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The Welfare States of Hungary's Fidesz and Poland's Law and Justice

Jakub Tomášek*

Abstract

The Fidesz-led government in Hungary and the Law and Justice-led government in Poland have shared important similarities since assuming power in the last decade, from party ideology to selective engagement with collective bargaining institutions. Yet, their approach to the welfare state has markedly contrasted, with Poland expanding and Hungary retrenching welfare provision. This paper uses the method of difference to address this conundrum. The power resources approach, if appropriately clarified and widened, helps us identify an independent variable of difference: the balance of power between labour and capital. Empirical support is found for two hypotheses. First, Hungarian business elites exert higher influence over welfare state policymaking than Polish elites. Second, the Hungarian government can stay in office more safely without satisfying its voters' welfare state preferences. The findings imply a continuing relevance of the power resources approach for understanding cross-country social policy differences, even in countries with comparatively weak unions and left parties.

Keywords: welfare state, power resources, populist radical-right parties, Hungary, Poland

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Table of Contents

The Welfare States of Hungary's Fidesz and Poland's Law and Justice: Explaining the Surprisingly Divergent Trajectories[1]

1. Introduction

In 2011, a year after Viktor Orbán's Fidesz party gained power in Hungary and just after Poland's Law and Justice (PiS) party lost the parliamentary election, PiS's leader Jaroslaw Kaczynski claimed: 'There will come a day when we succeed in having Budapest in Warsaw' (Rzeczpospolita, 2011). After winning the 2015 election, PiS indeed followed Fidesz in many ways, from attacking rule-of-law institutions and nationalising banks to cooperating with only selected social partners who have helped give its policies legitimacy.

Yet, in one respect the two governments have differed markedly: their welfare state (WS) policy. This has not been fully appreciated by scholars on the region, who have mostly emphasised similarities between the two WSs. For instance, Lendvai-Bainton and Szelewa (2020, 569) observed 'the conservative and religious reengineering of both social relations and the norms and values of social sharing' in both countries. Bugarič and Orenstein (2020, 14) also failed to note any major differences, seeing the two countries as sharing 'nationalist conservative welfare visions', promoting natalism and traditional family values.

[1] I am thankful to Dr Bob Hancké, Dr Abby Innes, Dr Fabian Mushövel and Prof Waltraud Schelkle for their encouragement and helpful comments on this work.

Without meaning to deny these claims, I observe a fundamental divergence. Whilst Poland's WS has become more generous under PiS, Fidesz has retrenched Hungary's WS. This is revealed by changes in opposite directions across three indicators: public social expenditure; redistribution and income inequality; and workers' protection. These differences are surprising, I argue, given the otherwise numerous similarities between the two cases: the parties' ideology and political and economic measures; the countries' previous welfare state trajectories; selective engagement with institutions of collective bargaining in both countries; and similar public opinion on the WS. This gives rise to a research puzzle: *Why did the PiS-led government expand Poland's WS and the Fidesz-led government retrench Hungary's WS after the two parties gained power in the last decade?*

This paper follows the 'method of difference' research design (Mill, 1843; Hancké, 2009). With the cases of Hungary and Poland being similar in numerous respects, but an outcome – their change in WS generosity – being different, I search for an independent variable along which the two countries differ. This variable can consequently explain the differences in the dependent variable.

I argue the *power resources approach* (PRA) helps us resolve the puzzle. According to PRA, WS 'development reflects any particular balance of power between labour and capital' (Korpi 2006, 170). Correspondingly, I claim that business elites' power is stronger relative to workers' power in Hungary than in Poland, which accounts for the different WS trajectories. The pathway to this conclusion may not first seem obvious. For PRA has typically focused on analysing the strength of left parties and unions, and unions and left parties are weak in both Hungary and Poland. However, workers may have other power resources. Parties other than the left may represent their WS preferences, which PRA can accommodate if widened. Moreover, political democracy provides workers – in principle at least – with equal political resources. Furthermore, if we focus not just on the power of workers but also on the balance of power between classes, as PRA invites us to do, we may notice differences in business elites' power, including their influence on WS policy, across the two countries.

The argument proceeds in three main steps. First, it is observed, during the literature review, that PiS expanded Poland's WS because it represented voters desiring a WS expansion. Yet, Fidesz, representing similar voters, retrenched Hungary's WS. This will prompt a reformulation of the puzzle: *Why did PiS respond to voters' demands for WS expansion but Fidesz did not?* Second, a hypothesis is formulated based on work of Scheiring (2021a) and Fairfield (2015a; 2015b), which states that business elites, typically opposed to the WS, exert higher influence over WS policymaking in Hungary than in Poland. Third, another hypothesis is formulated based on work of Garrett (1993) and Kitschelt (2001), which states that the Hungarian government can stay in office more safely than the Polish government without satisfying its voters' WS preferences. The two hypotheses jointly, but also each of them separately, point to higher power resources of business elites relative to those of workers in Hungary than in Poland. Empirical support is found for both hypotheses.

The paper is structured as follows. After Section 2 sets out the analytical challenge in more detail, Section 3 reviews the salient literature. Section 4 includes this paper's theoretical core, integrating insights from the reviewed literature into a widened PRA framework and formulating two hypotheses. Sections 5 and 6 empirically evaluate these hypotheses. Finally, Section 7 concludes.

2. The Puzzle

Following the method of difference, this section first notes four similarities between Hungary and Poland (Section 2.1), before presenting differences in their WS developments, focusing on the three above-mentioned indicators of WS generosity (Section 2.2).

2.1 Similar cases

2.1.1 Party ideology and political and economic strategies

Both Fidesz and PiS have been characterised as populist radical-right parties (PRRPs) (Mudde, 2019). Such parties promote strict law-and-order measures, a homogenous nation state with immigrants and minorities presented as threats, and claim to represent 'the people' *vis-à-vis* 'the corrupt elite' (Mudde, 2016, 296). Furthermore, both parties have essentially governed alone, in alliances with mostly loyal satellite conservative parties elected with them on joint partly lists (Toplišek, 2020; Meardi and Guardiancich, 2021).

Politically, both governments have attacked rule-of-law and liberal democracy institutions, for instance by curtailing the freedom of courts (Grzymala-Busse, 2019), and have effectively undertaken a 'party state capture' (Innes, 2014), monopolising control over key institutions such as state-owned enterprises (SOEs) and public media (Sata and Karolewski, 2019). Economically, after the 2008 financial crisis, with growing public dissatisfaction in both countries about the reliance of the countries' post-communist growth models on foreign direct investment (FDI) (Nölke and Vliegenthart, 2009; Appel and Orenstein, 2018), both governments promoted measures favouring domestic firms and the state in strategic sectors such as banking (Toplišek, 2020). These policy similarities, moreover, are not entirely coincidental. Experts of several Polish PiS-affiliated think-tanks studied closely Hungary's economic policies and thought favourably of many of them (Dąbrowska *et al.*, 2018).

2.1.2 Past welfare state trajectories

The WSs Fidesz and PiS inherited shared several characteristics. Both presented peculiar 'hybrids' when viewed from the perspective of Esping-Andersen's (1990) *three worlds of welfare* typology and its subsequent variations (Cerami, 2009; Fenger, 2007; Inglot, 2009). They combined elements of Bismackian insurance-based policies with egalitarian ambitions nurtured during communism and more recent neoliberal measures such as partial pension privatisation (Cerami, 2009; Vanhuysse, 2006a).

Poland and Hungary's WSs were relatively generous; their public social spending between 2000 and 2010 averaged 20.9% and 21.7% of GDP, respectively, with the OECD average at 18.6% (OECD, 2021a). Both WSs were dominated by familial and gendered consumption-based cash transfers, while services often lacked in quality (Bohle and Greskovits, 2019; Domaradzka and Siemienska, 2019; Saxonberg and Sirovátka, 2006; Scharle and Szikra, 2015). They also shared a strong pensioner bias, after the two countries' governments pushed masses of workers into early or disability retirement during the early 1990s transitional years to prevent disruptive protests (Vanhuysse, 2006a). With pensioners forming a large political constituency, younger groups and the unemployed became relatively easier targets of welfare cuts (Vanhuysse, 2006b; Bohle and Greskovits, 2012). Finally, a contradiction between both countries' generous welfare spending and the reliance of their growth models on attracting FDI through extensive tax-reduction packages formed a shared continuous source of fiscal pressures (Inglot, 2008; Nölke and Vliegenhart, 2009).

2.1.3 Corporatist bargaining

Both countries have been characterised by weak organised labour and policy concertation (Vanhuysse, 2007). Trade unions have lacked real competences and collective bargaining coverage has been low, at 21.8% of employees in Hungary and 13.4% in Poland in 2019 (OECD, 2021b; Bohle and Greskovits, 2012). Formal institutions of collective bargaining exist in both countries, but the actual power and influence of unions have typically depended on governments' will (Bohle and Greskovits, 2012). The Fidesz-led and PiS-led governments have both pursued 'patronage corporatism', cooperating only with selected partners who have helped give their policies legitimacy (Olejnik, 2020).

In Hungary, the national tripartite social dialogue body (OÉT) was replaced in 2011 by the irregularly-convened and purely consultative National Economic and Social Council (NGTT), with only selected union confederations and employers' organisations invited, alongside economic chambers and other government-allied bodies (Borbély and Neumann, 2019; Tóth, 2013). After pressure from both trade unions and employers' organisations, a new permanent consultative forum for private sector matters (VKF) was created in 2011, but not all trade unions were invited and the government maintains a final say in case of no-agreement (Borbély and Neumann, 2019; Fulton, 2021).

In Poland, PiS used the strong competition and political divides between unions (Bohle and Greskovits, 2012) to ally with the single national union, Solidarity. Although it relaunched tripartite dialogue in the Social Dialogue Council in 2015, this body soon turned into a façade institution, as recurrently pointed out by several union confederations and employers' organisations (Czarzasty, 2019; Olejnik, 2020). For instance, a major 2017 education reform was implemented despite widespread disagreement of sectoral unions (Czarzasty, 2017).

2.1.4 Public opinion

Finally, a significant majority of both Poles and Hungarians desire higher income redistribution. In 2017, 90% of Hungarians and 82% of Poles 'strongly agreed' or 'agreed' that 'differences in people's incomes are too great' (EC, 2018a, 108). Moreover, 87% of Hungarians and 79% of Poles 'strongly agreed' [2] or 'agreed' that their government 'should take measures to reduce differences in income levels' (*ibid*., 109).

2.2 Divergent welfare state trajectories

This section shows – using three different indicators – that whilst Hungary under Fidesz made its WS less generous, Poland under PiS expanded its WS.[3]

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[2] 57% of Hungarians and 33% of Poles strongly agreed.

[3] Interestingly, the two political parties also *talk* about the WS very differently. PiS called its 2019 election manifesto 'A Polish welfare state model' (Meardi and Guardiancich, 2021, 139), whilst Orbán claimed in 2014 that 'the concept of [the] welfare state is over' (Lendvai-Bainton and Szelewa, 2020, 564).

2.2.1 Social expenditure

Hungary's public expenditure on social protection under Fidesz decreased from 21.8% of GDP in 2010 to 16.4% of GDP in 2019, whilst Poland's spending under PiS increased from 19.0% of GDP in 2015 to 20.9% of GDP in 2019 (Eurostat, 2021a). Hungary's spending fell in all but two areas examined by Eurostat (2021a), including health, family and children, old-age, and disability expenditure. For instance, disability pensions were scrapped in 2012, affecting about 100,000 people (Szikra, 2018). In Poland, notable increases included family and children expenditure, which doubled between 2015 and 2019, and health expenditure. Old-age expenditure also rose, after PiS cut the minimum retirement age to 60 and 65 years for women and men, respectively, and implemented a 30% increase in the state-financed minimum pension (Eurostat, 2021a; Meardi and Guardiancich, 2021; Polakowski, 2017).

2.2.2 Redistribution and income inequality

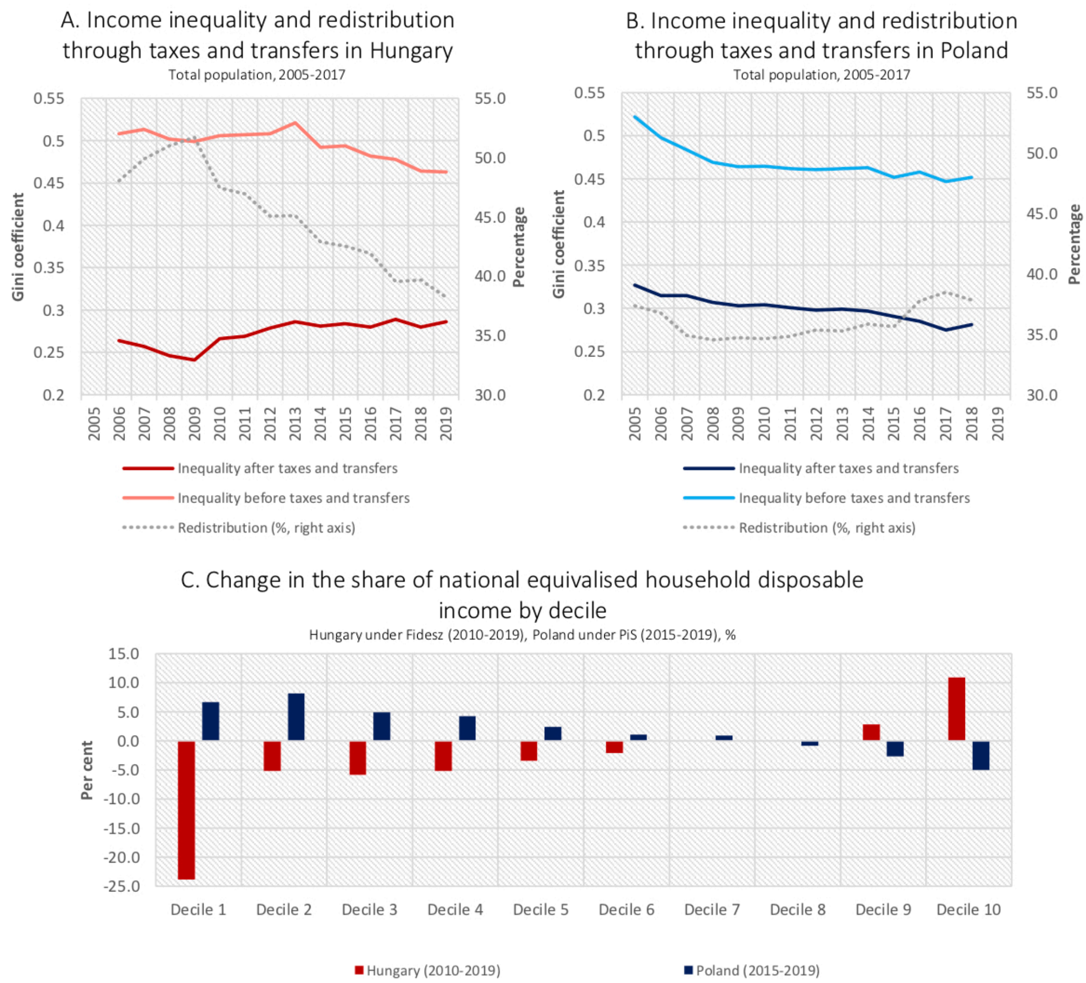
Another useful indicator of WS generosity – focused on outcomes rather than output – is the equalising effect of redistribution through taxes and transfers on incomes (Causa *et al.*, 2018). Here, too, we observe different trajectories. In Hungary, redistribution fell considerably from a very high level, 51.7% in 2009, to 38.2% in 2019 (Figure 1a). By contrast, in Poland, a traditionally less redistributive country, redistribution increased between 2015 and 2017 from 35.6 to 38.5% (Figure 1b). Although it dropped slightly to 37.8% in 2018, it remained higher than anytime between 2005 (when comparable records started) and 2015. Disposable income inequality, as measured by Gini coefficients, broadly fell in Poland under PiS and rose in Hungary under Fidesz, Figures 1a and 1b also show.

Figure 1c examines how the share of each income decile in total national disposable income changed under Fidesz and PiS. Strikingly, the higher income decile one belongs to, the better off, roughly, one has become under Fidesz relative to those in other deciles, and the worse off one has become under PiS.

Literature points to two main contributors to this divergence. First, Hungary introduced a flat personal income tax (PIT) of 16% in 2011, replacing two PIT rates of 17 and 32% (Appel and Orenstein, 2013, 136), which also applied to minimum wage earners who had previously been exempted from PIT (Szikra, 2018). Poland’s PIT system, based on two rates of 18% and 32%, is not very redistributive either as not many taxpayers fall into the higher tax bracket (Sawulski, 2019), but it has not become any flatter under PiS. Additionally, the 2021 ‘Polish Deal’ tax and contribution package was projected to primarily benefit the lower-income population (Reuters, 2021).

Second, family benefits are another important factor. In Hungary, a new generous family tax allowance system was established in 2011 that clearly favours the richer cohorts, with low earners and the unemployed unable to use tax allowances. People in the two bottom deciles, even those with three children, became worse off as a result of the PIT and family tax allowance reforms, while net incomes of those in the highest two deciles increased considerably (Szikra, 2018; Tóth and Virovácz, 2013). In Poland, the Family 500+ programme, introduced in 2016, is the most significant cash transfer since 1989 (Domaradzka and Siemienska, 2019), and has reduced both poverty and income inequality (Paradowski *et al.*, 2020).

Figure 1. Income inequality and redistribution in Hungary and Poland



Sources: A, B: OECD (2021c) and author's calculations; C: Author's calculations based on Eurostat (2021b).
Note: 'The Gini index measures the extent to which the distribution of incomes among households deviates from perfect equal distribution. A value of zero represents perfect equality and a value of [1] extreme inequality. Redistribution is measured by the difference between the Gini coefficient before personal income taxes and transfers (market incomes) and the Gini coefficient after taxes and transfers (disposable incomes) in per cent of the Gini coefficient before taxes and transfers' (Causa *et al.* 2018, 10). A: 2005 data not available; B: 2019 data not available.

2.2.3 Protection of employees vis-à-vis employers

Another useful variable which also focuses on outcomes is the protection of workers' rights *vis-à-vis* employers. In Hungary, the government included the obligation to work into the new 2011 constitution, and removed from it the right to social security (Szombati, 2021). Unemployment benefits became conditional on accepting any job deemed suitable by the local job centre, including those provided by the significantly expanded and radicalised public work programme (PWP) paying less than the minimum wage (Szikra, 2014; 2018; Scharle and Szikra, 2015). Employing 223,000 workers at its peak in 2016 (Molnár *et al.*, 2019), PWP has been '(mis)used by employers (including the state itself) to re-employ formerly fired employees on lower wages and with weaker protection' (Szikra, 2018, 5). The 2012 new labour code lowered all workers' protection, allowing employers to fire employees during sick leave, for instance (Tóth 2012). The 2018 labour code amendment, called the 'Slave Act' by unions, raised the maximum yearly overtime hours from 250 to 400 per employee, with firms allowed to pay employees up to three years later, and sparked widespread popular protests (Scheiring, 2021b; ETUI, 2019).

In Poland, workers' protection has been mildly strengthened under PiS. Poland has historically seen very high rates of temporary employment caused by widespread use of fixed-term contracts (FTCs) and civil law contracts (CLCs). The latter rely on contracting self-employed workers outside of the labour law (Eichhorst and Marx, 2021; Lopez-Uroz, 2019). Whilst the labour market remains dualised, since 2016 a maximum duration of FTCs for a person has been set to three years, and most workers employed on CLCs have to be paid a minimum wage (thus becoming eligible for unemployment allowance) (EC, 2021a; Eichhorst and Marx, 2021, Lewandowski *et al.*, 2017). Temporary employment decreased from 28.0% of dependent employment in 2015 to 21.8% in 2019, the lowest rate since 2004 (OECD, 2021d).

2.3 Summary

These WS divergences are surprising, given the observed similarities between Hungary and Poland, and they form the dependent variable I will now attempt to explain. As regards workers' protection in Hungary, I focus on the general decrease in workers' protection rather than PWP. PWP has been linked, to a large extent, to the government's desire to reinstate ethno-racial hierarchies in provincial areas characterised by conflicts between Roma and non-Roma populations (Szombati, 2018), a problem largely absent in Poland.

3. Literature

This section reviews the literature relevant for our topic, starting with the 'new politics of the welfare state' literature (Section 3.1) and PRA in its traditional operationalisation (Section 3.2). Literature focusing on electoral preferences prompts an important reformulation of our puzzle (Section 3.3). I then review work by Scheiring (2021a) on business influence (Section 3.4) and by Garrett (1993) and Kitschelt (2001) on an electoral margin of safety in office (Section 3.5).

3.1 New politics of the welfare state

The 'new politics of the welfare state' (NPWS) literature (Pierson, 1994; 2001) emphasises the path-dependent consequences of existing policies (Häusermann *et al.*, 2013). Past welfare-expanding policies are thought to have created 'new politics' by transforming the preferences and expectations of interest groups and the electorate. Policies now cannot be easily retrenched even by politicians ideologically opposed to them (*ibid.*). Thus, according to this historical-institutionalist view merged with rational choice insights about strategic behaviour of re-election-focused policymakers, *policy feedbacks* and continuing *public support for the WS* are two major forces that decrease the probability of major WS changes (Pierson, 1994; Patashnik, 2015; Jensen *et al.*, 2019).

Could our puzzle be explained by differences in policy feedbacks or public WS support in Hungary and Poland? Section 2.1 pointed out the remarkedly similar WS orientations of the two countries before PiS and Fidesz took power, from the level of social expenditure to the groups this spending favours and neglects, suggesting that major differences in policy feedbacks are unlikely. Moreover, an important factor which makes previous policy designs matter for policy change is their ability to gather political opposition of interest groups to policy change (Pierson, 1994, 50). However, both the Hungarian and the Polish governments are known for their readiness to restrict the powers of non-conforming organisations, whether by defunding them or by excluding them from policymaking (Szikra, 2014; Politico.eu, 2017). This suggests that pro-welfare interest groups may face high constraints to their ability to prevent change. As regards the level of public WS support, support for redistribution is similar in both countries, possibly higher in Hungary (Section 2.1). These considerations suggest that the main insights of NPWS do not shed much light on the divergence that followed.

3.2 PRA

According to PRA (Korpi, 1974; 1978; 1998; Stephens, 1979), variations in WS developments across countries stem from the differences in the distribution of power resources[4] between classes. The main tenets of PRA are, firstly, that 'socioeconomic class generates differences in risks to which citizens are exposed during the life course', such as unemployment or poverty, and differences in resources people have to cope with these risks (Korpi, 1998., 173). Secondly, employers' key power resource, control over major economic resources (e.g. means of production and money), is more concentrated than workers' basic power resource, their human capital (e.g. labour power, skills and education). This gives employers a structural advantage over

[4] Power resources are 'capabilities of actors to reward or to punish other actors' (Korpi, 2006, 172, fn. 12).

employees, and collective action through unions and social democratic parties becomes a key tool for workers' power enhancement (Korpi, 1978; 1998; 2006).

Thus, Korpi argues,

> To favour their own position (…), employers and other interest groups that control major economic resources are likely to prefer to situate distributive processes in the context of markets, where economic assets constitute strategic resources (…). Employees (…) are therefore expected to organise for collective action in political parties and unions to modify conditions for and outcomes market distribution. Social citizenship, which irrespective of citizen market capacities grants them claim rights to support from the state for risks generated during the life course, can be seen as outcomes of such strivings. (Korpi, 2006, 173)

Note that this definition of social citizenship (Marshall, 1950) understands WS benefits as 'decommodifying' (Esping-Andersen, 1990), i.e. decreasing workers' reliance on the market and the necessity to work on employers' terms.

In a traditional operationalisation of PRA, *the strength of unions* and *left parties' representation in government* are thought to account for cross-national WS variation (Jensen, 2014). Could these variables account for our puzzle? As Section 2.1 argued, unions in both Hungary and Poland are rather weak and neither Fidesz or PiS grants them influential roles. Moreover, neither party has governed with a left party. Thus, at a first glance, this approach does not seem to be very helpful. But I regard this operationalisation as too simplistic and revisit PRA in Section 4.1.

3.3 Electoral preferences

Some scholars – sharing PRA's assumption that parties' WS positions are influenced by who they represent – have argued that over recent decades, factors such as deindustrialisation and the increasing importance of cultural issues for voters meant that voters' preferences changed, and subsequently parties' WS policies shifted. Thus, left parties may no longer be the undisputed chief WS defenders (Häusermann *et al.*, 2013). Gingrich and Häusermann (2015) find that the left has lost much of its working-class support over recent decades and substituted this loss with middle-class votes, while right and right-populist parties – to whom much of the working-class vote has shifted – have consequently adopted increasingly pro-welfare positions.

Wanting to account for what social policy PRRPs pursue when governing alone, Meardi and Guardiancich (2021) also emphasise electoral preferences when examining the cases of Poland under PiS and Italy under the Lega and Five Star Movement coalition (2018–19). They believe the desire to meet voters' material – as well as cultural – preferences leads PRRPs to prioritise 'pension and family benefits, and to some extent (…) labour market re-regulation and cash transfers' and to increase 'social protection' (*ibid*., 144–145).

Meardi and Guardiancich clearly fail to account for the Hungarian case where under Fidesz, also a PRRP governing alone, social protection and labour market regulation have decreased. But, importantly, their account explains the developments *in Poland* well, with voters' material preferences plausibly playing a crucial role in PiS-led WS expansion. In 2015, the biggest inflow to PiS was from voters who had not previously voted, while some voters of the Polish People's Party (PSL) and the Democratic Left Alliance (SLD) also turned to PiS (CBOS, 2015; cited in Meardi and Guardiancich, 2021, 140) The freshly mobilised voters were predominantly rural and lower-educated (CBOS, 2017; cited in Meardi and Guardiancich, 2021, 140).

PiS's Family 500+ programme has been extremely popular. In 2019, 62% of adults expressed a positive view on the government's family policy and only 7% a negative one, while between 1996 and 2015 positive responses failed to exceed 16% (Meardi and

Guardiancich, 2021, 141). PiS voters assess the programme most positively (Koszowska, 2017). Moreover, between the 2015 and 2019 parliamentary elections, the share of over 65-year-olds voting for PiS increased from 49% to 56%, the share of rural voters rose from 47% to 56% and that of voters with primary education climbed from 56% to 64% (Markowski, 2020, 1520). With PiS representing an increasingly large proportion of the poorest and most vulnerable groups, it seems only logical that it expands the WS.

Could our puzzle be explained by Fidesz's electorate being less interested in the WS than PiS's voters? It does not seem so. Like PiS, Fidesz finds its strongest voting bases among the poor, the rural and the lower-educated population (Rona *et al.*, 2020; Political Capital and Friedrich-Ebert-Stiftung, 2019). Moreover, a vast majority of Hungarians wish to see more redistribution (Section 2.1), with Fidesz voters similarly concerned as other voters about income inequalities and workers' vulnerability *vis-à-vis* employers (Bíró-Nagy, 2020, 18–20). It is thus hard to view Fidesz's WS policy as reflecting its electorate's WS preferences.

Our investigation has thus progressed. The considerations of voters' preferences plausibly explain PiS's WS expansion but not Fidesz's retrenchment. Hence we can now usefully reformulate our puzzle as follows: *Why did PiS respond to voters' demands for WS expansion, but Fidesz did not and instead retrenched the WS?* Sections 3.4 and 3.5 introduce literature that will help us answer this question.

3.4 Coalition with domestic businesses

Recently, Scheiring (2021a) argued that the differences in PiS's and Fidesz's WS policies depend on whether domestic businesses form an important part of a social coalition supporting the political party. This, in turn, depends on the extent to which FDI had been prioritised at the expense of domestic businesses before the two parties gained power in the last decade. Scheiring offers three reasons why Hungarian business elites had more incentives to ally with their country's populist party. First, Hungary saw a significantly larger destruction of domestic productive capacities during the early transitional years. More Polish SOEs were restructured and privatised to domestic entrepreneurs. Second, FDI inward stock, substantially higher – relative to GDP – in Hungary than in Poland throughout the post-communist era (Figure 2), had lower spillover effects on Hungarian enterprises.[5] The ratio of value-added per capita in foreign-controlled companies to value-added in domestically-controlled businesses was close to 3 in Hungary and 2 in Poland in 2017. Moreover, Hungarian-owned firms' share in the country's total exports was below 15% and foreign-owned firms' share was nearly 70% in 2012, while in Poland the share of foreign and Polish companies in total exports was balanced (*ibid.*, 7–15). Third, already before PiS's reelection in 2015, the Civil Platform-led governments (2007–15) were implementing economically patriotic policies, including nationalisation of foreign-owned banks, after domestic capitalists pushed for these policies (Naczyk, 2021). Thus PiS, unlike Fidesz, could not 'claim a monopoly over representing the interests of national capitalists' (Scheiring, 2021a, 19).

Whether domestic businesses are an important element of the social coalition that supports a political party, Scheiring claims, carries important implications for the party's socio-economic strategy. Thus, in Poland,

> There is less push [than in Hungary] to dramatically change the fundamentals of the economy to accelerate domestic capital accumulation. *This also leaves more room to focus on the needs of the lower classes* (…). (*ibid.*; italics added)

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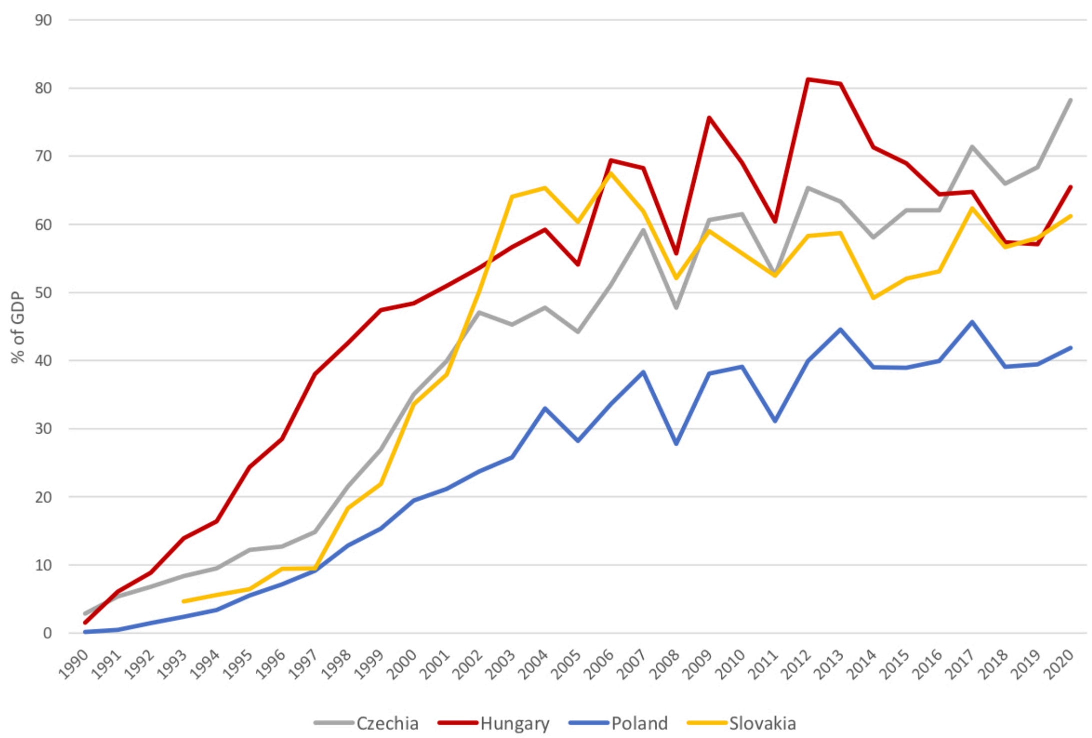
[5] A 'spillover effect' here refers to the impact of the new entry and consequent expansion of foreign businesses with outstanding management and production technology know-how on the productivity of domestically-controlled companies in the host country (Iwasaki and Tokunaga, 2013).

Scheiring's argument has an ambition to explain our puzzle, but it requires further theoretical and empirical support. Theoretically, Scheiring (2021a) does not explain why businesses should desire WS retrenchment and why their support and preferences would matter to politicians. Empirically, while elsewhere Scheiring (2021b) provides examples of business influence on Hungarian WS policy, he does not systematically empirically test his argument for both Hungary and Poland. Later sections address these deficiencies. Hypothesis 1 is based on Scheiring's account.

Figure 2. FDI inward stock in Visegrad Four countries

1990-2020, % of GDP



Source: UNCTAD (2021).

Note: Between 1990 and 1992, data for Czechoslovakia are inputted under Czechia.

3.5 Risk of being voted out of office

According to Garrett (1993), the ability of governments to enact radical unpopular reforms requires a low likelihood of losing the subsequent election. This, in turn, depends on the degree of political competition they face. Factors influencing this include large government majorities, the existence of multiple opposition parties in plurality electoral systems, and low credibility of opposition parties. Similarly, Kitschelt (2001, 273) argues that differences in electoral consequences for politicians who 'diverge from the social policy preference of the party's electorate' can help explain cross-national variation in WS retrenchment. Kitschelt also emphasises that credibility of WS-defending parties on social policy is an important factor. If it is weak, 'voters will have no reasonable alternative to turn to' (*ibid.*, 274).

Can the Hungarian government stay in office more easily than the Polish government without satisfying its electorate's WS preferences? This is *prima facie* plausible. After all, Fidesz has held a two-thirds parliamentary majority since 2010, while PiS lost its majority in the Senate in 2019 and recently also in the *Sejm*. This account provides a basis for Hypothesis 2.

4. Theoretical Framework

This section presents this work's main theoretical framework. It first clarifies and widens PRA, and integrates into it insights from the reviewed literature (Section 4.1). After that, two hypotheses are formulated (Sections 4.2 and 4.3). The hypotheses jointly, but also each of them separately, suggest that the power of workers relative to the power of employers has been higher in Poland than in Hungary.

4.1 PRA revisited

PRA has sometimes been thought to imply that the strength of unions and labour parties itself determines WS policy. However, PRA focuses on *the relative distribution of power between labour and capital*. Thus, we also need to analyse employers' power resources and the balance of power between classes (Arnholtz and Refslund, 2021).

Moreover, recent developments suggest that the scope of PRA analysis should be widened. With radical-right parties now frequently representing workers' WS preferences (Section 3.3) and left-wing parties sometimes absent or marginal, we should not insist that left parties are always WS's main protagonists. Other parties may have taken over this role.

PRA thus clarified and widened can strengthen Scheiring's account presented earlier. First, PRA explains why employers are likely to oppose WS policies. Welfare benefits often reduce labour supply and are typically financed from taxes on assets, incomes and profits, or from payroll taxes which increase employers' labour costs and reduce their profits (Paster, 2015, 10). Thus, employers are unlikely to initiate WS-expanding policies and are plausibly interested in WS retrenchment (Korpi, 2006). This also implies that politicians representing workers will often face a trade-off between satisfying the WS preferences of business elites and their electorate (Fairfield, 2015a).

Second, PRA can explain why business support and preferences matter to politicians, and can also provide tools to empirically analyse whether businesses influence WS policy. Here I rely on the account of Fairfield (2015a; 2015b) whose work builds on the traditional PRA. Business influence over policymaking stems from businesses' instrumental and structural power, which together specify 'a comprehensive set of power resources for economic elites' (Fairfield, 2015b, 21). *Instrumental power* refers to the 'capacity [of business elites] for deliberate political actions' (*ibid.*, 28), such as lobbying. It is more likely to translate into significant influence if these elites possess strong and numerous sources of instrumental power. Such sources include, *inter alia,* relationships with policymakers, for instance through partisan linkages – if businesses support a party electorally, publicly or financially – and regular consultations; and cohesion (*ibid.*, 28–42). *Structural power* of business (Block, 1977; Lindblom, 1977) stems 'from the dependence of state and society on economic performance', which in turns depends on businesses' investment (Paster, 2015, 5). It relies on policymakers' perception of whether a policy will result in businesses' disinvestment (Fairfield, 2015b).

Moreover, PRA can integrate the insights about government's electoral safety in office (Section 3.5), as it emphasises the importance of political democracy for WS development. Democracy has based 'control over the government, in principle, on numbers rather than on economic resources' as power resources in politics are distributed equally – at least in principle – unlike in the markets (Korpi, 1998, 54–55). If the opposition does not have a realistic chance of winning power, the governing party may be less willing to listen to electoral WS demands and can pursue other priorities, including businesses' preferences. With this key power resource of workers diminished, the relative power of employers increases.

To summarise, the widened PRA implies that even if left parties and unions are weak, the balance of power between capital and labour matters for WS development. Voters' WS preferences are less likely to be met by politicians if (i) business elites have high influence over WS policymaking *and/or* if (ii) politicians can safely stay in office without satisfying their electorate's WS preferences. Thus, if business influence over WS policymaking is higher in Hungary *and/or* if the Hungarian government is safer in office, then, *ceteris paribus*, the power resources of employers relative to those of workers are higher in Hungary than in Poland, and differences in WS development can be expected. Considerations (i) and (ii) give rise to Hypotheses 1 and 2, respectively. The hypotheses jointly, but also each of them separately, imply lower power of workers relative to employers in Hungary than in Poland.

4.2 First hypothesis

The first hypothesis, based on Scheiring (2021a) and the preceding discussion, goes as follows:

HYPOTHESIS 1:

Business elites exert higher influence over WS policymaking in Hungary than in Poland.

Whilst Scheiring's (2021a) argument focuses on domestic business elites, Scheiring (2021b) also notes the alliance Orbán made with transnational corporations (TNCs). Although the Hungarian government introduced high sectoral taxes on foreign banking, energy and retail firms, some FDI, for instance in manufacturing, has remained heavily promoted in Hungary under Orbán, with tax allowances and other financial incentives for such TNCs growing (Bohle and Greskovits, 2019; Bohle and Regan, 2021).

Importantly, FDI dependence remains, even now, significantly higher in Hungary than in Poland. Figure 2 shows that FDI inward stock was nearly as high in Hungary in 2020 (at 65.4% of GDP) as it was in 2010 (69%). Whilst Poland has also maintained stable FDI inward stock under PiS (at 38.9% of GDP in 2015 and 41.8% in 2020), the overall level remains substantially lower than in Hungary. Moreover, alternative sources of investment are more important in Poland than in Hungary, with domestic credit to the private sector at 50.7% of GDP in Poland and 33.5% in Hungary in 2019, and stock market capitalisation of listed domestic companies at 25.4% of GDP in Poland and 20.1% in Hungary in 2019 (World Bank, 2021a; 2021b). Thus, Hungary clearly relies on FDI more than Poland for its investment. Car manufacturing is particularly important for Hungary, accounting for nearly 30% of its 2017 industrial output (FT, 2018a). Hence, TNCs, too, can be theorised to have higher power over WS policymaking in Hungary, widening Scheiring's (2021a) focus on domestic firms.

This hypothesis will be supported if in Hungary, business actors express greater support for key WS policies (see Section 2.2) than in Poland, and a mechanism can be identified through which they have influenced the policies, such as lobbying (see Section 4.1; Fairfield, 2015b; Naczyk, 2021). I focus primarily on identifying sources of businesses' *instrumental power* and assessing the success of elites' overt actions stemming from these sources. Assessment of *structural power* is harder to undertake, as it relies on analysing policymakers' perception of disinvestment threat, where interviews are a key research method (Fairfield, 2015b). Nevertheless, I also look for publicly available evidence that may point to structural power being engaged.

4.2.1 Two objections

Two main objections may be raised to this PRA-based hypothesis. First, 'social investment' WS policies (Hemerijck, 2013) may 'aim at fostering labour market participation rather than compensating for income loss' through measures such as child-care services and education (Gingrich and Häusermann, 2015, 54). As these measures are 'commodifying', employers could be expected to support them – even on PRA's terms – as they may raise their power resources by increasing labour supply and productivity (*ibid.*). This objection is important, possibly limiting the scope of PRA to decommodifying benefits. But it can be put aside here, as PiS clearly undertook a decommodifying WS expansion, with measures such as retirement age decrease and passive cash transfers at its centre (Meardi and Guardiancich, 2021).

Second, the *varieties of capitalism* literature (Hall and Soskice, 2001) argues that 'where production requires asset-specific skills, employers have been key actors with first-order preferences for social programs providing insurance for investment in specific skills' (Korpi, 2006, 170). Swenson (2002) and Mares (2003) also claim employers have played a key role in establishing some social programs. Korpi (2006) objects to these accounts, arguing that whilst employers have sometimes *consented* to social programs as part of bargaining, they have rarely *initiated* these programs as they do not reflect their first-order preferences. I nevertheless consider the possibility that some firms initiated WS policies. Particularly, as recent research emphasised that small firms, which are more cost-sensitive, are more likely to oppose WS policies than large firms, which are often able to use them for personnel management (Paster, 2015, 14–15), I search for evidence for the following rival hypothesis: *Small firms hold higher influence over Hungarian WS policymaking, while large firms have higher influence over Polish WS policymaking*. This would provide an alternative explanation of our puzzle.

4.3 Second hypothesis

The second main hypothesis, based on the discussion in Section 3.5, goes as follows:

HYPOTHESIS 2:

The Hungarian government can stay in office more safely than the Polish government without satisfying its electorate's WS preferences.

The hypothesis will be supported if it can be identified that Hungary clearly ranks higher on variables mentioned as relevant by Garrett (1993) and Kitschelt (2001), i.e. (a) large government majorities, (b) existence of multiple opposition parties in plurality electoral systems, and (c) low credibility of the WS-defending opposition parties on social policy. But given these governments' attacks on democratic institutions (Section 2.1), we may expect that additional variables, too, are relevant for these governments' safety in office. In particular, variables relating to elections being free and fair should be analysed, namely (d) governmental control of the media, which governments can use to spread propaganda, and (e) changes to electoral laws, such as gerrymandering, and presence of major irregularities during elections. High ranking on all these variables makes it more likely that *either* pro-welfare voters fail to vote for the opposition parties – in case of variables (c) and (d) – *or* pro-welfare voters' votes for the opposition fail to significantly endanger the government's electoral stability – in case of (a), (b) and (e).

5. Business Influence

This section empirically evaluates the first hypothesis, examining websites of business, political and other organisations, secondary literature and newspaper articles (following Fairfield, 2015b; Naczyk, 2021). First, the case of Hungary is analysed (Section 5.1), then that of Poland (Section 5.2), after which the findings are discussed (Section 5.3).

5.1 Hungary

To assess business influence on WS policymaking in Hungary, sources of instrumental power are first examined. Following that, I analyse business influence on the 2011 personal income tax (PIT) reforms (relevant for *redistribution*), the 2011 ‘Széll Kálmán Plan’ (relevant for all three WS generosity variables) and the 2018 labour code reform (relevant for *workers’ protection*).

5.1.1 Sources of instrumental power

Hungarian businesses find strong sources of instrumental power in their *relationships with policymakers*. Firstly, partisan linkages between Fidesz and businesses are strong, with high political and financial support of businesses. Since 2006, a majority of Hungarian politically affiliated top 100 billionaires have supported the Fidesz-led right-wing political block (Scheiring, 2021b, 271). Many TNCs, too, are supportive of Orbán, with Budapester Zeitung’s editor reporting in 2018 that ‘90% of German investors in Hungary would vote for Orbán’ (Wirtschaftswoche, 2018; cited in Scheiring 2021b, 273). As concerns financial support, according to Transparency International Hungary (2014), Hungarian political parties are ‘vulnerable to corruption’, with Fidesz spending more than twice the legal limit during the 2014 parliamentary election campaign. OSCE (2018, 15) notes that in Hungary, ‘there are no explicit caps on individual donations’ to political parties, and ‘full lists of donors are neither published nor submitted to relevant authorities’.

Secondly, frequent consultations, often informal, also enhance businesses’ instrumental power. The Hungarian Chamber of Commerce (MKIK), representing primarily SMEs (EC, 2021b), has openly collaborated with Fidesz since the early 2000s (Naczyk, 2014, 11). Former Orbán’s economy minister and current central bank governor György Matolcsy claimed in 2008 – in a programmatic publication on economic policymaking – to have ‘heavily drawn upon their [MKIK’s] analyses to describe the current era’ (Matolcsy, 2008, 313). In February 2010, before the election, Orbán and MKIK’s president László Parragh agreed on mutual cooperation with the aim of integrating ‘the proposals collected and summarized by [MKIK] into the economic policy of the next government' (MKIK, 2010, 5). In 2014, Orbán expressed gratitude for the organisation's 'principled and dedicated' help in recent years (Nol.hu, 2014; cited in Naczyk, 2014, 12). The president of the Confederation of Hungarian Employers and Industrialists (MGYOSZ), representing mainly larger companies (Neumann, 2017), said in 2010 that MGYOSZ's proposals were being integrated into the government's program and that he believed it would remain so in the future (MGYOSZ, 2010). Finally, the government's new instrument, 'strategic partnerships', provided many TNCs with additional direct governmental contacts (Éltetö and Antalóczy, 2017).

5.1.2 Flat PIT

The government's PIT reforms help account for Hungary's fall in redistribution, as discussed earlier. In November 2010, the parliament approved a tax bill which led to an introduction of flat PIT and family tax allowance reforms in 2011 (Gerő and Mátyási, 2011). These reforms resulted in a sharp drop of PIT revenue and had to be complemented by additional taxes on some TNCs, contributing to the downgrade of the country's credit rating to junk status by the rating agency Moody's in 2011 (Bartha, 2014; Moody's, 2011).

Only a few months earlier, in February 2010, Orbán called flat taxation not 'fair' (index.hu, 2011), and Fidesz's manifesto for the April 2010 parliamentary election did not mention flat taxation (Fidesz, 2010). A proposal which included flat PIT, however, appeared in Orbán's June 2010 economic reform plan (EUobserver, 2010). MGYOSZ said, in June 2010, the plan was 'in line with the proposals recently submitted by MGYOSZ leaders to government representatives', and especially praised the tax system changes, including flat PIT (MGYOSZ, 2010). The president of MKIK, Parragh, said in May 2011 that the government had 'built the chamber's proposals into its program', including proposals 'to establish a competitive system of taxation' (BBJ, 2011). VOSZ, too, expressed support for flat-rate PIT including minimum wage taxation (VOSZ, 2011).

Thus, MKIK, MGYOSZ and VOSZ all supported the PIT reform and at least the former two organisations pushed for the policy package through lobbying. The fact that Orbán publicly changed his mind about PIT following the election does not in itself imply that business influence was at play, given the difficulty of taking politicians' pre-election statements at face value. But if we also consider the proclaimed close governmental collaboration with MKIK on economic policy and the reforms' negative consequences on a large number of Fidesz's voters and international investors, it is plausible that the business organisations' lobbying played a key role in this policy being implemented.

5.1.3 Széll Kálmán Plan

Several measures with direct relevance for all three indicators of WS generosity were announced as part of the government's major economic reform, the March 2011 Széll Kálmán Plan (SKP). SKP's proclaimed aims were to reduce public debt, restructure 'mismanaged areas of economic and social life' and boost economic growth (Hungarian Government, 2011, 6). As part of SKP, the government enshrined into the 2011 constitution a commitment to implement public debt-reducing budgets if the public debt is above 50% of GDP. Moreover, 'the share of social transfers unfavourable from the aspect of growth' was to decrease (*ibid.*, 7), social benefits were to become conditional on participance in PWP, and disability pensions were to be restricted (Hungarian Government, 2011).

MGYOSZ supported SKP's 'reduction of public expenditures and public debt', but complained about some aspects of the plan, such as an extension of the bank tax (hvg.hu, 2011). MKIK seemed to approve of the plan, with Parragh complaining a year later that 'SKP 2.0', a slightly amended 2012 version of SKP, would not have been needed had the government been quicker and more consistent in implementing the original plan (hirado.hu, 2012). Strikingly, back in 2009, Parragh proposed numerous measures present in SKP. He claimed it would be 'necessary to reduce taxes and reduce the burden on economic actors, which of course means that public spending must also be reduced' (szegedma.hu, 2009). He additionally complained that the government of the time had failed to 'touch' disability pensions and called for 'making social benefits conditional' (Kamarai Futáro, 2009, 5). This remarkable resemblance of the proposed policies with those in SKP make MKIK's input in designing these measures plausible, in light of the proclaimed close cooperation on economic policy.

5.1.4 Labour code reform

The parliament approved the labour code's 'Slave Act' amendment in December 2018. Here we find the clearest evidence yet of business influence on WS policymaking. Government minister László Palovits publicly admitted in an interview that 'changes in overtime regulations have been called for by the corporations themselves' (Világgazdaság, 2018). However, it is not immediately clear which businesses requested them. MKIK said Hungarian firms had not requested the changes (NYT, 2019). MGYOSZ and VOSZ backed the proposal but said they would prefer if the overtime rules changes were optional (BBJ, 2018).

Evidence suggests that German TNCs called for the changes. Audi, Mercedes-Benz and other big German multinationals publicly denied supporting the law, as did the German-Hungarian Chamber of Commerce, but this was to be expected. German unions representing German TNCs' employees do not like to tolerate poor labour standards in foreign subsidiaries (FT, 2018b; NYT, 2019). Hungary's foreign affairs and trade minister Péter Szijjártó revealed that German companies had in fact supported the measure. Several weeks before the law was passed, he said, during a trip to North Rhine-Westphalia:

> Most investments in Hungary come from North Rhine-Westphalia, with over 11 billion euros invested annually (…) So it is very important that North Rhine-Westphalian companies investing in Hungary have clearly welcomed legislative proposals [the labour code amendment] which further enhance the competitiveness of the country and improve the job market. (Emerging Europe, 2018)

What is more, German companies plausibly *lobbied for* the amendment. For Szijjártó added that 'due to the challenges posed by extremely low unemployment, companies here have long been asking to be reassured that the necessary manpower will be available for their increased investment' (444.hu, 2018).

5.2 Poland

To assess business influence on WS policymaking in Poland, I first examine businesses' sources of instrumental power. I then analyse businesses' influence on the 2016 Family 500+ programme (relevant for *social expenditure* and *redistribution*), the 2016 minimum wage reform (relevant for *workers' protection*) and the 2021 Polish Deal (relevant for *social expenditure* and *redistribution*).

5.2.1 Sources of instrumental power

Relationships of businesses with policymakers are weaker in Poland than in Hungary. Firstly, partisan linkages are less strong, with lower political and financial ties between businesses and PiS. As regards political ties, Confederation Lewiatan, the largest employers' association which also represents numerous subsidiaries of TNCs (Lewiatan 2021), has traditionally maintained close ties with the opposition Civil Platform (Naczyk, 2014). Since 2016, sharp conflicts between the government and all major employers' organisations have occurred. For instance, in 2016, Kaczyński blamed Polish entrepreneurs for failing to invest because 'they believe that it is better to wait for the old times to return' (Lewiatan, 2016). Five employers' organisations, including Lewiatan, called this 'an absurd view', instead blaming the government for declining investment (*ibid.*). In March 2020, the nine largest employers' and entrepreneurs' organisations reactivated a cooperation forum, the Entrepreneurship Council (RP), originally founded in 2003, in order 'to save the economy threatened by a pandemic and a recession' (RP, 2021a). RP has since sharply criticised the government on numerous issues. Turning to financial support, Polish political parties rely heavily on public funding, with individuals' donations limited to 15 times the minimum monthly wage (Bertelsmann Stiftung, 2020a; OSCE, 2020). In 2020, Poland scored higher (6/10) than Hungary (3/10) in the Bertelsmann Stiftung's (2020b) party financing index, which compares countries based on transparency, monitoring and sanctioning of party financing. Thus, clientelism and corruption related to party financing seem less prevalent in Poland.

Secondly, businesses have complained about a lack of consultation. In 2019, Lewiatan's director-general said that 'basic principles and standards of social dialogue' in Poland had been violated (pb.pl, 2019) and that the Social Dialogue Council (SDC) had 'failed to produce a tripartite resolution for the second year in a row' (Czarzasty, 2019).

Yet, the reactivation of RP points to a very high *cohesion* of Polish businesses. The absence of a similar undertaking in Hungary suggests that Polish businesses are more unified. However, as it turns out, this resource was not enough to help them significantly affect WS policy.

5.2.2 Family 500+

The Family 500+ benefit, PiS's key pre-election promise (Polakowski, 2017), was launched in April 2016 (Sowa, 2016). Between 2016 and mid-2019, all families received a monthly benefit of PLN 500 (10.9% of the 2018 average wage) per each second and subsequent child, with low-income families also receiving PLN 500 for their first child (*ibid.*; OECD, 2021e).

Tripartite consultations about the programme had taken place (Gromada, 2017), and the public statements of two of the three biggest employers' organisations represented in the SDC had revealed concerns about it.[6] The President of the Business Centre Club (BCC), which represents businesses of all sizes (BCC, 2021), considered the high expenses of the programme a 'threat' for entrepreneurs (dziennikzachodni.pl, 2016). Lewiatan said the programme's costs were disproportionate to its effects on reducing

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[6] No statement of the Employers of the Republic of Poland (PRP) was found.

poverty and increasing fertility (prawo.pl, 2016a), the two stated objectives of the programme (EC, 2018b). It proposed the benefits should be better targeted, with non-means-tested benefits paid from the third child onwards only. It also believed the benefit would provide work disincentives and that receiving it should affect eligibility for other benefits (prawo.pl, 2016a). The criticised programme features remained unchanged. In July 2019, the programme was extended to include all first-born children (Polish Government, 2021), which made it even less targeted and more expensive.

5.2.3 Minimum wage reform

In July 2016, the *Sejm* passed a reform which, *inter alia,* forced employers to pay most workers on CLCs and people in their first jobs the country's minimum wage (prawo.pl, 2016b).[7] An April 2016 draft of the proposal was 'positively received' by both unions and employers' organisations represented in the SDC (prawo.pl, 2016c). When the *Sejm* passed the law, Lewiatan said it had been actively involved in the policy formulation and was happy with some negotiated exceptions from the minimum wage requirement, for instance for CLCs that are based on tasks to be completed rather than on hours worked (prawo.pl, 2016d).

However, the policy clearly did not represent employers' organisations' first-order preferences. For Lewiatan also said it believed most employers would not be happy with the changes as they would rather have more freedom in how they conduct business (*ibid.*). BCC judged this 'interference by the legislator' to be 'a gross violation of the principle of freedom of contracts' (dziennik.pl, 2016). And PRP, which represents businesses of all sizes including Polish subsidiaries of TNCs (PRP, 2021), pointed to several problems with the new legislation, including a likely exclusion of some young people from the labour market (prawo.pl, 2016b).

[7] Previously, first-job workers' minimum wage was at 80% of the standard minimum wage.

5.2.4 The Polish Deal

The *Sejm* approved the Polish Deal in October 2021 (KPMG, 2021). This tax and contribution package benefits the lower-income population the most, with a tax-free allowance rising to PLN 30,000, ten times above the 2016 level, and planned changes to health insurance contributions forecast to hit high earners and the self-employed in particular (Reuters, 2021). The package was also projected to increase pensions and health care spending (Politico.eu, 2021a).

RP, unifying all significant employers' organisations, sharply criticised the programme, saying it disturbed 'stability and legal certainty' among citizens and entrepreneurs who had 'based their economic calculations about long-term contracts on the current shape of the tax system' (RP, 2021b). It also complained the package redistributed from active to passive labour market participants, such as the retirees (RP, 2012c), and criticised the public consultations process (RP, 2021d).

5.3 Discussion

The examination of Hungary's WS reforms has pointed to an influence of domestic business interest groups on the first and second examined reforms, and of TNCs on the third analysed reform. Strong sources of *instrumental power* were identified in relationships with policymakers in Hungary. Lobbying was identified in all cases, plausibly presenting an action through which instrumental power was engaged. Moreover, in the labour code amendment case, TNCs' requests for assurances related to investment suggest that *structural power* may have been engaged as well. This evidence supports Hypothesis 1. Organisations representing businesses of all sizes approved of and lobbied for WS retrenchment, which contradicts the rival hypothesis that firm size matters for WS support.

By contrast, the analysis of Poland's WS reforms has shown widespread opposition of business interest groups to WS expansion, plausibly stemming from their weaker ties to politicians. In the only case where evidence of expressed positive views by employers' organisations about the proposed WS reforms was identified, namely the minimum wage changes, disapproving statements about the wider measure by all main employers' organisations were also found. This suggests the policy did not represent their first-order preferences, and by positively evaluating some aspects of the policy they perhaps hoped to maintain influence over policymaking. Furthermore, neither Lewiatan (the largest employers' association) nor PRP (which, like Lewiatan, represents some subsidiaries of TNCs) favoured the examined reforms more than other employers' organisations. Moreover, in 2021, all employers spoke in one voice against the Polish Deal. This evidence, too, contradicts the rival hypothesis and strengthens Hypothesis 1.

6. Electoral Margin of Safety in Office

This section empirically assesses Hypothesis 2. In this section, too, I first analyse the case of Hungary (Section 6.1) and then that of Poland (Section 6.2), referring to variables (a)-(e) presented in Section 4.3, before summing up the findings (Section 6.3).

6.1 Hungary

As we shall see, Fidesz has benefitted from a wider electoral margin of safety than PiS. As regards variable (a) – large government majorities – Fidesz, in alliance with the Christian Democratic People's Party (KDNP), has held a constitutional two-third majority in the one-chamber Hungarian parliament since 2010. This has strengthened its electoral safety: even if it lost some seats following a radical reform, it could still win a majority simply because its original majority was so large.

Under Fidesz, Hungary's mixed electoral system has shifted closer towards a plurality system. This is relevant for variable (b), namely the existence of multiple opposition parties in plurality electoral systems. Under Hungary's electoral system valid until 2010, some MPs were elected in two rounds for single-member constituencies, and others for 'national lists' on a proportional representation basis (Krugman, 2014). Changes in 2011 replaced the two-round system for single-member constituencies with one-round first-past-the-post system, and increased the proportion of MPs elected for individual constituency seats from 46% to 53% (Political Capital, 2014). Thus, most MPs are now elected using the Westminster-style system. The breakthrough of the far-right Jobbik into the parliament in 2010, which has since been similarly strong as the Socialists (MSZP), enabled Fidesz to keep disappointed voters divided between the two main opposition parties (Policy Solutions, 2014).

As regards the credibility of welfare-defending opposition parties on social policy – variable (c) – MSZP, traditionally the biggest WS defender, lost public trust on WS policy when it was in power between 2002 and 2010, having failed to sustain generous transfers after embracing neoliberal development (Innes, 2014). Its extensive 2002 WS expansion was followed by austerity cuts in 2006, just after its centre-left coalition won a second term on a 'reform without austerity' platform (Fabry, 2019, 171). Eventually, Hungary needed a bail-out from international organisations during the financial crisis, further damaging MSZP's credibility for years to come (*ibid.*, Scheiring 2020).

Concerning media influence – variable (d) – the government controls appointments to key public media and the Media Council, which enforces media laws and can sanction journalists (Brouillette and van Beek, 2012; Kelemen, 2017). Moreover, private media are also largely under Fidesz's influence (Sata and Karolewski, 2019). Fidesz-allied oligarchs purchased several influential media outlets, sometimes using loans from state-owned banks (*ibid.*; NYT, 2018). Thus, about 90% of Hungarian media were under Fidesz's direct or indirect control in 2017 (Dragomir, 2017). Róna *et al.* (2020) find that higher media consumption in Hungary leads to higher support for Fidesz.

As concerns electoral rules and practices – variable (e) – the government rewrote the constituency map in 2011 in a way that benefits Fidesz. Electoral districts are very unequal in size, with the population in left-leaning constituencies typically 5,000-6,000 larger than that in right-leaning constituencies (Krugman, 2014). In 2014, Fidesz won a two-thirds majority despite gaining fewer votes than in 2006, when it lost the election (Scheiring, 2021b). Moreover, local Fidesz mayors and bureaucrats have been systematically conditioning WS benefits, including PWP eligibility, on applicants' voting for Fidesz candidates (Mares and Young, 2019; Róna *et al.*, 2020).

6.2 Poland

When it comes to parliamentary majorities – variable (a) – PiS has held nowhere near as comfortable a majority as Fidesz, with the PiS-led United Right coalition gaining 235 seats in the 460-seats *Sejm* in both 2015 and 2019, a majority of mere four MPs. Although the PiS-led 'United Right' coalition was very stable before 2020, it lost its majority in the *Sejm* in August 2021 over disputes between PiS and the satellite Accord party (Politico.eu, 2021a; 2021b). The coalition, moreover, lost the Senate majority in 2019, with opposition parties now able to the delay legislation and influence some state appointments (Reuters, 2019).

As concerns variable (b), the existence of multiple opposition parties is only relevant in plurality electoral systems. Poland's MPs are elected through a proportional representation system, which limits the extent to which the government can strategically split the vote of dissatisfied voters. Concerning the credibility of welfare-defending opposition parties – variable (c) – SLD was traditionally Poland's biggest WS defender. Like MSZP, SLD lost popularity during the 2000s after failing to deliver on its WS promises and promoting neoliberal policies (Innes, 2014). The SLD-led left coalition fought against temporary contracts as one of its chief issues in the 2015 election (Marcinkiewicz and Stegmaier, 2016), but failed to enter the parliament, losing part of its voters to PiS (Section 3.3). However, its popularity subsequently increased (Rzeczpospolita, 2018) and it gained 49 MPs in 2019. Growing in popularity and credibility after 2015, the left coalition promoting similar WS issues as PiS was clearly too dangerous to ignore, making any PiS's potentially desired retrenchment harder.

When it comes to media influence – variable (d) – the Polish government controls appointments to key public media outlets, with state-owned media turned into channels of pro-government propaganda, but its desire to gain control over private media was less successful and they mostly remain free (Sata and Karolewski, 2019). A recent attempt to establish control over the American-owned channel TVN, critical of PiS, failed (Politico.eu, 2021c).

Finally, as regards electoral rules and practices – variable (e) – Poland has not seen changes to electoral laws or election irregularities comparable in their significance to those in Hungary, such as gerrymandering or electoral clientelism. Probably the biggest upheaval yet was caused by prime minister Morawiecki's attempt in May 2020 – later found by a court to have broken the constitution – to rush through a presidential election amidst a Covid-19 lockdown via a postal ballot, criticised by opposition parties over concerns about democratic standards (Euractiv, 2020; Euronews, 2020). The election was eventually postponed after coalition disagreements (Euronews, 2020).

6.3 Summary

Hungary ranks higher than Poland on all examined variables of the electoral margin of safety. The Hungarian governing party has had a larger parliamentary majority; has created a more favourable electoral system; has lacked a credible WS-defending competitor in WS policy; has controlled not just the public but also most of the private media; and has gerrymandered electoral districts and electorally coerced voters. These findings support Hypothesis 2.

7. Conclusion

PRA has been neglected in recent WS scholarship, 'often used only as the theoretical antagonist of the argument being put forth – a strawman mentioned only to be dismissed' (Arnholtz and Refslund, 2021, 2). This paper has shown that examination of power balance between classes can help us understand cross-country differences in WS development, even in countries with weak unions and left parties. Therein lies this work's biggest contribution. Paying attention, firstly, to business influence over WS policy and, secondly, to how safe governments are in office without satisfying their electorates' WS preferences has turned out to be crucial. These variables deserve to be given more focus in future PRA research. Moreover, by focusing on the extent to which elections are free and fair, as my extension to Garrett's (1993) and Kitschelt's (2001) theories has done, we can add a productive analytical tool for understanding WS differences in democratically deficient countries. Furthermore, this work suggests that PRA scholars should take more seriously the fact that other than left parties may represent workers' WS preferences.

Possibly the biggest limitation of this paper is that the outcome is somewhat overdetermined. Whilst the class power balance is more in favour of capital in Hungary than in Poland, each of the two key variables – the higher business influence over WS policy in Hungary and the higher electoral safety of Fidesz – would *alone* have caused this to happen. Of course, there may be good reasons to believe that business influence could not be so high in Hungary if the government faced higher electoral constraints. After all, winning elections is plausibly governments' main objective (Pierson, 1994, 17), and business interests often contradict electoral interests. However, this cannot be empirically established based on this study, and further research into the potential interdependence of these two variables is desirable.

Future research could also undertake a robustness analysis of my findings by analysing the two parties' previous WS policies. Both Fidesz and PiS had been in government prior to being elected in the last decade, with Fidesz leading a centre-right coalition government (1998-2002), and PiS leading a right coalition government (2005-2007). During their first tenure, interestingly, the Fidesz-led government did not seem to significantly retrench Hungary's WS, whilst the PiS-led government did retrench Poland's WS.[8] This may partly have been influenced by the preferences of the two

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[8] The absence of OECD and Eurostat data on Hungary's 1998 public social spending means that we cannot ascertain with full confidence that Hungary did not retrench its WS under the first Orbán government. However, in 2002, Hungary's public social spending was similar (at 20.8% of GDP) as in 1999 (when it was at 20.9%) (OECD, 2021a). Data for redistribution through taxes and transfers is not available. Poland's public social spending decreased between 2005 and 2007 from 20.9% of GDP to 19.5% (OECD, 2021a). Redistribution also decreased (see Figure 1b). Examining workers'

parties' coalition partners. But variables identified as relevant in this study may also have played a role. For instance, in 2005, PiS replaced SLD in government, a party with a very low WS credibility at the time (Innes, 2014). Moreover, PiS's electorate was more affluent and conservative (Meardi and Guardiancich, 2021). Fidesz faced significantly higher electoral constraints when previously in government. It did not significantly attack democratic institutions, being strongly focused on EU accession. These preliminary considerations deserve deeper analysis, and business influence should also be examined.

Finally, whilst my analysis of business influence focused primarily on the sources and actions of businesses' instrumental power in Hungary and Poland, future research could more systematically analyse how strong their structural power was, and when exactly each type of power – or both – was engaged.

protection in the period of Fidesz- and PiS-led first governments is outside the scope of this work.

8. References

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