formation (1.21)	Social benefits (.97)
	Capital transfers (1.21)	Property income (debt) (.99)
	Subsidies (1.11)	Other current transfers (1.00)
Poland	Capital transfers (2.30)	Property income (debt) (.98)
	Capital formation (1.07)	Subsidies (1.00)
	Other current transfers (1.06)	Social benefits (1.04)
Romania	Capital transfers (1.45)	Capital formation (.88)
	Compensation employees (1.34)	Other current transfers (.93)
	Final consumption (1.28)	Property income (debt) (.98)

The second part of the table looks at the same expenditure in terms of type of transaction (such as capital formation, debt repayment, or transfers). All three countries saw increases in transfers to government-owned entities such as state-owned companies, reflected under *capital transfers*. These transfers may reflect a variety of motivations, including a specific targeting of public sector employees, but also an emphasis on the state in a departure from previous commitments to economic liberalism. There is one significant difference between Poland and Hungary on the one hand and Romania on the other – while the former two saw significant increases in capital investment, in the latter this category saw the largest decrease. Instead, large increases in the compensation of public employees as well as final consumption made up the bulk of government expenditure increases in this case. This focus may arise from the historical background of the PSD, as a nominally left-wing party with a strong electoral base among those most affected by market reforms in the 1990s and 2000s.

The figures on functions and transactions suggest several conclusions: First, the favourable economic climate, including the low interest rates on government debt and a reduced need for social insurance payments, allowed all governments significant fiscal flexibility. In all three cases, reductions in the burden of public debt service, as well as reductions in the need for social protection such as unemployment insurance, feature among the most notable fiscal patterns. Second, this flexibility did not generally lead to indiscriminate spending, but rather to a targeting of benefits towards key constituencies, which saw major increases in spending without large associated increases in the budget deficit or the overall government indebtedness level. Third, while there are significant commonalities, the identity of these constituencies also depends to some extent on the historical ideological trajectory of the respective parties. All three target the retired, who are a key support group, and all three appear to also favour spending on religious activities. The reasons behind the focus on the retired are likely complex and may include the relatively more negative economic perceptions of this group during the postcommunist era (Horvat & Evans, 2011), leading to a reaction against liberalism, but also the complex relation between age and cultural conservatism (see the discussion in Peterson et al., 2020). Beyond this, a distinction can be seen between the focus on capital projects in the case of the right-wing Hungarian and Polish parties, rhetorically justified with reference to a neo-developmentalist argument for strengthening domestic business (Bluhm & Varga, 2020); and the focus on supporting public employees seen in the Romanian case. While economic policy in Romania was far removed from elements commonly associated with left-wing populism, such as taxation of high earners or a targeting of young voters, and indeed PSD leaders sought to cultivate relations with Donald Trump rather than left-wing Western politicians (e.g. Paun, 2019), the spending patterns do suggest some heterogeneity in terms of the groups being targeted, likely arising from the historical origins of the parties at hand. In some ways, however, the identity of the groups being targeted is not crucial for our main argument regarding economic performance – what matters more is that the relaxation of fiscal constraints as well as the targeting of expenditure to key supporter groups, as opposed to a more indiscriminate across-the-board increase, has allowed fiscal policy to remain disciplined at the aggregate level and has not led to the inflationary pressures characteristic of classical macroeconomic populism.

3.3 Limited business response

The hypothesis of a negative effect on business perceptions is suggested not only by the discretionary nature of policymaking in general in these cases but also by the fact that each of these governments promoted some specific policies that could be regarded as anti-business. As noted earlier, some observers have noted a fundamental shift in state-business relations, including a shift to prebendalism in Hungary, a system in which property rights can only be maintained at the mercy of the authorities (Szelényi, 2016). In Poland similar measures targeting foreign banks and supermarkets were proposed and enacted – including general attempts to strengthen domestic ownership in the banking sector and promoting a stronger indigenous business class, partly justified as a way to reduce external dependency and break out of the middle-income trap (Morawiecki, 2016; Naczyk, 2021). The PSD government in Romania similarly enacted a 'greed tax' on bank assets, applied in case loan interest rates rise above a certain threshold. The government also passed an emergency decree which sought to reduce interest rates on outstanding loans by requiring them to be based on a different reference rate and put forward proposals for foreign supermarket levies and for regulation to favour domestic food producers.

A counterargument to this view, however, is that it focuses on particular sectors and companies, rather than the bulk of economic activity. The majority of businesses are not affected by measures such as those listed above, and even in the case of the sectors targeted by such interventions, the magnitude of any negative effect is not clear. While the rhetorical effect of such measures is clear, they did not, for example, lead to a significant withdrawal from the respective markets of the foreign companies which were being targeted, and instead the literature suggests substantial accommodation to the new policy regime in some cases.

We will use two sources of data to examine business responses to these political developments. Monthly data on business confidence, calculated from firm surveys, is available from Eurostat (2020b). The survey asks several questions on investment, demand, and the general business environment to large and representative samples of firms from all EU countries. We include data from the earliest moment when it becomes available (2002 for Hungary and Romania, 2003 for Poland), up to mid-2019. Our construction of the business confidence index is presented in Appendix 1 – it parallels the Economic Sentiment Index computed by Eurostat, by aggregating weighted time series on industrial, services, retail, and construction business confidence, while leaving out the consumer confidence component. (We excluded the consumer component because it is not immediately relevant to arguments related to business perceptions, and may show a delayed response to any business-relevant policies). The data is indexed with a base of 100 and typical sample standard deviations are in the range of 5–10.

Table 3 first presents models in which the level of business confidence is predicted using a lagged dependent variable and dummies for periods in which the outcomes under study are in place in each country: three dummies for the three Fidesz governments, and a dummy for the PiS and post-2016 PSD government in Romania. These models identify any systematic differences between the time when these governments were in office and other times in the observation period, while taking into account the long-run trend of the series as reflected in the lag. In models two and three, discontinuities in confidence data are examined in the months before and after government changes or re-elections, with quadratic time trends (results with a linear trend are similar

Table 3. Business perceptions.

Business confidence index	M1		M2	M3
Hungary				
Lagged BCI	.94***	Second pwr trend	No	Yes
Fidesz term 1	.46	Fidesz term 1	13.23***	22.45***
Fidesz term 2	1.06*	Fidesz term 2	14.67***	3.33
Fidesz term3	1.21	Fidesz term 3	6.24 ***	−.31
N	205		48, 48, 36	48, 48, 36
Poland				
Lagged .BCI	.97***	Second pwr trend	No	Yes
PIS term	.14	PIS term	1.75**	−1.33
N	194		48	48
Romania				
Lagged BCI	.95***	Second pwr trend	No	Yes
PSD term 3	.03	PSD term 3	.26	.17
N	201		48	48

Note: M1 is, for each of the three countries, a time series regression with a lagged dependent variable, with robust standard errors, on monthly data. Durbin-Watson statistics indicate absence of autocorrelation in these models. M2 is a linear regression on monthly data starting 24 months before the change of government and ending 24 months after. The Breusch Godfrey test indicates autocorrelation without adjustments, therefore Newey-West standard errors and autocorrelation of up to level three allowed. Results with more than three lags are similar in nature. M3 is similar to M2, but includes a second power time trend. .*** = signif at .001, ** = signif at .01, * = signif at .05, . = signif at .10.

in nature), and Newey time-series robust standard errors. These models capture business reactions to changes or continuations of government, while allowing for a substantial two-year window on both sides of the change. (Results with a one-year window are similar).

The results show generally *positive* but nonsignificant connections between the three governments and business confidence in model one, and a mixed picture that points towards some positive effects in the discontinuity models. The first Fidesz win is associated with a large increase in business confidence, and subsequent wins with nonsignificant changes. The PiS win is not associated with a significant change in confidence. The post-2017 PSD government is similarly not associated with a significant change. Similar results emerge under various alternative specifications in terms of coding of the independent variable, windows of observation, autocorrelation correction methods, and time series model specification. These business confidence survey results therefore show little evidence of negative effects on firm perceptions associated with the political changes in these countries.

We also examined more direct evidence of institutional perceptions, by analysing a separate set of business surveys commissioned as part of the Eurobarometer series in 2013, 2015, 2017, and 2019 in all EU countries (European Commission, 2021). These repeated cross-sectional surveys ask managers of approximately three hundred companies in each country various questions on institutional perceptions, corruption, and the business environment. The sample of companies in each country and each wave is balanced to cover six economic areas (energy and chemicals, healthcare, industry, construction, telecommunications and IT, and finance), and a constant mix of small and large companies from the six areas.

We focus on a series of nine questions which probe respondents' perceptions of the institutional environment, by asking to what extent an issue *x* is a problem for one's company. The first issue is corruption, which can be a natural result of discretionary behaviour by the executive. The second question is on patronage, which could be a direct implication of the discretionary and interventionist approach ascribed to these governments. The third question is on the complexity of administrative procedures, which, while not directly related to the economic model ascribed to these governments, is useful for analysing the quality of the institutional environment. The fourth question is on fast-changing legislation and policies – the rapid and arbitrary nature of some of the interventions of these governments naturally leads to examining firm perceptions. The fifth question is on infrastructure provision, which again is useful for understanding the general quality of the business environment. The sixth question is on procedures for recovering debts, which is a classic indicator of the quality of the business-relevant institutional environment. The seventh question is on restrictive labour regulations. This is not directly an indicator of institutional quality, but a measure of the extent to which pro-capital measures could act in parallel to any institutional deterioration elsewhere. The eighth question is on tax rates, which again indicates the extent to which extractive versus pro-capital approaches are perceived by businesses. The final question is on access to financing. This is relevant for institutional quality because a direct implication of discretionary extractive policy would be increasing uncertainty in the economy, and therefore a decline in credit. All these indicators are measured on an ordinal scale ranging from 'A great deal' to 'Not at all', and higher numbers indicate a better perception.

We estimate linear regression and ordinal logit models for each of the three countries, in which these outcomes are the dependent variables. The main independent variable is a set of year dummies, which allows us to examine the evolution of institutional perceptions across the period of interest. In Hungary, the first year of observation, 2013, is already in the period of the Fidesz government, so the results can only examine positive or negative trends during this government, up to 2019. In Poland and Romania, we can explicitly test for a deterioration in the institutional environment – in 2017 and 2019 in Poland, and in 2017 in Romania. (The fieldwork for the 2019 survey was completed largely after the fall from power of the PSD).

The samples of firms are constructed to be representative of the defined population of interest and comparable from one year to another. Even so, there may be statistical variability between the various waves in each country, and therefore a set of control variables can help balance the samples in successive years and improve comparability. We control for the log(number of employees), the sector of activity, and the age of the firm. Cases are weighted according to the inverse probability of sampling, as suggested by the authors of the survey. In the body we present linear regression results with robust standard errors, and in the appendix we present robustness checks on the same models using ordinal logistic regression, as well as excluding the control variables.

Table 4 presents the results of this analysis. There is very little support for the hypothesis of a deterioration of business perceptions of the institutional environment under these governments. Compared to a baseline of 2013, there is a strong indication of a *positive* trend in institutional perceptions in Hungary. In Poland, there is no generally significant difference in any indicators of institutional quality between the two periods of exposure and the two comparison periods, in 2013 and 2015. (There is however an

Table 4. Institutional perceptions among firms.

	Corruption	Patronage	Admin	Legislation	Infrastructure	Debt	Labour	Taxes	Financing
Hungary									
2013	-	-	-	-	-	-	-	-	-
2015	.30*	.27*	.25**	.35***	.28***	.37**	.10	.01	.60***
	(.12)	(.11)	(.09)	(.09)	(.09)	(.10)	(.09)	(.09)	(.11)
2017	.16	.18	.31**	.33**	.14	.46**	.28**	.01	.77***
	(.14)	(.13)	(.10)	(.11)	(.11)	(.13)	(10)	(.11)	(.12)
2019	.28*	.23	.51***	.67***	.22*	.69***	.16	.10	.91***
	(.13)	(.12)	(.10)	(.10)	(.10)	(.11)	(.09)	(.10)	(.11)
Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
N	1071	1064	1088	1102	1098	1029	1058	1096	1058
Poland									
2013	-	-	-	-	-	-	-	-	-
2015	−.01	.01	−.05	−.04	.30*	−.14	−.14	−.11	−.00
	(.14)	(.14)	(.14)	(.14)	(.12)	(.15)	(.14)	(.13)	(.11)
2017	.15	.09	.05	.07	.37**	.01	−.05	.11	.28*
	(.14)	(.14)	(.14)	(.14)	(.12)	(.15)	(.14)	(.13)	(.12)
2019	.04	.18	−.13	−.18	.32**	−.18	−.09	−.02	.12
	(.14)	(.15)	(.13)	(13)	(.13)	(.15)	(.15)	(.14)	(.12)
Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
N	1154	1174	1195	1190	1179	1171	1179	1194	1177
Romania									
2013	-	-	-	-	-	-	-	-	-
2015	−.19	−.13	.13	−.02	−.05	.02	.07	−.00	.21
	(.13)	(.13)	(.11)	(.10)	(.09)	(.12)	(.11)	(.11)	(.14)
2017	−.60***	−.44***	.13	.20*	−.20*	.04	−.05	.21*	.10
	(.12)	(.12)	(.09)	(.10)	(.08)	(.11)	(11)	(.10)	(.12)
2019	−.61***	−.56***	-,02	−.04	−.14	−.08	−.31*	−.01	−.11
	(.12)	(.12)	(.10)	(.09)	(.08)	(.11)	(.11)	(.10)	(.14)
Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
N	1177	1174	1189	1188	1193	1161	1173	1175	1133

Note: Table presents results from linear regressions with robust standard errors, in which the given indicators are regressed on period dummies and controls for log(number of employees), sector of activity, and firm age. The underlined years are relevant for the governments under analysis. Standard errors presented in parentheses. Significance codes: . = .10, * = .05, ** = .01, *** = .001.

improvement in perceptions of infrastructure and access to financing). The results in Romania are more mixed. On the one hand there is a clear indication of declining perceptions of corruption and patronage under the PSD government. This is not surprising, as the country was in the middle of a massive anti-corruption campaign centred on the PSD at the time, which led to the arrest of the party leader in 2019. This however did not lead to worsening perceptions in the other indicators of institutional quality, and indeed was paralleled by improving perceptions of the quality of legislation and on tax rates. While the results in Romania are somewhat more supportive of the hypothesis of a decline in perceptions of institutional quality, they are far from providing convincing evidence for it, and they could even receive a positive interpretation if we focus on legislation and taxes as indicators of institutional quality. Results in the appendix, using ordinal logit models and excluding the control variables parallel the results in the body almost entirely.

We also explored the hypothesis of a differentiation in institutional perceptions between state-dependent companies and non-state-dependent, consumer facing, companies. This is useful to examine because the literature, especially on Hungary (Fazekas & Tóth, 2016), suggests the emergence of favoured companies used as a tool for furthering the nationalist policy objectives of the government. If this is the case, we would expect institutional perception to diverge between state-dependent and other companies. We use two indicators of state dependence – first a dummy indicating whether the company has participated in bidding for public procurement in the past three years. About 20% to 25% of the sample meet the condition in each country. This is a rather weak indicator, however, and a stronger measure is whether more than 20% of the turnover of the company comes from public procurement (calculated from a question in which the respondent is asked to estimate the proportion in five categories). About 6% meet this condition in Romania, about 15% in Poland, and 9% in Hungary. We estimated statistical models interacting the time dummies with these indicators, and using the perception of corruption as a dependent variable, as it is the indicator most likely to be affected by the divergence.

Table A3 in the appendix presents some evidence for a statistically significant divergence in the evolution of perceptions between state-dependent and other companies, using both measures, in the case of Poland and Romania. (The coefficients for Hungary are also positive but nonsignificant). This does lend support to the hypothesis of the emergence of a group of state-dependent companies which have especially positive evaluations of these developments. We should however note that only a relatively small proportion of the sample fit in this category, especially for the more stringent indicator of dependence, and the results in the main models are driven by the great majority of firms which are not state-dependent.

As the financial sector has been a particular target of the rhetoric, but also legislative activity, of these governments, we also explored the differential effects on the financial industry of the three governments, using corruption perceptions and legislative quality perceptions as dependent variables. Results in table A3 in the appendix show no significant differences between financial and non-financial firms for either of these indicators in Poland and Hungary, and a mix of a negative and a neutral result in Romania – with the legislation indicator, which is more relevant for the hypothesis of anti-finance policies showing no significant effect. This lends further support to the hypothesis that the rhetorical interventions of these governments are not clearly reflected in the perceptions of the mass of private-sector firms, even in the areas which seem to be especially targeted.

Overall, these results show no significant support for the hypothesis of a negative effect from these governments to business confidence or perceptions of factors that may influence that confidence. The theoretical guidance and extant empirical work on business perceptions suggest possible explanations for this. The institutional interventions that occurred during these governments may only represent a subset of the factors that affect business perceptions of the institutional environment and confidence. While interventions designed to reduce checks and balances may be negatively perceived by some firms, factors such as macroeconomic stability, legislative predictability, administrative complexity, infrastructure, and access to financing are also important components of the institutional environment, and they do not appear to have been as clearly affected as the institutional aspects related to checks and balances. This possibility is also suggested in our data by the fact that, in all three countries, trends for perceptions of corruption and patronage are less positive than for the other institutional aspects, and are even negative in the Romanian case.

Findings in all three cases may be surprising from the perspective of a simple connection between political institutions and business behaviour, but are less surprising when taking into account the theoretical distinctions outlined in section 2, and the previous empirical findings on the full complexity of the determinants of business perceptions.

Conclusions which are compatible with the ones emerging from our data also emerge from the results of the business surveys conducted by the World Economic Forum (WEF) in the three cases throughout the decade. According to the competitiveness index calculated by the WEF, which relies on a mix of business perceptions of the institutional and economic environment, as well as on objective economic indicators, all three countries have generally seen stable or even improving business competitiveness scores and world rankings in the relevant periods. (The only qualification is given by Hungary, which declined from around 52nd in the world in 2011 to 63rd in 2014, before recovering and entering the top-50 in the second part of the decade.) Given the multitude of factors considered by the WEF as relevant to competitiveness, these good evaluations were however compatible with poorer performance in institutional measures dealing with political checks and balances. All three countries generally saw poorer rankings for the institutional perceptions component of the index than for the other components. For example, looking at the 2017–2018 edition of the survey (World Economic Forum (WEF), 2018), Hungary ranks especially poorly on favouritism by government officials, Poland on public trust in politicians and efficiency of the legal framework, and Romania on all three of these indicators.[1] However, these poor scores are balanced by much better perceptions and objective measures of other relevant factors including macroeconomic stability (in which all three do well), general legislative environment, workforce, and financial markets. Similarly, Kinderman (2020), highlights the puzzle of the absence of any significant deterioration in the World Bank competitiveness scores of Poland and Hungary, providing further corroboration for our conclusions.

4. Discussion

This article has analysed the effects of the economic policies of three CEE governments which are commonly viewed as populist. We have shown that these CEE cases have so far not been characterised by unsustainable macroeconomic outcomes, but instead by microeconomic interventions affecting the composition rather than the level of spending. These interventions target specific constituencies that are important to the populist coalitions in these countries but appear not to have had a strong effect on overall firm perceptions of the institutional environment.

This analysis raises some questions about the sustainability of these approaches. Discussions of populist economic policy have often questioned its viability, and classical macroeconomic populism has typically been crisis-prone and ultimately unsustainable (Kaufman & Stallings, 1991). While a comprehensive assessment of this issue is premature, a few lessons regarding sustainability can be drawn from our analysis.

First, given the focus on microeconomic intervention rather than traditional macroeconomic populism, CEE populism need not necessarily lead to large imbalances and severe payment crises, which were contributing factors to the decline of economic populism in Latin America in the 1980s. However, the external economic conditions have been favourable up to 2020, and EU funding, which contributes several percentage points of GDP to public spending, has also helped as noted previously (Bohle & Greskovits, 2019). The viability of the model would undoubtedly be more harshly tested in a less favourable environment, featuring higher borrowing costs, inflationary pressures, and less appetite for cross-border investment. It may be that meeting the various distributive commitments necessary to sustain the political coalitions behind these governments would require abandoning macroeconomic discipline in that scenario, leading either to the breakdown of these coalitions or to classical macroeconomic populism. This would be especially likely if EU funding were also to dry up, perhaps in response to institutional evolutions in these cases. As a counterpoint to this scenario, the fact that macroeconomic policy has been relatively orthodox so far could contribute to its viability even when confronted with a less favourable environment. Similarly, it should also be reiterated that the Orbán government in Hungary faced a serious crisis when it was elected in 2010 and managed to establish a populist economic policy model in that situation, so the case for a crisis leading to the downfall of these models is far from clear-cut.

Second, to the extent that this model has delivered tangible benefits to various key groups of supporters, we might expect the model to be politically viable as well. While the re-election of the Polish and Hungarian governments also reflects other factors, notably elements of democratic backsliding, the favourable economic conditions along with the gains enjoyed by key constituencies have undoubtedly been an important reason for their electoral success. The sustainability of this approach can also be threatened by a number of developments. Increasing expectations of redistribution, from broad groups of supporters or narrower business interests, may undermine the logic of the model, and the redistributive policies themselves may also prove to be distortionary and therefore economically inefficient in the longer run.

The influence of the economic approaches adopted by these governments on long-run growth, e.g. across multiple economic cycles, rather than the time horizons we have dealt with so far cannot be assessed conclusively at this stage. The effects of these approaches on innovation and technological change, which have been argued to be important drivers of long-run growth (Acemoglu, 2009) remain to be established, but shorter-run trends, as reflected in country level indicators of innovation (World Bank, 2021; WEF, 2018) do not show any obvious deterioration.

We have shown that there are important similarities between the three CEE cases, but there are also some differences in terms of economic approaches. One difference relates to the primary beneficiaries of public spending. While all of them target pensioners, the pro-family focus of the Hungarian and Polish governments relates to their conservative identity, which has been highlighted in earlier research (Bluhm & Varga, 2020; Orenstein & Bugarič, 2020). In the Romanian case there was greater emphasis on the public sector and more limited emphasis on capital investment, reflecting the historical electoral base of the PSD. Another difference relates to the lack of longer-term electoral success in the Romanian case. While the PSD's loss of power in 2019 is not attributable to poor economic performance, Ban (2021) argues that the PSD was less successful in building stable support for a new economic model than the Hungarian government, which managed to maintain greater support from both domestic and foreign businesses. This suggests that the particular policy package that makes such models electorally successful in the long run may be quite hard to achieve.

We believe the economic lessons from the CEE cases are relevant for understanding populism more generally. First, as a brief comparison with Southern Europe highlights, macroeconomic stability is important for the viability of a populist agenda. In Greece, Syriza came to power based on a manifesto challenging austerity and EU conditionality related to economic policy. While this commitment was further underpinned by the outcome of a referendum on these issues, the challenges of the crisis and the risk of possibly having to leave the Eurozone meant that the Syriza government chose to backtrack and adopt more orthodox policies (Tsakatika, 2016). The stringent macroeconomic constraints led Syriza to adopt austerity, which had a significant effect on many aspects of Greek society and left very limited scope for any kind of activist policy (Katsanidou & Lefkofridi, 2020), such as those implemented by the three countries analysed in this article. The country that initially came closest to the Greek situation was Hungary, as the financial situation was very challenging when Fidesz came to power in 2010. Given that Hungary was not a member of the Eurozone, it had greater leeway to choose a combination of orthodox and unorthodox tools to stabilise the macroeconomy and assert its autonomy vis-a-vis the EU and the IMF (Johnson & Barnes, 2015). The resolution of the macroeconomic crisis was a crucial prerequisite for maintaining the programme of microeconomic intervention associated with the Hungarian case, and as discussed in this article, the Polish and Romanian populist governments faced more favourable initial conditions in this regard.

More generally, our cases show that populist political platforms do not necessarily have to be accompanied by unsustainable economic policy. The strong connection between populist politics and unsustainable economic heterodoxy, which was encountered especially in the earlier Latin American cases, appears to have been a product of its time and context. This has potentially important implications for understanding the durability of contemporary populist regimes. It implies that at least one impediment to their survival, economic unsustainability, is not necessarily always present, and that one of the competitive advantages often attributed to liberal democracy – superior economic performance – may not always hold. This is also consistent with the weak relationship between democracy and growth identified in some economic studies (Barro, 1996; Tavares & Wacziarg, 2001). At the same time, it would be wrong to say that such populist regimes are economically neutral. The use of fiscal policy to distribute resources according to the political logic of the three governments shows that the economic implications of such regimes for citizens, and especially for groups which are specifically targeted, either positively or negatively, can be substantial.

Put together, these conclusions confirm and strengthen arguments in the existing literature about the rise of a distinctive economic model in CEE. Going beyond this, our empirical analysis suggests that this economic model can be both surprisingly successful, at least in the short run, and translate illiberal political ideology into distinctive distributive outcomes.

Note

1. This relatively poor performance is also reflected in the Freedom House political and civil liberties scores for the three countries: Hungary saw a dramatic decline in these through the 2010s, Poland a decline after 2016, and Romania constant sub-par scores through the decade (Freedom House, 2021).

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Appendix

1. Data sources and variable coding

Table 1

GDP growth: Average yearly gross domestic product growth rate. Source: World Bank, data.worldbank.org, 'GDP growth (annual %)'.

FDI inflows: Average yearly inflows foreign direct investment as a share of GDP. Source: World Bank, data.worldbank.org, 'Foreign direct investment, net inflows (% of GDP)'

Deficit: Average yearly budget deficit as a share of GDP. Source: World Bank, data.worldbank.org, 'Overall Budget Deficit, Including Grants (% Of GDP)'

Bank rate 2019: National bank reference (base) interest rate, January 2019. Source: Individual national banks.

Tax rates: National government portals.

Table 2

Source: OECD https://stats.oecd.org/Index.aspx?DataSetCode = SNA_TABLE11;

The COFOG (Classification of the Functions of Government) framework is a standardised international framework for classifying government expenditure, developed by the OECD, and used by Eurostat as well. Details on the individual categories can be found at: https://ec.europa.eu/eurostat/statistics-explained/index.php?

title = Glossary:Classification_of_the_functions_of_government_(COFOG)

Table 3

Data format: Monthly time series data.

Sources: Eurostat, Business Climate Indicator monthly series, available at: https://ec.europa.eu/info/business-economy-euro/indicators-statistics/economic-databases/business-and-consumer-surveys/download-business-and-consumer-survey-data/time-series_en

The index we use recreates the Economic Sentiment Index from the EU data, but leaves out the consumer confidence component. The percentages allocated to the components of the index are proportional to the ones in the ESI index, and sum up to 100. The index is made up of the following components:.

Industrial confidence indicator (50%)
Services confidence indicator (37.5%)
Retail trade confidence indicator (6.25%)
Construction confidence indicator (6.35%)

Table 4

Data format: repeated cross-sectional firm-level survey data.

Sources: Flash Eurobarometers 374, 428, 457, 482. All available for download at https://www.gesis.org/en/eurobarometer-data-service/search-data-access/data-access

The relevant dependent variables are coded Q1_1 to Q1_9 in all four surveys.

2. Further results

Table A1. Replication of Table 4, using ordinal logistic regression

	Corruption	Patronage	Admin	Legislation	Infrastructure	Debt	Labour	Taxes	Financing
Hungary									
2013	-	-	-	-	-	-	-	-	-
2015	.46*	.46*	.51**	.65***	.54**	.65**	.24	−.01	1.10***
	(.18)	(.18)	(.18)	(.18)	(.19)	(.20)	(.19)	(.18)	(.21)
2017	.26	.31	.65**	.62*	.27	.79**	.58*	.00	1.37***
	(.23)	(.23)	(.21)	(.24)	(.22)	(.24)	(.23)	(.22)	(.22)
2019	.44*	.38*	1.06***	1.30***	.42*	1.17***	.33	.20	1.62***
	(.07)	(.19)	(.22)	(.21)	(.20)	(.19)	(.20)	(.20)	(.20)
Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
N	1071	1064	1088	1102	1098	1029	1058	1096	1058
Poland									
2013	-	-	-	-	-	-	-	-	-
2015	.00	.04	−.10	−.05	.58*	−.22	−.24	−.17	−.08
	(.25)	(.24)	(.25)	(.26)	(.25)	(.23)	(.24)	(.26)	(.26)
2017	.32	.12	.10	.13	.74**	.01	−.08	.22	.49*
	(.26)	(.24)	(.25)	(.25)	(.26)	(.23)	(.25)	(.24)	(.24)
2019	.06	.18	−.24	−.30	.65*	−.26	−.16	−.05	.19
	(.09)	(.26)	(.25)	(.26)	(.26)	(.25)	(.25)	(.26)	(.19)
Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
N	1154	1174	1195	1190	1179	1171	1179	1194	1177
Romania									
2013	-	-	-	-	-	-	-	-	-
2015	−.33	−.25	.22	−.11	−.32	−.00	.08	−.05	.37
	(.24)	(.25)	(.26)	(.27)	(.26)	(.25)	(.25)	(.25)	(.29)
2017	−1.03***	−.64**	.50*	.68**	−.46*	.22	−.09	.60*	.34
	(.25)	(.23)	(.23)	(.25)	(.23)	(.23)	(.23)	(.23)	(.24)
2019	−1.08***	−.91***	.07	.10	−.27	−.08	−.75**	.02	−.07
	(.24)	(.24)	(.24)	(.24)	(.23)	(.71)	(.25)	(.24)	(.25)
Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
N	1177	1174	1189	1188	1193	1161	1173	1175	1133

Note: Table presents results from ordinal logit models, in which the given indicators are regressed on period dummies and controls for log(number of employees), sector of activity, and firm age. The underlined years are relevant for the governments under analysis. Standard errors presented in parentheses. Significance codes: . = .10, * = .05, ** = .01, *** = .001.

Table A2. Replication of Table 4 without controls

	Corruption	Patronage	Admin	Legislation	Infrastructure	Debt	Labour	Taxes	Financing
Hungary									
2013	-	-	-	-	-	-	-	-	-
2015	.29*	.28	.24*	.35***	.28**	.38**	.11	.00	.59***
	(.12)	(.11)	(.09)	(.09)	(.09)	(.11)	(.09)	(.09)	(.11)
2017	.00	.01	.24*	.28**	.13	.37**	.23*	−.01	.71***
	(.13)	(.12)	(.10)	(.10)	(.10)	(.13)	(.10)	(.10)	(.11)
2019	.32*	.27	.56***	.70***	.30**	.95***	.44***	.20	1.00
	(.12)	(.11)	(.10)	(.10)	(.10)	(.11)	(.10)	(.10)	(.10)
Controls	No	No	No	No	No	No	No	No	No
N	1162	1158	1169	1190	1188	1129	1158	1185	1130
Poland									
2013	-	-	-	-	-	-	-	-	-
2015	.03	.06	−.04	−.05	.30*	−.11	−.10	−.09	−.06
	(.14)	(.14)	(.14)	(.14)	(.12)	(.15)	(.13)	(.13)	(.13)
2017	.17	.07	.02	−.02	.33*	.04	−.05	.13	.28*
	(.14)	(.14)	(.14)	(.14)	(.13)	(.15)	(.14)	(.13)	(.12)
2019	.13	.16	−.12	−.20	.40**	−.09	−.01	.08	.19
	(.36)	(.15)	(.14)	(.14)	(.13)	(.16)	(.15)	(.14)	(.13)
Controls	No	No	No	No	No	No	No	No	No
N	1165	1181	1197	1190	1179	1180	1187	1199	1177
Romania									
2013	-	-	-	-	-	-	-	-	-
2015	−.20	−.11	.13	−00	−.02	.03	.08	−.00	.21
	(.13)	(.13)	(.11)	(.10)	(.09)	(.12)	(.11)	(.11)	(.14)
2017	−.56***	−.36**	.10	.21*	−.20**	.04	−.03	.21*	.08
	(.12)	(.12)	(.09)	(.09)	(.08)	(.10)	(.10)	(.10)	(.12)
2019	−.51***	−.28*	.03	.07	−.05	.12	−.14	.19	.10
	(.13)	(.13)	(.10)	(.10)	(.10)	(.12)	(12)	(.12)	(.13)
Controls	No	No	No	No	No	No	No	No	No
N	1183	1184	1193	1192	1195	1176	1173	1190	1150

Note: Table presents results from linear regressions with robust standard errors, in which the given indicators are regressed on period dummies. The underlined years are relevant for the governments under analysis. Standard errors presented in parentheses. Significance codes: . = .10, * = .05, ** = .01, *** = .001.

Table A3. Interactive models

	M1 Corruption, year x public procurement	M2 Corruption, year x high public procurement	M3 Corruption, year x finance	M4 Legislation, year x finance
Hungary				
2013	-	-	-	
2015	.30 (.23)	−.05 (.33)	.00 (.29)	.32 (.24)
2017	.01 (.29)	.09 (.45)	−.21 (.32)	.15 (.22)
2019	.41 (.27)	.32 (.34)	−.58 (.31)	.08 (.22)
Lower order terms	. . .	. . .	.	. . .
Controls	Yes	Yes	Yes	Yes
N	1071	1071	1071	1102
Poland				
2013	-	-	-	-
2015	−.11 (.28)	.06 (.44)	.12 (.26)	.19 (.26)
2017	.63* (.28)	.82* (.41)	−.42 (.28)	−.16 (.26)
2019	.13 (.29)	.37 (.44)	.00 (.27)	−.15 (.25)
Lower order terms	. . .	. . .	. . .	. . .
Controls	Yes	Yes	Yes	Yes
N	1154	1154	1154	1187
Romania				
2013	-	-	-	-
2015	.16 (.26)	.08 (.33)	−.24 (.28)	.19 (.26)
2017	.76* (.31)	1.51* (.64)	−.53* (.24)	−.16 (.26)
2019	.47 (.26)	.05 (.34)	−.14 (.27)	−.15 (.25)
Lower order terms	. . .	. . .	. . .	. . .
Controls	Yes	Yes	Yes	Yes
N	1177	1177	1177	1187

Note: Table presents linear regression interactive models, with robust standard errors. M1 presents a model in which corruption perception is the dependent variable and year dummies are interacted with public procurement participation. Only coefficients on the year x procurement interactive variable are presented. M2 presents a model in which corruption perception is the dependent variable and year dummies are interacted with the high public procurement participation. Only coefficients on the year x procurement interactive variable are presented. M3 and M4 present models in which the year dummies are interacted with the financial industry indicator. Standard errors presented in parentheses. Significance codes: . = .10, * = .05, ** = .01, *** = .001.