Bachelor Thesis

Economic and Institutional Effects of Populism

Case Studies for Selected Central European Countries using Synthetic Controls

Author: Yannick Scharf
Student ID: 17203267
Mail: y.scharf@zeppelin-university.net

Course of Study: Sociology, Politics & Economics (B.A.)
Semester: Fall Semester 2021
Submission Date: November 18, 2021

Supervisors: Prof. Dr. Jarko Fidrmuc
Fabian Reck, M. Sc.
Abstract

While much research has been done on the causes of populism, consequences of government takeovers by populist parties remain under-researched. Contributions on institutional effects are primarily centered around indicators of liberal democracy while research string on economic effects has only begun to develop in recent years. This paper simultaneously contributes to the broad field of research on consequences of populism and to specific research on the countries under consideration by quantitatively analyzing and comparing five cases: Hungary, the Czech Republic and Poland are considered as main central European populist-led countries, Slovakia & Austria are added having populist-influenced governments. For empirically estimating the impact of populist government takeovers on key economic and institutional variables the synthetic control method and difference in-difference analysis are used. The results show that scores for indicators related to quality, reactivity and anti-corruption efforts of governments predominantly declined. Those observations stand in stark contrast to converse core promises made by all the considered populist parties. For the economic variables, results are mixed, with negative trend regarding GDP p.c. and productivity in Hungary, moderately positive developments in Poland and scant significant observations in the Czech Republic. The policy context introduced in the qualitative part allows analyzing potential connections to host ideology, unconventional economic policy, direction of fiscal & social policy as well as economic performance of predecessors. The consideration of Austria and Slovakia as well as an earlier, populist-involving Czech coalition government illustrates key differences between the impact of populist-led and populist-influenced governments. Furthermore, the employment of two methods and varying controls allows methodological comparisons.
# Table of Content

1. Introduction.........................................................................................................................1
2. Populism – Theory and Review.........................................................................................3
   2.1. Definition......................................................................................................................3
   2.2. Review: Research on populism.....................................................................................4
   2.3. Review: Populism, the Economy and Institutions......................................................5
3. Qualitative part: The cases...............................................................................................8
   3.1. Hungary.......................................................................................................................8
      3.1.1. Background & rise to power ...............................................................................8
      3.1.2. Policies.................................................................................................................9
   3.2. Poland.........................................................................................................................13
      3.2.1. Background & rise to power .............................................................................13
      3.2.2. Policies.................................................................................................................14
   3.3. Czech Republic.........................................................................................................17
      3.3.1. Background & rise to power .............................................................................17
      3.3.2. Political agenda and policies............................................................................19
   3.4. Slovakia.....................................................................................................................20
   3.5. Austria.......................................................................................................................20
4. Quantitative part.............................................................................................................21
   4.1. Description of the variables and the data....................................................................21
   4.2. Synthetic control method – Functioning.................................................................22
   4.3. Assumptions..............................................................................................................25
   4.4. Treatment point........................................................................................................26
   4.5. Synthetic control method – Results.........................................................................26
      4.5.1. Hungary..............................................................................................................26
      4.5.2. Poland...............................................................................................................28
      4.5.3. Czech Republic................................................................................................29
      4.5.5. Slovakia.............................................................................................................31
      4.5.6. Austria...............................................................................................................32
   4.6. Difference-in-difference analysis – Functioning......................................................33
   4.7. Difference-in-difference analysis – Results..............................................................34
5. Analysis & Interpretation...............................................................................................35
   5.1. Economic observations............................................................................................35
   5.2. Institutional observations.........................................................................................41
6. Conclusion.......................................................................................................................48

Appendix.............................................................................................................................52
Bibliography.........................................................................................................................53
Table of Figures

**Figure 1:** Output of the synthetic control method regarding the real GDP per capita at constant 2017 national prices  p.39

**Figure 2:** Output of the synthetic control method regarding the productivity / real GDP per hour worked  p.40

**Figure 3:** Output of the synthetic control method regarding the Varieties of Democracy Liberal Democracy Index  p.44

**Figure 4:** Output of the synthetic control method regarding the WGI Voice and Accountability score  p.45

**Figure 5:** Output of the synthetic control method regarding the WGI Government Effectiveness score  p.46

**Figure 6:** Output of the synthetic control method regarding the WGI Control of Corruption score  p.47

**Equation 1** (Synthetic Control Method)  p.23

**Equation 2** (Synthetic Control Method)  p.23

**Equation 3** (Synthetic Control Method)  p.23

**Equation 4** (Synthetic Control Method)  p.23

**Equation 5** (Synthetic Control Method: Significance)  p.24

**Equation 6** (Synthetic Control Method: Significance)  p.24

**Equation 7** (Difference in-difference analysis)  p.33

**Equation 8** (Difference in-difference analysis)  p.34

**Equation 9** (Difference in-difference analysis)  p.34

**Equation 10** (Difference in-difference analysis)  p.34

**Equation 11** (Difference in-difference analysis)  p.34
List of abbreviations

CEE = Central and Eastern Europe
EU = European Union
FDI = Foreign Direct Investment
GDP = Gross Domestic Product
GDP p.c. = Gross Domestic Product per capital
IMF = International Monetary Fund
MSPE = Mean Squared Prediction Error
NATO = North Atlantic Treaty Organization
OECD = Organisation for Economic Co-operation and Development
R&D = Research & Development
SME = Small and Medium-sized Enterprises
SOE = State-Owned Enterprise
UK = United Kingdom of Great Britain and Northern Ireland
1. Introduction

Liberal optimists, believing in rosy forecasts of the future, referring for example to Fukuyama’s “end of history” (Fukuyama, 1989) hypothesis, long expected that a stabilization and growth of the Western democracy is inevitable. In recent years, however, such notions became challenged, not only by a rise of new contestants on the global stage, but also crucially by a crisis of democracy in many Western nations. One word subsequently started being on the lip of everyone discussing this challenge, media, analysts and politicians: Populism. Be it the Brexit vote, the election of Trump, illiberal reforms in Poland and Hungary, political controversies in Italy or the rise of new anti-system parties in almost all democracies, discussions about causes and consequences always include that term. It therefore comes to no surprise that academic attention on this area, too, spiked in recent years. Various scholars researched on causes of the rise of populism, heated debates whether economic or cultural factors are decisive (Inglehart & Norris, 2016) are still ongoing. If populist power takeovers would only be a fear of established parties, a specter of theory, research would probably not need to go too much further. It is, however, well known that populist parties managed to join government coalitions, influence key decisions, or even take over governments altogether. Therefore, an additional perspective became important: one asking for the consequences of a populist-led administration. It seems to be an established observation in academic literature that effects on liberal democracy, democratic institutions, such as rule of law, the protection of minority right and various checks and balances are gravely negative (e.g. Albertazzi & Mueller, 2013; Bartha et al., 2020; Huber & Schimpf, 2017; Lacey, 2019), an institutional perspective going beyond those indicators and focusing on the quality of governance, is however, so far mostly absent. A similar under-researched field appears to be the question about the economic consequences of populism – apart from descriptive works about policies and works focusing on Latin America – as other researches focusing on this area also note in their reviews (Funke et al., 2020; Toplišek, 2020). Although some scholars started to fill this gap by adding both large-scale studies (Funke et al., 2020) and more detailed ones focusing on single cases (e.g. Born et al., 2019, 2020; Breinlich et al., 2020; Meyersson, 2017), it can be concluded that this string of research is one that is still developing, that additional contributions are certainly needed. This paper aims at supporting the growth of this important field of research by estimating economic and institutional consequences of populist takeovers of the government in the three Central European countries of Hungary, Poland and the Czech Republic considering GDP p.c. in general as well as on the expenditure side, unemployment and productivity as key economic variables and the liberal democracy index as well as the World Bank Worldwide Governance Indicators as institutional measurements.

The paper contributes to existing research in three different ways:

- First, it adds to endeavor of filling the gap regarding research about the (economic and institutional) effects of populism by providing five additional case studies.

- Second, it adds to the research about those respective countries by complementing existing literature about policies being implemented by those populist governments (being reviewed in part 3) with a quantitative analysis of their outcome.
• Third, the application of two different methods with two different sets of control/donor countries each allows drawing contributions about the pros and cons of both methods as well as different decisions regarding the selection of cases introduced as controls.

The subsequent part is an introduction of the concept of populism, oriented on the widely popular definition developed by the Dutch scholar Mudde (2004, 2007). In the same section, a review naming main strings of academic research on populism is conducted. The second part then focuses on existing work on institutional and economic consequences of populism and underlines the need for further research in those areas. Section three subsequently introduces the main cases analyzed in this contribution focusing on the rise to power, ideology and policy of the respective parties and in addition gives background about the local party systems. Furthermore, two additional cases are added: Austria and Slovakia. Both do not represent countries where “full-fledged” populists governed a country, but two varieties of how a country’s government can be partly influenced by populism. In case of Slovakia this is by the power takeover of an initially populist party that chose to – at least partly - “mainstreamize”, in the case of Austria by the formation of a collation by a chancellor of a classical center-right party, who has some populist tendencies, with a far-right populist party. The empirical part follows.

There, two methods will be used. A main focus lies on the analysis of the cases using the synthetic control method. The logic behind this method is that a synthetic doppelgänger of an observed “treated” case can be created in form of a weighted average of the respective observations in various “donor” countries, considering a number of relevant controls / covariates. This method, being developed by Abadie in 2003, has since gained traction in many areas, being used for diverse purposes ranging from research about the economic effects of an EU accession (Campos et al., 2019) to an estimation of effects of mask mandates during the Covid19 pandemic (Mitze et al., 2020). More importantly, however, it became increasingly popular as the method of choice for works comparable to this one, including research about the consequences of the government takeover by populist/authoritarian rulers (Born et al., 2020; Meyersson, 2017) or populist-influenced referenda (Born et al., 2019; Breinlich et al., 2020).

The second method being used is a classic of economic research on governmental measures and changes being widely popular since the 1980s, but having a history dating back to the 40s of the last century (Angrist & Krueger, 1999): Difference in-difference analysis. This method, based on comparing post-treatment differences between a case and control cases to the pre-treatment ones, has gained increased attention with the most recent awarding of the Nobel prize for economics. Joshua Angrist and Guido Imbens received their Nobel Prize for methodological contributions regarding the drawing of causal conclusions from natural experiments. While the framework provided by them goes beyond the mere use of conventional methods, difference in-difference analysis is one of the methods being used in the study being singled out in the justification of the Nobel Prize (Angrist & Krueger’s (1991) contribution on education and income). 2021’s third Nobel laureate for economics, David Card, received his prize for empirical contributions to labor economics, with a prime example being his and Krueger’s (1994) paper on minimum wages and employment – again a study
using difference in-difference analysis (Committee for the Prize in Economic Sciences in Memory of Alfred Nobel, 2021).

After an introduction of the methods and overview about the results, these will be compared and connected to the policy context introduced in part 3. For economic variables, a heterogeneous trend is observed with a clear GDP p.c. and productivity decline in the case of Hungary and an opposite trend in Poland hinting in the direction that the more radical populist-motivated economic policy changes in Hungary, economic legacies and social policy might play a role. A focus on unemployment of all three populist governments translates into results with mixed significance, while the inflation rate remains generally unaffected by their policy. On the institutional side, a clear decline in liberal democracy is in line with empirical literature while deteriorations in Voice and Accountability, as well as Government Effectiveness scores and mixed to negative performance in terms of Controls of Corruption expose a contrast between populist rhetoric and policy. In general, a more moderate orientation of the Czech Populist government translates into smaller effects on the observed variables, proving the role of host ideologies. When the treatment date in the Czech Republic is changed to 2014, where the populist party ANO entered the government only as junior partner, the effects on different variables are weaker or even go in the opposite direction. This shows the different extents of effects between populist-influenced and populist-led governments. Those observations get reinforced considering more moderate effects in the Slovak and Austrian case.

2. Populism – Theory and Review

2.1. Definition

As basis for the subsequent empirical analysis of the development in the respective countries, the following part will provide a definition of the term “populism” and give a brief overview about main strings of research in the field.

While there are numerous definitions for populism, the one that had emerged as the dominant one and also widely being used by economists (Funke et al., 2020), was developed by the Dutch researcher Mudde (2004, 2007). It focusses on the way how populists frame the discourse, rather than specific ideological elements. In this definition, a dichotomization in the sense of classifying the society into two antagonistic groups, “the people” and “the elite”, is seen as the core element of populism. Populists refer to an assumed general will, a Volonté Générale, or “Volkswille” that they claim be the sole representants of, opposing an “elite” composed of e.g., established parties, scientific community, public administration, big business, media and otherwise influential or privileged actors. They present their leaders as embodiment of the will of the people, their movement or party as “voice of the people”, rather than as advocates for a specific interest or ideology. This goes hand in hand with a moralization of politics, with elites being framed as corrupt or decadent while the “ordinary people” and their representant – the populist party – are displayed as pure and honest. From an institutional perspective, populists subsequently reject pluralist and liberal notions of democracy with an accentuated role of checks and balances, minority rights and legal guarantees, and advocate for a purely majoritarian notion of democracy and reinforced popular sovereignty. Their anti-pluralism subsequently results in a dichotomization of policy questions. Those are presented as
connected, as part of a greater cause, so that a full agreement to the populist agenda is to be chosen over a picking and choosing of different positions on different areas. While populism can be a corrective force when being present in the opposition, its anti-liberal character presents a sizeable threat for democratic institutions once populist become power-holders (Faludi, 2014; Mudde, 2004, 2007; Mudde & Kaltwasser, 2017). This definition can be applied for populists with different ideological orientation as well as in various time periods and geographical regions (Funke et al., 2020), making it very useful for applied research.

Mudde’s definition has been operationalized by a team of researchers in a database called PopuList, offering a reliable classification of parties as populist or non-populist as well as regarding their far-left, far-right and/or Eurosceptic orientation with data reaching back to 1989. The index has been used for several publications as well as for media contributions and databases (Rooduijn et al., 2021). Therefore, it is well suited as basis for classifying a country as populist-led in this contribution.

2.2. Review: Research on populism

Academic research on populism has gained increased popularity in recent years, triggered by populism’s success in different democratic regions of the world: The share of votes for populist parties in Western European countries has doubled since the 1960s, their share of seats tripled (Inglehart & Norris, 2016). Political delusion and unhappiness with experiences of the transition era gave salience to populists in the CEE region (Mudde & Kaltwasser, 2017). Brexit and the election of Donald Trump shocked the liberal world. Especially since 2016, the number of academic publications on populism exploded, almost dripping within two years (Guriev & Papaioannou, 2020).

A main string of research dealt with the causes for the rise of populism. Inglehart and Norris (2016) present two main explanations being widespread in academic literature: Economic insecurity and cultural backlash. The proponents of the first thesis argue that economic insecurity caused by post-industrial changes such as rising inequality, automation, economic globalization, erosion of social safety nets and welfare states as well as austerity policy led to resentments against the political class. A new blue-collar underclass emerged, feeling not represented by the established parties. This rise of a winners vs. losers of globalization cleavage is then exploited by populist parties promising the return to a supposed “golden past”. The cultural backlash hypothesis, in return, attributes the rise of populism to a reaction of once-dominant sectors of the population against a progressive value change occurring in Western societies. While progressive movements have been successful in creating a cultural shift, being connected to the emergence of new generations, older generations and parts of the population with a lower educational and social status reject such a change. Therefore, so the advocates of this thesis argue, a new political axis emerges on top of the classical left-right one, plotting populists against cosmopolitans. Values such as protectionism, nativism, anti-globalization, traditional social roles and strong individual leadership are preferred by those on the populist end of the axis. EU membership, open borders, diversity and liberal democratic institutions are seen as a cultural threat.

While Inglehart & Norris focus their research on Western democracies, others also put their attention on the post-socialist region. Kriesi & Grande (2012), whose main claim is that party
systems not adequately fulfilling their representative function are a crucial cause for the success of populists, consider the lack of party system institutionalization in the post-socialist region as a key factor facilitating the populist success there. They define party system institutionalization in that way that actors agitate based on the premises that rules and behaviors of the party system prevail, that the configuration of party systems does not change from one election to another. No new challengers suddenly emerge and electoral volatility remains low. In an institutionalized party system, parties have stable roots in society, allowing to structure the preferences of voters and maintain constant relative ideological positions. Here, parties are seen as legitimate political actors with independent status and values, not subordinate to the interests of their leaders. The new party systems of post-socialist states in contrast are, so they analyze, generally not institutionalized by these standards: electoral volatility remains high, leading to quick changes in voter preferences and the frequent entry and exit of parties. Parties have no stable roots in society and there is a lack of cleavages structuring the party system. Parties are not considered as legitimate independent actors and suffer from unstable organization. In such an environment, new populist challengers have good opportunities to join the electoral market. There, they can exploit a dissatisfaction with elites, especially their administrative and political performance, as well as a general feeling of distrust, the perception of corruption, of being unfairly treated by authorities. This setting leads to a general unhappiness with democracy. An anti-elite sentiment turns relevant parts of the population into potential voters of populist parties for which anti-elite rhetoric dominates over ideology and that emphasize on a certain “newness”, challenging the “old politics” (Kriesi & Grande, 2012).

This description of post-socialist party systems is in line with the observations of Gallagher et. al (2011) who consider a lack of stability, the frequent collapse of old and the emergence of new parties, frequent ideological shifts and the lack of cleavage-based party system structures as defining features of post-socialist party systems. These preconditions cause an openness of the electoral markets, creating numerous opportunities for the emergence of various new parties. In addition, various scholars observed a strong tendency to anti-incumbent voting, regardless of the government’s actual performance, in the CEE region (Jaskiernia, 2017; Sitter, 2011).

Other specific factors identified as facilitating the success of post-socialist populists include resentments against concessions that liberal parties archived for minority rights. Identity politics as well as social authoritarianism and nationalism are especially salient for radical right-wing populists being successful in the region. Those populists mobilize parts of dominant sectors of the population that fear for a status reversal. In addition to cultural/identity issues, economic volatility and policy uncertainty seem to be important predictors for the support for populists parties here – much more than objective grievances (Bustikova, 2014).

2.3. Review: Populism, the Economy and Institutions

The following part reviews existing literature about economic and institutional consequences of populism, thereby underlining the need for further research in the area. In the same section, related fields of research are introduced.
While the causes of populism evidently are a widely discussed topic in academic literature, its economic consequences remain under-researched. Toplišek (2020) noted in his review of the relevant literature that there are many studies on the impact of populism on democracy, rule of law or immigration while economic policy is often being neglected. While some studies focus on the economic program of populist parties in opposition, observing a combination of economic liberalism with xenophobic exclusion, selective economic-antiliteralism (concerning e.g. trade and globalization) or protectionist and statist policies – especially in the CEE region – there are few studies on the actual policy of governing populists (Toplišek, 2020). According to Toplišek, one reason for that is a long-held assumption of comparative populism researchers that economic issues remain secondary to the cultural programmatic of especially right wing populists (Mudde, 2007; Toplišek, 2020). In addition, prior researchers on populism in the CEE region claimed that the development strategy pursued by countries does not change depending on the ideology of the government (Drahokoupil, 2008; Toplišek, 2020). Toplišek’s research on the policies pursued in Hungary and Poland, which will be introduced later, makes him doubt. The author, however, also stays short of conducting a quantitative analysis of the economic effects of the populist policies.

The same lack of literature was observed by Funke et al. (2020) who concludes that work on the macroeconomic consequences of populism is concentrated on the Latin American region. There, short lived booms caused by fiscal expansion which at the end proved to be unsustainable and triggered crises has been described as the “populist cycle”. One of the most recent studies on this area was done by Cachnosky and Madilla (2020). In their contribution, they estimate the economic effects of especially left-wing populist governments in Latin America using a panel data analysis. They conclude that the effects of a government takeover by such a party is similar to that of an economic crisis regarding short-term but especially long-term reduction in per capita income and GDP, while growth rates are not significantly affected.

For other regions, papers on the consequences of populism are, according to the review of Funke et al., mostly narrative and focus on political outcomes. Additionally, more general works on the influence of the ruling party on economic performance (e.g., Democrats or Republicans) as well as papers on the economic drivers of populism were published. The ifw Kiel researchers aim to fill this gap by conducting a large-scale study on the economic effects of populism using synthetic controls. Specifically, they compare the development of an aggregate of populist-led economies, considering 60 large countries encompassing 95% of the worlds GDP from 1900 to 2008 to a synthetic control, differentiating between left-wing and right-wing populists. Their results estimate that the average costs of populism are a reduction of real GDP p.c. and consumption by 10% within 15 years, while the unemployment remains mostly unchanged. Left-wing and right-wing populists as well as Latin American and non-Latin American populists seem to have those negative economic effects. They used additional synthetic control models to go deeper into the causes for that trend. They identified as relevant factors economic nationalism and protectionism being expressed especially by a hike in tariffs, unsustainable macroeconomic policies, including rising tariffs as well as a decline in checks and balances including an independent judiciary and free press (Funke et al., 2020).
More recently, single-case studies on the effect of Brexit, Trump and Erdoğan have been published. On the methodological side, those studies clearly that synthetic controls are becoming a dominant method for this string of research. They include two studies by Born et al. (2019, 2020) that focus on the effects of Brexit and the Trump-presidency and show a 1.7-2.5% GDP loss caused by Brexit by beginning of 2019 (Born et al., 2019), and a negligible Trump-effect on growth and different labor market variables (Born et al., 2020). Breinlich et al. (2020) also focus on the Brexit and observe a 17% increase in outward investments from the UK to the EU as well as a 9% reduction of EU to UK investments by March 2019. Meyersson (2017) examined the Turkish case and more specifically the effects of the Erdoğan administration. His synthetic control analysis showed that until 2013, the economy did not grow faster than the synthetic model, or, if only Muslim countries are considered as controls, even slower. While there were positive effects on infant and maternal mortality, as well as on university enrollment, labor market participation declined, and unemployment raised. While all those studies are relatively recent, they add to a collection of prior works estimating the effect of political changes on economic variables using synthetic controls, considering e.g. the effects of economic liberalization (Billmeier & Nannicini, 2013) or EU membership (Campos et al., 2019). Another related string of research is about the economic effects of democratization: Acemoglu et al. (2019) for example recently estimated that there is a 20% positive long-run effect on the GDP caused by democratization.

In the area of consequences of populism on institutions, most research focusses specifically on liberal democracy indicators. Various authors emphasize on the well-known challenge populist governments pose for liberal democratic institutions, especially in the areas of separation of power, independent judiciary, protection of minority rights, procedural elements of democracy, unhindered work of the opposition or freedom of speech (Albertazzi & Mueller, 2013; Bartha et al., 2020; Havlík, 2019). Some works focus specifically on individual elements, such as the one of Lacey (2019) who concludes that the rise of populism in Europe causes a significant threat to rule of law. Huber & Schimpf (2017) use a pooled cross-sectional design to empirically assess the effects populism has on liberal democracy. Using data from EU countries between 1990 and 2012 and taking liberal democracy index as well as the democracy barometer as dependent variables, they conclude that a government participation of right-wing populists has a significant negative effect on the quality of liberal democracy and minority right protection. Apart from a confirmation of assumptions about the effects of populism, their results underline the role host ideologies play, since they did not observe the same extent of negative effects in case of left-wing populism.

Regarding institutional consequences going beyond the quality of liberal democracy less literature exists. While there are some works focusing on the effects on economic institutions, they are mostly descriptive, such as the contribution of Devinney and Hardwell (2017) which is written from a business perspective. They consider pressure to deglobalize, rent extraction, ideological divestments, potential nationalization and a general consideration of firms as instruments for the state as ways in which populist power takeovers negatively influence the economic institutional setting. Rode and Revuelta (2015) observe in their review that there is a lack in literature about the consequences populist governments have for economic policy and institutions – apart from some works specifically focusing on left-wing populism. Using a panel data estimation for Europe and Latin America, they seek to partly fill this gap. Their
conclusion is that the takeover of the government by populists leads to a significant and substantial decline in the quality of economic institutions, especially through a reduction of economic freedom, legal security, freedom to trade and tightened regulations. They do not observe large differences in the policy of leftwing and rightwing populists. Other authors, such as Keefer et al. (2019) or Agerberg (2017), take the opposite perspective and research on how a low quality of government facilitates the rise of populists. Keefer et al., too, note that there is an evident lack of literature on the connection between quality of government and populism. Meyerson takes a similar approach as in the presented contribution and looks at institutional consequences in a single case – the Turkish one, using synthetic controls, noting a negative development on the Polity Index, the Liberal Democracy Index and the Political Terror Index after the government takeover by Erdoğan (Meyerson, 2017).

3. Qualitative part: The cases

In the upcoming section the main cases being considered are introduced focusing on the background of the respective political systems, the ideology and rise to power of the respective populist parties as well as their polices.

3.1. Hungary

The first part of the section will introduce the background of Viktor Orbán’s rise to power in 2010 and will give an overview over his government’s policies with a special focus on the economic side.

3.1.1. Background & rise to power

Ágh (2015) analyzes that the Hungarian state remained unable to manage key parts of the transformation in the years after transition. Parties were catch-all oriented, with small organizations and weak social foundations. Their connection to socio-economic cleavages and their sensitivity for popular demands remained limited, a spoils system with frequent and alternating political appointment of public servants developed. Given this environment, a Western style classical party system could not develop; splits, mergers and disappearances of major parties remained common. The political situation stood in stark contrast to the high expectations Hungarian people had in the transition. Social polarization as a result of transition, instead of the quasi-automatic connection of democracy and general welfare many have hoped for, led to widespread dissatisfaction with the new order. This environment of polarization and very limited trust in institutions facilitated an anti-incumbent voting pattern and created a fertile ground for populist messages. Those populist messages were available on the electoral market since shortly after Fidesz’ electoral defeat in 2002, when the party decided to change strategy. They engaged in social populism, capitalizing on the discontent with social, welfare- and economic developments, and national populism, speaking of the shame of Trianon and left-wing anti-national enemies from within simultaneously. In addition, they increasingly chose the street as their arena of choice, organizing partly violent demonstrations. Their rhetoric started to revolve around a presentation of their movement as the only representant of the nation, with Orbán’s “The nation can never be in opposition” (Ágh, 2015, p.206) speech as a famous example. This analysis is shared by Rogers (2019) who concludes that Fidesz, having a mixed ideology before 2002, decided never to lose again in an election afterwards and therefore turned away from liberal democratic principles.
Orbán’s messages got increased salience given the lack of popularity of the centrist MSZP-led government being in power during the world economic crisis: This government’s plans for economic reforms were rejected with 80% in a referendum in 2008. Increasingly focusing on a discourse of existential national crisis and a de-legitimation of the elected government, helped Fidesz to win the elections in 2010 – going hand in hand with a complete collapse of the previous party system (Ágh, 2015).

According to Lang (2016), a key point of Orbán’s campaign was a general criticism of the post-communist era of reforms. In his narrative, chaotic years were dominated by clientelism of the ruling elite, an opaque transition allowed a network of former communist functionaries, oligarchs and liberal cosmopolitan actors to control the state, media and economy. In contrast to this supposed status quo, he would seek to reclaim political and economic sovereignty and create a state where all pillars work together for the achievement of national goals. The last point is his main rationale for criticizing the system of separation of power.

Sitter (2011) emphasizes that the focus on corruption but also unemployment was crucial for the Fidesz campaign of 2010, with the election resulting in the disappearance of old major parties. The change of Fidesz from a center-right free market catch-all party, that engaged in a coalition with center-left parties from 1998-2002 is, however, not too surprising in the context of the Hungarian party system. In contrast, it was usual for parties to explore and experiment with different strategies and ideologies, to engage in trial and error and work on defining what left and right means in the Hungarian context. In his opinion, the outcome of the 2010 election also reflected the outcome of “perfect storm” (Sitter, 2011, p.10), with factors like polarization, economic crisis, extremely high levels of anti-incumbent voting and divisions inside established parties all playing an important role.

Toplišek (2020) as well as Johnson & Barnes (2015) consider economic populism and the unpopularity of the fiscal consolidation policy of the technocratic government of 2009-10 as major factors contributing to Orbán’s success. Johnson & Barnes elaborate on how the government debt grew until 2007, to which the socialist government reacted by listening to international advisors and pursued fiscal restraint. This reinforced their already existing negative reputation as “party of austerity”. When the world economic crisis hit Hungary in this context, the government decided to accept IMF and EU assistance in return for strict conditionalities affecting wages and pensions. The public backlash against this policy led to the resignation of the government and the takeover of a similarly unpopular technocratic administration in 2009. The release of tapes prior to the begin of austerity politics, in which the government admitted lying to the public about the state of the economy, additionally reinforced the public’s frustration with the government. Orbán, in return, could attract voters with broad promises of cutting taxes, restoring growth and supporting domestic businesses (Johnson & Barnes, 2015).

### 3.1.2. Policies

Ágh concluded that after the takeover of Fidesz, a semi-authoritarian leadership style was pursued, with manipulation of justice, electoral laws and checks and balances as well as replacements of the heads of key institutions being defining features. In this context, many international observers classified the subsequent 2014 elections as “unfair”, given the
restricted nature of independent media coverage and the fact that the electoral law, influenced by gerrymandering and similar methods benefited Fidesz. Such laws enabled Fidesz to gain an absolute majority with only a quarter of the electorate votes (Ágh, 2015).

Several new laws led to tensions with neighboring states and Western European countries. A new citizenship law was considered by neighbors as infringing their sovereignty and a complete change of the constitution as well as laws restricting independent universities and NGOs were criticized by the European Union (Munzinger Internationales Handbuch, 2021e).

While Orbán maintained a generally positive stance especially towards Germany, his government became generally more skeptical towards what they consider representing the Western model. The government expressed that it wants the EU to be nothing more than a project of economic cooperation of sovereign states. This ideological reorientation is also mirrored in the foreign policy, where a pragmatic opening to new partners was pursued, including increased cooperation with Russia (Lang, 2016).

The cooperation with Russia as well as with China is also mentioned by a number of other authors, with Rogers (2019) emphasizing the role that capital inflows from those countries play for the financing of infrastructure projects. Toplišek sees the “Eastern Opening” as part of a broader strategy of decreasing dependency from the West. Jacoby & Korkut (2016) too, consider especially the building of new links to China as a desired replacement to the very close alignment to Western countries. Although Orbán’s government was very dedicated on supporting Chinese investments and acquisitions and stimulated purchase of government bonds by China, the economic results remained limited, they analyze.

Lang states that Orbán’s policy is shaped by a collectivist anti-liberal orientation, illiberal reforms against what Fidesz considered as “liberal nihilism”. So-called “wild capitalism” is rejected and solidarity as a value emphasized – the actual economic policy, however, remained liberal in many areas and is shaped by a strong orientation on the positive value of work and competitiveness. In line with the “economic sovereignty” rhetoric, however, collaboration with the IMF was rejected and special taxes on sectors with a dominance of foreign actors such as banking or supermarkets enacted, with an ideological justification of separating between “productive” and “harmful” capital.

These measures are also described by Toplišek, who characterizes Orbán’s economic policy in general as a “market constraining state interventionism” (Toplišek, 2020, p.3) enacted as a response to the unpopularity of prior policies and based on a general scornfulness of the prior development model as well as the ideal of a free market economy in general. Orbán himself outlined in key speeches that he considers building a capable state for the competition between nations as key objective. He subsequently claimed that an illiberal state, with Singapore, China or Russia as role models would be adequate for succeeding in that competition. Following this logic, several of his measures were directed at establishing state control over economic processes. His crisis taxes, for example, included the highest banking levies in the world; additionally banks were forced to convert foreign currency mortgages below market level exchange rates as part of a broader campaign against the role of foreign currencies (Johnson & Barnes, 2015; Toplišek, 2020).
Another early and radical economic measure of the Fidesz government was the complete nationalization of the private pension fund without compensation within just two months (Johnson & Barnes, 2015; Szikra, 2014; Toplišek, 2020). Beyond that, Orbán’s policy targeted the independent central bank, which he considered as acting in the interest of the group of “outsiders” together with IMF and foreign owned banks that would undermine Hungarian sovereignty and benefit from its economy (Johnson & Barnes, 2015). The independence of the institution was subsequently reduced to allow employing it in the sense of broader political agendas. A loose monetary policy and a currency devaluation strategy was combined with unconventional measures such as central bank support for Hungarian SMEs in accessing credits (Toplišek, 2020).

Given the role national control over the economy plays for Orbán’s economic agenda, it is only logical that nationalizations were part of his policy portfolio, too. It started with the nationalization of strategic sectors, first of all utilities, and continued by also targeting smaller companies in so diverse sectors such as media, metals or meat production (Toplišek, 2020).

An important component of Orbán’s strategy both for maintaining fiscal discipline, as well as for his model of boosting national competitiveness were far-reaching welfare state reforms that “questioned the very foundations of social protection systems” (Szikra, 2014, p.1), as Szikra expresses it. He analyses that, apart from their content, it was the speed and the lack of public or parliamentarian debate they were enacted with, was remarkable about them. One part of the reforms was a general increase of the pension age, while, at the other hand, civil servants were forced to retire already at the age of 62 with additional possibilities for politically motivated early emergency dismissals. A new labor code was enacted favoring employees but drastically reducing the length and the amount of unemployment benefits (Szikra, 2014). In a similar manner, the minimum wage was raised but government support for people with a low income scrapped (Toplišek, 2020). In addition, the unemployed became subject to punitive public (communal) work programs in which they do neither receive the minimum wage, nor are protected by labor law. Additional social benefits became tied to the “usefulness” of individuals as well as behavioral and moral criteria. A controversial law gave municipalities the possibility to criminalize homelessness (Szikra, 2014).

Another key area of Orbán’s social agenda is family policy. Maternal leave was extended following a pro-natalist agenda, and tax cuts were introduced to the advantage of relatively affluent families were introduced. Gender equality and the status for non-conventional family arrangements, in return, experienced setbacks and low-income families were negatively affected by the new policies. The general direction of Orbán’s social policy is classified as “workfare” by several authors, benefiting a working middle class but punishing economically weaker societal segments (Szikra, 2014; Toplišek, 2020) with the principles of “family, nation, work and order” (Szikra, 2014, p.4) becoming enshrined in the constitutions.

Other policies officially directed at fiscal consolidation, such as a reduction of university budgets, were designed in a way negatively affecting (potential) political and societal opponents of the Orbán administration (Johnson & Barnes, 2015).

In contrast to some of the policies being described so far, other parts of Orbán’s agenda had a distinctively liberal and pro-business direction. Manufacturing, being portrayed as
“productive” sector, was promoted with advantageous taxes and beneficial regulatory conditions, resembling what Rogers describes as tax credit for growth given to foreign companies on a case-by-case basis and via political relations (Johnson & Barnes, 2015; Lang, 2016). Sectors such as the automotive industry were not touched by nationalization projects, in contrast they could benefit from the reduction of the corporation tax to the lowest level in the EU as well as from additional government-granted incentives. On top of that, a special financial support was granted for R&D oriented as well as for technology-intensive investments (Toplišek, 2020). Orbán also pursued a distinctively liberal agenda in the area of income taxes by introducing a flat tax scheme (Szikra, 2014; Toplišek, 2020).

Various scholars still struggle to properly classify this very unconventional agenda, often being labeled as “unorthodox”, pursued by the Fidesz government. Szikra considered it “diffuse and often contradictory, consisting of neo-liberal, étatist and neo-conservative elements.” (Szikra, 2014, p.1) while Jacoby observes a contrast between ultra-liberal elements in areas such as taxes and social policy and paternalistic policies as well as an orientation on state control and ownership in others (Jacoby & Korkut, 2016). Johnson concludes that Orbán pursued unorthodox policies to reach orthodox goals, with debt reduction and growth being key goals of his agenda. For this purpose, he generated short-term revenues using measures such as the nationalization of the pension fund. At the same time policies such as enforced utility price cuts helped keep inflation in control. In contrast to what many economists expected, Hungary was not punished by the bond markets for the nationalist policies and could organize several successful bond auctions. Johnson attributes that to the reassuring effect of EU membership and good post-crisis performance of other states in the region as well as technical compliance with key micro- and macroindicators. Therefore, he concludes that Orbán successfully managed to pursue financial nationalism without significant resistance from the global community. This was also possible since Orbán did target foreign-dominated sectors with taxes but stayed short of enacting more restrictive measures targeting FDI (Johnson & Barnes, 2015). The role of the EU for Orbán’s economic policy was also emphasized by others. Some analysts see increased EU funding and higher EU demand for Hungarian exports as a reason why Hungary can grow despite Orbán’s populist economic management and the favoring of government-linked industries (CIA, 2021b), others see the EU institutions as a reason why Orbán did not pursue even more radical reforms (Toplišek, 2020).

Apart from the economic agenda Orbán’s government had on the policy level, another noteworthy aspect is his influence on the level of informal institutions, more precisely what Lang calls a clientelist relationship with oligarchs (Lang, 2016). This aspect is what Rogers focusses on, speaking of an emerging “prebendalist” order, being characterized by an informal center around Orbán steering the economic elite of the country. He analysis that Orbán’s policies systematically led to a reduction of foreign ownership in diverse sectors and a shift towards a loyal clique of enriched cronies close to the government. Their companies could benefit from state contracts and the siphoning-off of European funds. Such a dynamic ensures a power maximization of the government and produces an elite that has a strong interest in the reproduction of the regime. It stands in contrast to classical oligarchies, since anti-Fidesz oligarchs could not freely operate and is at the same time different from the pre-Orbán state being characterized by a number of dysfunctional elements (Rogers, 2019).
3.2. Poland

In the following section the background of the Polish PiS party’s rise to power in 2015 will be described and an overview of their relevant policies is given. Additionally, some key differences to Hungary are highlighted.

3.2.1. Background & rise to power

The rise to power of the PiS party in Poland was possible in the context of a very messy, unconsolidated party system. Gallagher et al. (2011) describe how after the fall of communism splits and mergers, the frequent rise of new challengers, remained common. 111 parties ran for the first parliament in 1991, 21 gained mandates. In 2005, the PiS party managed to get in the government for the first time, initially attempting to form a coalition with the center-right PO. When these plans failed, they instead opted for forming a minority government. This also proved to be unworkable shortly after and finally led to the formation of a coalition with two smaller parties. This new, government subsequently collapsed after little more than a year, triggering a new election in 2007, where the PiS party lost. In the following years, political stability remained low in Poland, with a party system being ill-defined and weakly institutionalized (Gallagher et al., 2011). At the time of the 2015 elections, Poland had the EU’s highest level of voter apathy. Party preferences were highly unstable, electoral volatility high. Parties were known for frequently changing positions and manifestos, following them only loosely once in government, being incapable of forming stable coalitions, being weakly institutionalized and having only few links to their supporters. Those factors resulted in the frequent emergence of new parties, a high level of distrust in political structures and institutions and a high share of protest voters. In this context, in almost all elections anti-incumbent parties won (Jaskiernia, 2017). As described in the previous part for Hungary, this fits to general accounts of political systems being a fertile ground for populist challengers.

The history of the PiS party until 2010 resembles Fidesz insofar that also here a clear evolution of political positions is visible. The Kaczyński brothers, whose influence is crucial for the development of the party, started their political career as supporters of Lech Wałęsa and the “center agreement” which they later identified a key reason for the supposed negative development in Poland. The early PiS started as an ideologically vague anti-elites party and only subsequently developed its program (Folvarčný & Kopeček, 2020). The formative event for their political evolution was the crash of the Polish Air Force flight 101 in which Lech Kaczyński and other senior members of the Polish elite died. For Jarosław Kaczyński and the PiS, this became the key event of the party mythology and the starting point of a large-scale anti-elites campaign built around accusations of conspiracy. In their eyes, the true background of the incident was hidden from the public by the Tusk-led PO government and other elites. They were assigned as traitors who refused to uncover the supposed Russian conspiracy behind it or even cooperated with the responsible forces by PiS leaders (Folvarčný & Kopeček, 2020; Jaskiernia, 2017).

This kind of emotionalized and conspiracy-based anti-elites sentiment became an important element of the PiS party’s successful 2015 electoral campaign. Similar to Fidesz, they saw a network of communist elites, oligarchs and liberal cosmopolitans dominating the national elites and criticized the design of the post-communist reforms. They promised a “great
transformation”, a new Poland based on different foundations and a return to sovereignty as unified people. According to them, the ruling elites would be responsible for various problems being present in the Polish state since politicians would work together with corrupt business and organized crime. For them, the old political, but also business elite was associated with lawbreaking and corruption. They, in contrast, promised to get rid of corruption and clientelism, improve and strengthen the state externally and internally and increase financial efficiency and transparency (Folvarčný & Kopeček, 2020; Jasiecki, 2017; Lang, 2016).

An interesting observation in the context of the victory of PiS is the very different economic baseline situation compared to Hungary. While in Hungary, the government struggled with public debts and was hit hard by the crisis, Poland has shown a robust economic performance for many years and was the only European country not getting into a recession after the 2008 world economic crisis (CIA, 2021c; Jaskiernia, 2017; Markowski, 2019; Tworzecki, 2019).

Tworzecki (2019) therefore considers PiS’ electoral success not as caused by bottom-up polarization, or the demand side, but as a top-down process of successful strategic polarization by means of delegitimization of the government and strong anti-establishment rhetoric. This analysis is shared by Markowski (2019) who, too, did not observe a pre-existing popular demand for a systemic change and attributes the success of PiS to costly but popular pledges and a general mood of distrust. Siemsen (2020) considers anti-immigrant sentiments, promises of redistribution and an anti-elite mood as the main reasons of the PiS’ success. Those re-distributional promises were popular since widening social and regional inequalities existed - despite the impressive economic track record of Poland: Especially rural regions in the Eastern parts of the country struggled with high levels of (youth) unemployment while significant employed parts of the population had short term contracts with low level of protection. Those factors as well as previous austerity measures and pay cuts provided a fertile ground for social populism (Jaskiernia, 2017; Toplišek, 2020). At the same time, current events played into the hands of PiS: They could not only exploit the refugee crisis but also benefited from the weakening of the previously governing PO through an illegal phone tapping scandal and a leadership change with the new leader being unpopular and unable to sell a credible vision (Jaskiernia, 2017). In addition, the structural circumstances of Polish politics, especially the high level of voter apathy, made it possible for them to win the election with only marginally more votes than in the previous election, representing not more than 19% of the electorate (Jaskiernia, 2017; Markowski, 2019).

3.2.2. Policies

Despite their weak majority and the existence of a strong opposition the new government managed to pursue far-reaching reforms (Lang, 2016).

Folvarčný & Kopeček (2020) describe in this context a completely transformed country after 2015. Reforms affecting judiciary, media, education and cultural sector and were implemented distancing the country from the model of liberal democracy. Centralization was pursued, checks and balances weakened, the independent judiciary restricted, and public media was seen as having a “mission” to promote specific messages. The reforms in the area of justice and public administration were especially far-reaching, limiting the influence of courts and ensuring political control while educational reforms aimed at promoting nationalist values
and agitating against internal “anti-polish” actors (Lang, 2016). Rule of law concerns were intensified (Jasiecki, 2017). Already as an opposition party, PiS had close relations to the catholic Church which they maintained in the government, designating religion as well as ethic unity as key principles of the nation (Folvarčný & Kopeček, 2020).

While PiS, just as Fidesz, is skeptical of the model of liberal democracy (Folvarčný & Kopeček, 2020), the foreign policy orientation of them is significantly different. PiS combines the aim of establishing itself as a regional power with advocating for a hard course on Russia as a raison d’état. For that purpose, a distinctively pro-Western foreign policy is pursued including a staunch support for NATO and transatlantic cooperation (Folvarčný & Kopeček, 2020; Lang, 2016). While the political distance to the EU increased during the PiS government, which is especially skeptical of the German influence inside the alliance, the bloc is not rejected in general and it is rather being considered as worthwhile to fight for policy changes from inside, with areas such as energy or foreign policy being examples of fields where PiS is in favor of European coordination (Lang, 2016).

Economic policy plays a key role for the agenda of PiS. The party rejects the “neoliberalism” they observed since the 1990s and advocates for economic interventionism and an active social policy. In their opinion, a form of state capitalism where state-owned sectors stimulate innovation and accumulate and bring to use capital is superior to classical liberal capitalism. A main point of their ideas is that Poland’s previous development was based on FDIs, EU funds, low labor costs and debts. They, in return, consider a decrease of dependency from outside actors limiting Polish sovereignty as necessary (Jasiecki, 2017; Toplišek, 2020). Kaczyński considered Polish as being stuck in a middle-income trap where only a small group benefits from economic growth. A narrative of getting out of this, of catching up with richer countries, subsequently became the central element justifying a sovereignist and corporatist industrial policy. This policy is based on the assumption that a new growth model based on domestic investments and exports, driven by large publicly controlled enterprises, a promotion of education and research and a decrease in the share of foreign investments is necessary to reach PiS’ economic objectives. In order to realize that, building up a strong state capable of pursuing ambitious national goals would be necessary - a argumentation resembling the “competition of nations” rationale of Orbán. Re-industrialization, re-polonization and an end to privatization became central narratives in PiS’ statist concept of the government which considers political control over key economic processes as positive (Jasiecki, 2017; Lang, 2016; Toplišek, 2020).

Following this ideology, several measures were taken to support Polish enterprises. They included extensive support for SMEs (Lang, 2016) and the strategic creation of national champions that was often facilitated through acquisitions conducted by state owned enterprises. Jasiecki (2017) considers this as a problematic development since large state monopolies with unclear interdependencies were created. Rents of the political elite and clientelist relations played an increasing role and state companies were subsidized via other state companies in opaque ways. According to him, however, a pragmatic dialogue between the government and the business community was maintained. Although many business leaders would disagree with the government policy, a political dispute between those actors was avoided.
While measures were taken to reduce the role of foreign investments and ownership, Toplišek states that those measures were generally less aggressive than in Hungary with the Polish government listening more often to international advisors and the European Commission (Toplišek, 2020). While here, too, taxes and levies on foreign dominated sectors such as banking, insurance and retail were increased, the government backed down from taking more drastic measures such as forcing banks to convert loans. In contrast to Fidesz, the PiS administration decided to only nationalize 25% of private pension funds (CIA, 2021c; Lang, 2016; Toplišek, 2020). While the state control in several sectors, especially utilities, was extended, the extent of such endeavors remained lower than in Hungary, especially since strategic support for already existing SOEs played a greater role. Their monetary policy also remained more orthodox than in Hungary and the independence of the central bank was left untouched (Toplišek, 2020). On the other hand, however, drastic tax changes including increased taxes for the wealthy were enacted and a “penalization” of economic activities, as Jasiecki describes it, happened. This included the introduction of very long prison sentences for fraud and tax evasions (Jasiecki, 2017; Jaskiernia, 2017). While Jasiecki portrays this with a negative framing, other authors, such as Guriev & Papaioannou (2020), acknowledge that the PiS administration was very successful in improving tax collection.

All in all, the observed Polish economic policy is more left-wing oriented than the Hungarian one: Siemsen describes PiS as a right-wing party with a left program (Siemsen, 2020). However, the growth and catching-up oriented argumentation of PiS is also connected to the implementation of some liberal measures — although to a smaller extent than in Hungary. PiS remained a very materialist party defining increased growth and decreased unemployment as a key objective. A crucial target of their pro-growth policy are environmental regulations since they consider the unlimited exploitation of natural resources as necessary for the national economic development (Folvarčný & Kopeček, 2020). Just as in Hungary, the automotive sector was left untouched by restrictive taxes or regulations, new special economic zones were even designated to make foreign investments in selected sectors more attractive (Toplišek, 2020).

Given the role social populism played for their campaign, it is no surprise that social policy became a key element of PiS’ political agenda after their election. In fact, they expanded social spending to the highest level since 1989 (Jasiecki, 2017). The most important measures targeted families, pensioners and socially disadvantaged groups, key voters of the party (Folvarčný & Kopeček, 2020). Their measures included raising the minimum wage and lowering the retirement age (Jaskiernia, 2017). Additionally, the party implemented a costly flagship program providing additional grants to families, named 500+ (Goraus & Inchauste, 2016; Toplišek, 2020). Goraus & Inchauste (2016) analyzed that this program was very effective in reducing poverty and did not undermine fiscal health or growth. Given the connection of the PiS party’s electoral success to regional inequalities, it is also unsurprising that policies supporting rural areas also play an important role for them. Folvarčný even considers this as an area where market principles were put in the background most drastically, since massive subsidies and other redistribution measures were implemented while at the same times regulations to keep land “in Polish hands” were pursued (Folvarčný & Kopeček, 2020).
In Poland therefore a more leftist social agenda than in Hungary can be observed while economic and industrial policy went into a comparable direction but in in more moderate fashion. Instead of an informal centralization of economic structures around the political elite, the influence of the private sector was reduced while at the same time decent relations to the business community are maintained (Jasiecki, 2017) Also in this case, Toplišek analyses that the integration in European institutions played a role for preventing more radical measures (Toplišek, 2020). The importance of EU funds for economic development should not be underestimated (CIA, 2021c). It is also noteworthy that the policy in Poland is more spending-oriented, encouraging consumer-driven growth but potentially threatening long-term fiscal health given the increased government deficit (CIA, 2021c; Toplišek, 2020). Some authors also suggest that the influence of external events on the economic development during the PiS administration played an important role with Guriev emphasizing the role the influx of cheap labor triggered by the crisis in Ukraine played (Guriev & Papaioannou, 2020).

3.3. Czech Republic

The subsequent paragraphs focus on the rise to power of the of Andrej Babiš’ ANO party in the Czech Republic. In contrast to the previous sections, the focus will lie more on his electoral promises than on the policy track record. The reasons for that include the lack of academic literature about those relatively recent policies but are mainly connected to the fact that he, in contrast to Orbán or Kaczyński, Babiš did not pursue a far-reaching reformist or transformational program but focused more on general promises around increasing government efficiency and fighting corruption.

3.3.1. Background & rise to power

Following the analysis of Balik & Hloušek (2016), the Czech Republic had long been characterized by a more stable party system compared to many other post-socialist countries, at least in terms of continuous representation of main parties. However, the system still remained less consolidated compared to Western European ones with various different forms, configurations and constellations of coalitions being tried and unstable minority governments and early elections remaining frequent. In addition, here, too, the ability of parties to anchor themselves in the society remained limited and even eroded further from 2006 on. The authors consider the literal non-existence of main parties in local politics as one indicator for that. Especially since 2010, they observed a decreasing stability of the party system with turnovers in players and coalitions as well as the failure and replacement of established parties becoming more frequent. This analysis is shared by Just & Charvát (2016), who observed erosion of electoral support for ruling parties and an increase in volatility and growing instability from 2010 onwards. As a main reason for that they consider the loss in public trust in political institutions, parties and the democracy in general following the exposure of several corruption scandals.

It was in this context that the ANO party was founded in 2011/12 as an anti-establishment party/movement by Andrej Babiš, a successful entrepreneur and owner of the Agrofert holding, an agricultural and chemical conglomerate consisting of 200 firms with around thirty thousand employees (Hloušek & Kopeček, 2017)
One impetus for Babiš for founding his party was the observation that it is easy to build a successful party in the given political environment - with the success of the Public Affairs party, representing a business-firm party backed by a successful Czech entrepreneur in the 2010 elections as an example - as he expressed it himself (Hloušek & Kopeček, 2017; Just & Charvát, 2016).

Following Babiš’ rhetoric, politics would prevent people from doing business, be shaped by public theft and a dysfunctional state. He opined that a state should better be managed like a firm, be inexpensive and lean, and he emphasized that people with a background in business or management would be more suitable to manage it (Hloušek & Kopeček, 2017). His core issues were corruption, patronage and collusion, a fertile ground given the relatively bad scores the Czech Republic had on the corruption perception index and the low level of trust people had in political parties (Just & Charvát, 2016). According to Babiš, the Czech Republic was a Mafia state, he spoke of a “Czech Palermo” (Hloušek & Kopeček, 2017, p.102). Babiš vowed to not only to end corruption but also political incompetence and to ensure efficient law enforcement. He promised a future where the standards of living in the Czech Republic would resemble Switzerland or Sweden (Kopeček, 2016). Rather than presenting an elaborated political program, his campaigns were characterized by ideological vagueness and a changing of the program based on public reception (Hloušek & Kopeček, 2017; Just & Charvát, 2016). According to Just & Charvát, his promises were mostly based on negative and oppositional claims, a general criticism on how the country is managed and broad promises of a better future, quick solutions as well as more and better jobs (Just & Charvát, 2016). As opponents of his campaign he did not only identify specific parties or the government but the entire political establishment, encompassing all parties (Balík & Hloušek, 2016; Hloušek & Kopeček, 2017). Kopeček (2016) even analyses that Babiš basically promised an “elimination of politics as such” (Kopeček, 2016, p743). In his narrative, all members of the political elite were incompetent, while he, not being a politician, stressed his personal success as businessmen (Hloušek & Kopeček, 2017). His successfulness in attracting voters with those messages can, according to Just and Charvát, also be attributed to the key role political marketing played for ANO. Extensive use of public opinion research and political advertising as well as employment of leading communication & marketing experts and consultants seem to have been crucial for Babiš’ campaign (Havlík, 2019; Just & Charvát, 2016).

Given Babiš’ focus on corruption, it greatly boosted his party’s electoral performance when in 2013 a large-scale corruption scandal was exposed, involving the highest level of the Necas-led government, with special police units searching the government headquarters. This scandal led to a further increase in voter de-attachment from mainstream parties. Following the resignation of the government, ANO received 18.7% of the votes in the 2014 early elections and entered a centrist government as junior partner. Despite controversies about conflicts of interest, Babiš could increase his popularity during that time, upholding his image of not being a politician and continuing his anti-establishment rhetoric – despite serving as minister of the government (Balík & Hloušek, 2016; Hloušek & Kopeček, 2017). His increased popularity helped him take over the leadership of the government following the 2017 elections which he won with almost 30% of the votes. After a first minority government failed following new allegations of corruptions against Babiš, he managed to form a new government together with the socialist party in 2018. His administration remained
controversial giving continued discussions about misuse of funds, including European subsidies, corruption, obstruction of justice and conflicts of interests on the side of Babiš (Munzinger Internationales Handbuch, 2021d). On the other hand, observers note that since 2014 the Czech government enacted measures aiming at reducing corruption, attracting investments, modernizing procurement and removing labor market rigidities (CIA, 2021a).

3.3.2. Political agenda and policies

Following his anti-political narrative, academic observers note that Babiš sought to establish a political vehicle for his interests rather than a classical party (Hloušek & Kopeček, 2017). This is also conditioned by the factors some authors see as crucial for him as motivation to enter politics: the fear of disadvantageous political conditions for his own companies and frustrating talks with the political establishment (Hloušek & Kopeček, 2017; Kopeček, 2016). ANO membership remained highly exclusive and non-sanctioned functionaries saw themselves pushed out, being justified by Babiš himself with “I pay, I decide” (Just & Charvát, 2016, p.97). A semi-informal circle consisting mainly of Agrofert-functionaries steered key decisions in the holding’s headquarter (Hloušek & Kopeček, 2017; Just & Charvát, 2016). That remained, however, not the only direct connection between Agrofert and ANO: Not only were Agrofert resources used for financing the party and its campaigns, there were also controversies around how Babiš politically benefited from Agrofert taking over the Czech Republic’s largest media company in 2013 (Hloušek & Kopeček, 2017; Munzinger Internationales Handbuch, 2021d). Just & Charvát describe ANO as a business-firm party using the weakness of the state to dominate it and promote private interests. It is the second such a party in the Czech Republic after the Public Affairs party - better organization and strategy, however, allowed greater and more long-lasting political success (Just & Charvát, 2016).

While also clearly being a populist party in the sense of anti-elite polarization and rhetoric dichotomization, ANO is thus very different from Fidesz or PiS. It lacks an encompassing ideological agenda - a reason why Babiš did not engage in big transformational projects. In contrast, he bases his success on vague promises of economic prosperity, elimination of corruption and governmental efficiency while simultaneously being involved in several scandals himself.

This difference to the other two cases is captured by Havlík (2019), who describes Babiš as a centrist technocratic populist. Emphasizing on the role of competence vs. ideology, he promised a more professional, efficient, managerial, and de-politicized political decision-making system and public administration. While all other Czech parties use to have distinct ideological profiles, ANO does not have a clear tendency on the left-right / GAL-TAN$^3$ spectrum. Fitting to that, ideological orientation or policy preferences are no significant predictors for voting for the party – in contrast the attributed problem-solving competence seems to be decisive. While Babiš promised a strengthened rule of law and an increased reactivity of the government to the preferences of voters in his campaign, his reform plans

---

$^3$ Green/Alternatives/Liberals – Traditionalists/Authoritarians/Nationalists. This dimension became a popular addition to the classical left-right classification in political science, creating a two-dimensional political compass.
are, however, in conflict with pluralist notions of liberal democracy. Emphasizing on the importance of fast and efficient public decision-making, he proposed a strengthening of the executive vs. the legislative, a limitation of the separation power and a centralization of the administration with a prime role of the prime minister and the president. Those proposals were – in contrast to the other two countries – not ideologically justified but portrayed as connected to increased quality of the government and a public good being reachable through technocratic governance. The authors, however, also note that the implementation of such projects remained limited at the time of publication and that more liberal parts of ANO could potentially oppose them. Also for other areas, various authors do not note many remarkable policy projects, apart from those benefiting Agrofert (Ditrych, 2021; Jurečková, 2021). The economic policy agenda remained focused on individual politically motivated measures (such as lower taxes on beer), while lacking an encompassing planning (ČTK, 2020).

3.4. Slovakia

In order to add a supplementary perspective to the more detailed analysis of the three main cases, two further countries not falling in the category of having a populist-led government, following the PopuList classification, but nevertheless being influenced by populism in a noteworthy way, are included in the analysis. This allows comparing the results of the analysis of selected indicators to the results in the cases of the “full scale” populist governments. The same function will be provided by the analysis of the Czech Republic with a 2014 treatment point: At this time, Babiš did not lead the Czech government but was involved as junior partner.

For Slovakia, the takeover of power by Robert Fico and his Smer party will be considered. Following the PopuList, his party can be considered as populist from its foundation in 1999 on but stopped falling in this category one year after it first became a governing party. Observes draw mixed conclusions about the subsequent profile of the party: Especially in media articles (e.g. Foy, 2016; Kirchgeßner, 2010) or encyclopedias (Munzinger Internationales Handbuch, 2021c) but also in some academic contributions (Holzer & Mares, 2016), the party is classified as (social)-populist also in later years. Other contributions conclude that Smer shifted from being a populist party to a mainstream one (Holzer & Mares, 2016) or only occasionally resorts to populism (Rybničár, 2021). Another main difference to the other cases is that Fico’s Smer did not consistently rule after the treatment point. His first term lasted from 2006 to 2010, where he governed together with the populist and far-right SNS and two non-populist parties (Rooduijn et al., 2021). From 2010 to 2012, Iveta Radičová led a non-populist government before Fico became prime minister again from 2012 to 2018. In 2018, he was forced to resign following the murder of the journalist Ján Kuciak and his fiancée who researched about connections of highest government circles to the Italian Mafia. Peter Pellegrini, who took over his office, was a minister of the same government before but is considered by observers as more moderate – also, he later left Smer to found his own party (CIA, 2021d; Gabrizova, 2021; MDR, 2018; Munzinger Internationales Handbuch, 2021b, 2021c).

3.5. Austria
Austria in return, represents a case with a classical non-populist established party (Sebastian Kurz’ ÖVP) being engaged in a coalition with a far-right populist party (FPÖ) as only partner. While Kurz’ ÖVP remained outside of the spectra classified as populist and engaged in a new coalition with the Austrian Green party in a pragmatic manner after a major scandal affected the FPÖ (Munzinger Internationales Handbuch, 2021a), Sebastian Kurz is still being described as populist in many media contributions (e.g. Hebel, 2019; Lackner, 2017) while it has been noted from an academic perspective how he and his party copied rhetoric formerly only used by far right populists (Wodak, 2015).

Both cases (Slovakia and Austria) therefore clearly include governments not being populists led but still being heavily influenced by populism: This fact makes a direct comparison to the countries primarily evaluated in this paper potentially insightful.

4. Quantitative part

In the forthcoming part, first the variables being analyzed in this contribution are introduced. Subsequently, the synthetic control method is being described before the results are presented. Afterwards, the difference in-difference analysis is introduced as second method and the respective results are summarized.

4.1. Description of the variables and the data

For the described parties, economic promises played a key role. Rhetoric of overcoming old structures harming growth and development, catching-up and claims of a brighter future with more and better jobs were key part of their economic populism. In Poland and especially Hungary, far-reaching economic reforms were conducted, partly restricting the liberal market economy and aiming at a transformation towards some form of illiberal state capitalism. Various classical and unconventional policies were mixed in different combinations. Therefore, the economic indicators are crucial for evaluating how far the parties could live up to their promises and claims. In case of Poland and Hungary, these are additionally relevant for analyzing the effects of the ambitious and controversial (economic) reforms being conducted there. More concretely, general GDP p.c. and expenditure-side GDP p.c., the unemployment as well as inflation rate and productivity are considered as main indicators of economic performance.

The economic data used in this paper can be found in standard economic databases. As outcome as well as control variables for the synthetic controls, the real GDP per capita (2017 US$), its rate of change, the expenditure side GDP p.c., labor productivity (calculated as GDP per hour worked) and inflation rate are used / calculated with data from the Penn World Tables (Feenstra et al., 2015). Additionally, the unemployment rate is taken from the World Bank Development Indicators (World Bank, 2021a) - its rate of change is additionally calculated - and the liberal democracy index from the Varieties of Democracy dataset (Coppedge et al., 2021). On top of that, a number of controls is added from the Penn World Table: The Human Capital Index, the employment-to-population rate and the capital stock (at 2017 constant US$). Further controls are taken from the World Bank Development Indicators: The age dependency ratio, the fertility rate, secondary school enrollment, the GDP share of trade, population growth, consumption share of GDP, net investment as well as FDI share of GDP, the real effective exchange rate as well as the latitude of a country’s centroid. The selection
of controls is based on standard growth literature and is inspired by a selection of variables used in comparable works (e.g. Billmeier & Nannicini, 2013; Born et al., 2019; Meyersson, 2017), as well as by observations from the analysis of the cases considered in this work.

In addition to economic promises, the three primarily considered parties criticized the quality of previous governments and portrayed them as corrupt and dysfunctional, not serving their citizens but only a closed, self-interested elite. In order to evaluate if the populist parties could in fact improve the quality of their country’s government, the Worldwide Governance Indicators will be considered. A number of its elements are of direct relevance for evaluating in how far the populist governments could live up to their promises: The (supposed) corruption of the old regime is not only a central element of the claims and success of all three parties but does also constitute a part of the ideal typical populist party following Muddé’s definition. Therefore, the measurement of Control of Corruption is highly relevant. In addition, the relevant parties promised to get rid of old networks, structures or (mostly in the case of Poland and Hungary) foreign influences hindering government work and transform the state in a way serving its people better. Therefore, it will be interesting to observe those countries’ actual performance in areas such as Voice & Accountability, Government Effectiveness and Regulatory Quality after the populist takeover. Moreover, the countries performance on the Liberal Democracy index is being considered. Given the clear evidence regarding the decline of liberal democracy after populist government takeovers, the results can also be seen as useful for testing the appropriate expected functioning of our model.

The Liberal Democracy Index was developed by the authors of the Varieties of Democracy project of the university of Gothenburg and is composed of different variables including quality of elections, suffrage, freedom of expression and media, freedom of association and civil society, checks on the executive as well as rule of law. The index function of those variables attributes scores between 0 and 1 to each country (Coppedge et al., 2021). The Worldwide Governance indicators are provided by the World Bank and aggregate individual governance indicators to score of -2.5 to 2.5 for six categories: Voice & Accountability, Political Stability & Absence of Violence, Government Effectiveness, Regulatory Quality, Rule of Law and Control of Corruption. For their development, more than 30 different data sources provided by academic, civil sector and private institutions are considered (Kaufmann et al., 2010; World Bank, 2021b). For more detailed information, descriptive statistics regarding the dependent variables can be found in appendix D.

4.2. Synthetic control method – Functioning

In the subsequent analysis the synthetic controls analysis first being developed by Abadie and Gardeazabal (2003) is used. The subsequent description is based on introductions to the method’s working presented by different authors, especially Campos et al. (2019).

The method is based on the creation of a doppelgänger which is a weighted average of countries in a “donor pool”, thus going beyond the usage of a single control unit or a weighted average of a set of controls A minimization of the distance between a selected number of economic time series in the respective country and the doppelgänger prior to the treatment determines their weight. As an additional requirement, the pre-treatment averages of the
controls/covariates\(^2\) need to match the doppelgänger. Formally expressed this means the following: If there is a pool of \(N+1\) countries, for each period \(t \in [1, T]\) with \(i=1\) being the observed country with a treatment at time \(0 \in (1, T]\) and \(i = 2, \ldots, N + 1\) representing the donor countries, an estimate of the counterfactual can be created by assigning a weight \(w\) to each donor country meaning that
\[
\sum_{i=2}^{N+1} w_i Y_{it} = \langle Y_{it}^C \rangle \text{ for } t \geq T_0
\]

Equation 1

In this context, \(\langle Y_{it}^C \rangle\) is the counterfactual which needs to be estimated in order to be able to assess the effects of the treatment. The creation of the counterfactual is required since for \(t \geq T_0\), \(Y_{it}^I\) a country \(i\)'s outcome at time \(t\) can be observed but not \(Y_{it}^C\), the same country’s outcome if it had not been affected by the intervention – this is what the counterfactual, or more precisely the synthetic doppelgänger, represents. If it can be said that the effect a treatment has on a country can be expressed by
\[
\tau_{it} = Y_{it}^I - Y_{it}^C \text{ for all } t \geq T_0
\]

Equation 2

the unbiased estimate of the effects of the treatment of a country \(i\) can be formalized as
\[
\langle \tau_{it} \rangle = Y_{It} - \sum_{i=2}^{N+1} w_i Y_{it}
\]

Equation 3

For the construction of the doppelgänger, a combination of optimal weights \(w_i\) is assigned to the control countries to minimize the mentioned distance between observed country and doppelgänger in regard to the covariates (predictors) \(Z\), meaning that
\[
\sum_{i=2}^{N+1} w_i Z_i = Z_1 \text{ and } \sum_{i=2}^{N+1} w_i Y_{it} = Y_{It}
\]

Equation 4

(Abadie et al., 2010, 2014; Abadie & Ardeazabal, 2003; Born et al., 2019, 2020; Campos et al., 2019)

For estimating the significance of the results, the method developed by Abadie et al. (2010) is used. This adequacy of the method can also be justified by the fact that it is developed by the researcher behind the synthetic controls approach itself. The first step is a division of the post-intervention MSPE by the pre-intervention MSPE. The logic behind is the following: If the model fits well prior to the intervention point (low MSPE) but not anymore post intervention (high MSPE), there is a meaningful effect of the intervention. If the post-intervention and the pre-intervention values of the observed country fit their synthetic

\(^2\) These terms, as well as “predictors” are used interchangeably in this contribution, given that the respective predictors serve as controls, respectively covariates.
doppelgänger similarly well or deviate to a comparable extent, the MSPE ration will be closer to 1, indicating that there is no significant effect of the treatment. The same happens if a clear post-treatment deviation exists but the imprecisions of the pre-treatment model fit are too high to infer significance. Even if an effect in the post-treatment trend is observable, it can, however, still be that it caused by a broader development affecting a number of cases instead of being special for the observed treatment. To account for this, the method uses a second step, namely ranking all cases, treated and placebos, in a descending order by the MSPE relation and dividing the MSPE ratio by the rank (implying placebo testing), prior to constructing fishers exact p-value out of this score. This means that if a post-treatment deviation exists but not to a larger extent than in same placebo cases, no significance can be assumed (Abadie et al., 2010; Dunford, 2021).

In formal terms that means that a hypothetical treatment is attributed to all units i in the donor pool and synthetic controls are created for them, too. For all cases, treated and donors alike, the MSPE ratio therefore is calculated in the following way

\[
R_i = \frac{MSPE_{i,post}}{MSPE_{i,pre}} = \frac{\sum_{t=T0+1}^{T} (Y_{i,t} - \langle Y_{i,t}^{C} \rangle)^2 / (T - T_0)}{\sum_{t=1}^{T0} (Y_{i,t} - \langle Y_{i,t}^{C} \rangle)^2 / T_0}
\]

*Equation 5*

Subsequently, the p value is estimated by comparing the MSPE ratio for unit R_i to that of all other units:

\[
p = \frac{\sum_{i=1}^{l+1} 1(MSPE_i \geq MSPE_1)}{f + 1}
\]

*Equation 6*

(Abadie et al., 2010; Breinlich et al., 2020)

The calculated p-values and MSPE-ratios for all treated countries can be found in appendix B7.

For this paper described method is applied using R. The main package being used is the tidysynth package, which builds on the classical synth package but improves it and adds additional functions for tuning, inspecting and visualizing of the synthetic controls (Dunford, 2021). The standard packages tidyverse, broom and dplyr are loaded in addition, imputeTS enables to conduct necessary imputations (using the Kalman method), WGI, xlsx and readstata13 are employed for data import and ggplot2, extrafont, ggthemes, cowplot and gridExtra are used for the visualization of the results.

In the following part, two different synthetic doppelgängers are produced: Initially, a synthetic version of each country will be created using a donor pool of all OECD and EU countries for which sufficient data were available (model 1). The problem with that approach is, however, that populist governments pursuing similar transformational policies as in some of the considered cases, might distort the results. This problem is hard to solve: If all countries influenced by populism are excluded, barely enough countries would be left to construct a meaningful synthetic control, whose explanatory power, accuracy and significance level is
also dependent on the amount of data the model is fed with (Campos et al., 2019). Therefore, most scholars using synthetic controls for estimating effects of populist governments or measures chose to construct the control from wide donor pools, without excluding other populist cases (e.g. Born et al., 2019, 2020; Meyersson, 2017). While this approach is also chosen for the first doppelgänger, a second doppelgänger will be created excluding a selected number of populist countries (Model 2). Specifically, the excluded countries are the respective other two of the observed ones, Italy and Greece as prime examples of successful economically motivated Mediterranean populism, Austria as a country being consistently influenced by a major populist party over a large period of time, Great Britain and the USA since the Brexit vote and the Trump administration represent the probably pivotal populist transformation in the Western World, Mexico being influenced by various populist and authoritarian elements since a long time, especially since 2018, where Andrés López Obrador (“AMLO”) took over the presidential office with a remarkably economic populist agenda, as well as Turkey where President Erdoğan has transformed the state in a populist and authoritarian way for almost two decades. Other cases in which populist governments existed but had a less transformational character, such as the Bulgarian case, where the GERB party, governing since 2009, is only classified as clearly populist during the early years of its administration (Rooduijn et al., 2021), were left in the donor pool for the sake of having sufficient donors for creating significant synthetic controls. While the second doppelgänger therefore is not a perfect non-populist control, the exclusion of these key cases of populism allows identifying trends in the results compared to the unfiltered first one.

For all cases, except Slovakia, data from 1995 to 2019 are considered. 1995 is chosen as earliest year considering that chaotic economic development and poor data quality in early transitional countries might distort the model. 2019 represents the last year all relevant data were available for. For the investigation of the Worldwide Governance Indicators, 2002 is chosen as earliest year given that only since then annual data are available.

For the case of Slovakia, a different starting point of the pre-treatment period (1998) will be used in order to exclude the Mečiar administration (1992-98) from the pre-treatment period. This is necessary since his politics is not only widely being considered as populist but also named by Toplišek as the only case where populist actor had an influence on changing the development strategy of a transitional country in the first decade of transition (Toplišek, 2020).

4.3. Assumptions

The model is based on the assumption that both the country and its synthetic counterpart were the same likely to receive the treatment.

In all three countries, a high level of electoral volatility can be observed. New parties frequently emerge, old parties disappear, much more frequently compared to the older, Western European party systems. In all cases, high levels of distrust and patterns of anti-incumbent voting as well as significant levels of voter apathy made it easier for a new party to take over the government, as did the lack of anchoring of established parties in the society.

Moreover, diverse “random” political factors played a key role for the populist takeover in all cases. While economic populism is an important element in all three cases, the fact alone that
in all countries a populist party took over despite very different economic performances and prior policies and with very different groups benefiting from their economic and social policy, shows that the emergence of populist governments is not caused by a specific economic endogeneity. In contrast, varying combinations of economic and social factors, political discontent, current events, skillful political strategies and bottom-up polarizations played a role. In all three cases, in addition major scandals involving the previous governments (illegal phone tapping in Poland, corruption in the Czech Republic and lying about the economy in Hungary) facilitated the populist success as did weaknesses of other parties (Hungary: Competitors struggling internal conflicts, Collapse of the government and technocratic takeover, legacy problems of the MSZP; Poland: Unpopular new PO leader; Czech Republic: Period of scandals and destabilization in the party system). Cases like the previous failure of the Public Affairs party, being structurally similar to ANO prove the importance electoral strategies and party organization play for the success of populists. In combination with the high degree of volatility and unpredictability of elections in the region, those factors and the diversity of the countries regarding the observed variables justify assuming that no trends setting them apart from the controls caused the treatment.

4.4. Treatment point

While Fidesz already governed from 1998-2002, it has been noted that the turn from a conventional center right orientation towards populism only happened later. Accordingly, the PopuList only classifies the party as populist from 2005 onwards (Rooduijn et al., 2021). Therefore, 2010 is chosen as treatment point.

While PiS was always classified as a populist party (Rooduijn et al., 2021) and governed from 2005-07, only its electoral success from 2015 will be considered as treatment point. The 2005-07 government was characterized by scandals, power struggles and instability, a minority government followed failed coalition talks only to be replaced by a short-lived new coalition government very shortly after. Therefore, the ability of the PiS party to implement meaningful policies remained limited. In addition, PiS’ turn from an ideologically vague anti-elite party to its current from only happened from 2010 onwards, as has been noted by several scholars.

In the Czech Republic, the takeover of the government by ANO after the 2017 elections is considered as treatment point. While the focus of this papers lies on populist-led government, the entering of ANO in the Sobotka administration as a junior partner in 2014 is chosen as an additional treatment point in a comparative fashion.

4.5. Synthetic control method – Results

4.5.1. Hungary

In case of Hungary, there are notable observations regarding the GDP p.c.: A significant negative effect of the Orbán presidency can be observed very clearly with a clear negative tendency after the 2010 treatment point. For both Doppelgängers, a pre-treatment downward tip is already observable which can be explained by the effects government debt and subsequent austerity followed by the economic crisis had on Hungary. A clear increase in the
deviation, however, can be identified after the treatment point which is mainly caused by a stagnation during the first years of the Orbán administration as well as a slight negative relative development following the 2014 elections. After a moderate increase in more recent years, the overall GDP p.c. is still more than 2000/3000$ (model 1 / model 2) lower than for the doppelgänger. In the first model, this effect is significant on a 0.05 level (p=0.0256), in the second one only on a 0.1 level (p=0.0625). The illustrations provided in appendix B first show the absolute development of the observed indicator (here: GDP p.c.) for the observed country as well as the synthetic control, then the relative differences of the observed values compared to the synthetic ones and finally the composition of the synthetic control in terms of countries and control variables.

When only the expenditure side GDP is considered, a negative effect of the Orbán administration can be observed, too. Here, however, the most notable deviation is caused by a lower-than-expected growth after Orbán’s re-election from 2015 on. In this scenario, the effect is significant with p=0.075 in the first model and with p=0.312 in the second one and has a larger extent than for the general GDP (loss of >3000/4000$).

Concerning the change in GDP, the (change in) unemployment and the inflation rate, no significant trends can be observed with the exemption of a negative change in the change in unemployment rate being barely significant with p=0.0938 only in the second model. Given the unreliable fit of the model prior to the intervention and the mixed trend after it, however, this result should not be given too much weight. For the unemployment rate, the model does not sufficiently fit to the observed data with deviations of up to 2%. While there seems to be a relative decline in unemployment after the treatment point, which is, especially in the second model, much (2x) larger than the previous variabilities, that change is not significant here. Regarding the inflation rate, it can be observed that, while notable deviations exist, the general trends of the synthetic and the observed country are comparable and there is no clear change in the trends after the takeover of the presidency by Orbán.

A very clear negative post-treatment trend can be observed in the area of productivity. A stagnation between 2011 and 2015 sets the country clearly apart from the synthetic control in both models and leads to a relative loss of almost 5 US$ per hour worked in 2019. This change is significant on a 0.05 level (p=0.0256 and p=0.0323).

Relatively unsurprising, both models show strong, continuous, and significant (p=0.0256 & p=0.0312) negative effects of the Orbán presidency on Hungarian liberal democracy. This is already visible in the treatment year itself. The 2019 liberal democracy score has only half the value of the pre-treatment one. The stronger post-treatment decline in liberal democracy in the first doppelgänger compared to the second model shows the effect the inclusion of other populist governments has on the construction of the synthetic controls. The relative loss amounts to almost 0.3/0.4 points.

Considering the Worldwide Governance Indicators, a significant negative effect of the Fidesz government can be observed in most areas.

While the Voice and Accountability score started declining already before the treatment, meaning during the MSZP and the technocratic government, this trend accelerated remarkably and continuously during the Orbán-administration with the score declining from
0.91 to only 0.22 within a decade (relative loss of more than 0.6/0.7 points). This change is significant on a 0.05 level in both models (p=0.0256 and p=0.0323). The Political Stability and Violence score remains unaffected by the Orbán-administration with post-treatment deviations not being significantly larger than pre-treatment ones. Government effectiveness scores significantly declined and as in case of Voice and Accountability, the (relative) decline started already before the Orbán administration. The observations are significant on a 0.1 level in the first and a 0.05 level in the second model (p=0.0513 and p=0.0323) with a relative loss of around 0.3/0.4 points by 2019. A very pronounced decline is present in the area of Regulatory Quality, where a clear negative deviation in the synthetic model started especially from 2012 on (p=0.0256 and p=0.0323). The score declined from 1.03 in 2011 to only 0.58 in 2018 (relative loss of around 0.6 points by 2019). In the area of Rule of Law, an initial decline was already visible in 2009 but this decline radically accelerated from 2012 on (relative loss of around 0.25 points). After some ups and downs, the score reached 0.5 in 2019, down from a pre-treatment value of 0.8. Here, too, significance on a 0.05 level is given (p=0.0256 and p=0.0323). Interestingly, a similarly negative and significant (p=0.0256 and p=0.0323) effect can be observed in the area of Control of Corruption. For this variable, the negative deviation from the control starts with the previous administration but an undoubtedly visible intensification of the decline happened post-treatment bringing the score down from 0.47 up to 0 in 2019 (relative loss of around 0.35 points).

4.5.2. Poland

In case of Poland, most economic indicators do not show a significant effect of the PiS-administration. While there is a positive post-treatment development in terms of GDP in general as well as expenditure side GDP, it is not large enough or distinctively different from previous fluctuations to be significant. The model for unemployment is distorted by a relatively high unemployment in Poland in the early 2000s. While the post-treatment unemployment rate is consistently lower than in the synthetic model, this, too, is not enough for being significant and also not different from a pre-treatment deviation starting in 2010. Regarding inflation, there are no observable post-treatment effects, in fact the model almost fits the control better post-treatment than pre-treatment. In model 2, there is an observable increase in the GDP p.c. change rate significant on a 0.1 level (p=0.0625), this however is mainly due to the continuation of a pre-treatment (Tusk administration) above-expectation development and therefore is not attributable to a spike starting post-treatment.

Regarding productivity, the opposite effect of Hungary can be observed: an increase being significant on a 0.05 level in the first model (p=0.0256) and on a 0.1 level in the second one (p=0.0938). While there have always been fluctuations, a clear trend is visible for the years 2017-19 within which Poland gained more than two US$ (or around two in model 2) per hour worked compared to its doppelgänger.

Just as in case of Hungary, the effect of the populist administration on liberal democracy is clearly visible. A decline only starting with the takeover of PiS led to a reduction of the index score from 0.8 (2015) to 0.53 (2019) (relative loss around 0.25 points), with a 0.05 level significance in both models (p=0.0256 & p=0.0312).
Concerning the Worldwide Governance Indicators, there has been a significant \( (p=0.0256\text{ and } p=0.0323) \) negative effect on Voice and Accountability starting with the PiS administration and bringing down the score from 1.04 to 0.7 between 2015 and 2019 (relative loss of around 0.35 points). A decline on the Political Stability and Absence of Violence score is visible, too, but not to a significant extent. In the area of Government Effectiveness, a decline is apparent. Especially the absence of a reverse of the trend after 2017, which would have been expected based on the synthetic control, makes it significant in model 2 \( (p=0.0323) \) with the relative loss being larger than 0.2 points. Speaking of Regulatory Quality, a mixed trend can be observed with a sharp decline in the first years of the PiS administration followed by an increase between 2018 and 2019. In the second model, the initial drastic decline – which however followed a trend that started with the previous government – causes a significance of the negative development on a 0.1 level \( (p=0.0645) \) although no noteworthy relative loss remains in 2019. While in the area Rule of Law the frequent fluctuations negatively affect the fit of the model, it can still be observed that there has been a remarkable decline since 2015, with a reduction of the score from 0.8 in 2015 to 0.45 in 2019 (around 0.3 points loss in relative terms). Nevertheless, the imperfect fit of the model makes this decline only significant on a 0.1 level \( (p=0.0513\text{ and } p=0.0645) \). In the area of Control of Corruption, an initial slight increase can be observed followed by a slight decline – all in all no significant differences to the control exist.

4.5.3. Czech Republic

In case of the Czech Republic, the only economic variables a significant effect can be observed for are the unemployment rate as well the change in unemployment rate. Those effects are significant on a 0.05 and 0.1 level in model 2 \( (p=0.0312\text{ and } p=0.0938) \), scratch the significance threshold in model 1 \( (p=0.1) \) and amount to a 2-2.5%-points lower unemployment rate compared to the Doppelgänger in 2019. More concretely, a clear negative deviation of the unemployment rate compared to the control is visible that already started during the Sobotka-led coalition government, where Babiš was involved in as a junior-partner. Dependent on the model, some positive effects on the GDP p.c. as well as on the inflation rate can be observed, also an opposite effect on productivity, all of them are however not statistically significant.

As in the previous two cases, a significant \( (p=0.0256\text{ and } p=0.0312) \) negative effect on the liberal democracy index is observable. While this trend seems to be clearly connected to the Babiš administration with an initial decline already during the junior-partner times, its extent is much smaller compared to the Polish and Hungarian case, with an absolute decline from 0.77 to 0.7 from 2016 to 2019 (relative loss of around 0.1/0.25 points).

In the years of the Babiš-administration, the Voice and Accountability score dropped significantly \( (p=0.0256\text{ and } 0.0323) \) and lost almost 10% in absolute terms (decrease from 1.03 to 0.94 from 2016 to 2019) and around 0.15 in relative terms. While there is no significant change in the Political Violence and Stability score, Government Effectiveness clearly declined – a trend starting in the last year of the Sobotka-led administration but accelerating under Babiš. In absolute numbers, a decline from 1.04 to 0.89 in 2019 compared to 2016 is observable (relative: \( \sim 0.1/0.2 \)). This decline is significant in model 2 \( (p=0.0323) \). Regarding the Regulatory Quality in return, a positive trend can be observed, being significant on a 0.1 level in model 2 \( (p=0.0645) \). This effect amounts to a relative gain of around 0.05 points and is
heavily influenced by a good performance in the last Sobotka year. The effect on Rule of Law is different in the two models, which can be explained by the role of Poland for the construction of model 1. In model 2, a significant (p=0.0645) negative effect is observable with a relative loss of around 0.1 points. Regarding the Control of Corruption, no Babiš-effect is visible, however, a clear increase during the Sobotka-administration, counterbalancing the effects of a previous drastic decline, can be noted.

4.5.4. Czech Republic - Treatment point 2014

While the main focus of the paper lies on populist parties leading the government, it became apparent that some of the trends being observable after Babiš took over, are a continuation of a development that already started during the previous government, in which Babiš was involved as junior partner, vice prime minister and minister of finance. Therefore, a comparison to the results produced by models with 2014 as treatment point, the year where the Sobotka administration started, can offer additional insights. Given that many of the relevant trends where already analyzed in the previous section, for this analysis only variables having a significant unambiguous effect for at least one of the two starting points are presented in detail.

While observable positive effects on the GDP and its change rate remain below the threshold for significance in both models, the treatment effects on the expenditure side GDP are significant in model 1 (p=0.0256) in this scenario with a relative gain of almost 3000/1000$. It is also clearly visible that positive deviation happened during the Sobotka-led government, while the takeover of Babiš slowed down or even reversed the trend.

In the area of the unemployment rate, a clear significant negative effect can be observed in model 2 (p=0.0312). The direct comparison underlines that the above- expectation reduction of the unemployment rate during the Babiš administration represents a continuation of a trend starting under Sobotka. Model 1 as well as the models for the 2017 starting point, hint in the direction of a possible trend reversal from 2019 on. The relative extent of the lower unemployment is higher in this model (almost 2/4%). Concerning the change in unemployment rate, the 2014 treatment point leads to a significance on a 0.05 level (p=0.0256 & p=0.0312). The results prove that the Sobotka administration had a clear negative effect on the unemployment change rate, while a trend reversal almost up to a rapprochement to the doppelgänger happened after Babiš’ takeover.

For the liberal democracy index, a significant negative effect can also be observed with the earlier treatment point. While the effect remains significant on a 0.05 level in model 2 (p=0.0312), it is only significant on a 0.1 level in model 1 in this scenario (p=0.075). A slight absolute decline already happened during the Sobotka administration. The relative development, however, is even positive between 2013 and 2015 in model 1 and a strong decline is only visible after Babiš led the government. An additional interesting observation is a stark pre-treatment decline during the Nečas-administration from 2012 to 2013 which was overshadowed by corruption scandals.

While the decline in Voice and Accountability remains significant in both models, it does so only on a 0.1 level in Model 1 (p=0.0513 & p=0.0323). During the initial years of the Sobotka administration, even an increase in this score is visible and the decline is apparent after Babiš
took over. On Government Effectiveness no significant effect is observable anymore. In fact, the score initially drastically improved after Sobotka took over and declined again in the later years of his administration. In contrast to the models with a 2017 treatment point, there is a significant positive effect on Regulatory Quality visible in this scenario at least on a 0.1 level (p=0.0769 & p= 0.0968). The effect, however, is not large and subject to frequent fluctuations in both directions – pre- and post-treatment. A positive effect on Control of Corruption is significant in model 1 (p=0.0256). After the score clearly declined during the Nečas-administration, it improved to a new Czech record under Sobotka, followed by a slight decline with the change to the Babiš administration.

4.5.5. Slovakia

Regarding GDP p.c. in general, as well as on the expenditure side, a positive-treatment effect is present and significant (p=0.0244 & p=0.0609; p=0.0244; p=0.0303) with a relative gain of almost 3000/5000$ respectively 3000/1500$. In the years after 2004, a continuous and notable trend of an upward deviation compared to the doppelgänger is visible with a short dip in the year of the economic crisis followed by fast recovery. From 2015 on, the gap stabilized, or – in the case of the expenditure side GDP and, to a lesser extent, in model 2 for the general GDP – the trend even reversed. Regarding the effects of the Fico-administrations, a mixed conclusion can thus be drawn. During his first two terms – as well as in the time of the Radičová-led government - the GDP performance was above expectations. The tide seems to have slightly turned in the times of his last terms. Regarding the GDP p.c. change rate, no significant deviations from the doppelgänger are observable.

For the key variables of the GDP p.c. as well as the expenditure-side GDP p.c., it is noticeable that the doppelgänger is characterized by a post-economic crisis dip being much larger compared to the controls in other models, which might distort the results. Since Bulgaria plays a dominant role for the construction of the doppelgänger, a second analysis was run excluding this country as a control. While the change in GDP p.c. remains significant (p=0.05 & p=0.0625) as does change in expenditure side GDP p.c. (p=0.05 & p=0.0312) – although partly on a higher level - this leads to noteworthy qualitative differences: While for model 2 the general trends remain comparable with only the extent of the relative gain being smaller (~3000$ instead of 5000$), in model 2 a trend reversal during the last two Fico administrations is visible leading to a negative deviation compared to the doppelgänger from 2017 onwards. A similar trend is visible regarding the expenditure-side GDP with the trend reversal reducing the relative gain to a mere ~200/1100$ in 2019.

In the area of unemployment, the model fit remains limited, nevertheless a higher level of unemployment compared to the doppelgänger (cabinet Fico 1) can be observed especially in the late 2000s. However, the deviation is not significant. For the unemployment’s change rate, a significant positive deviation is present in model 2 (p=0.0303). This is caused by a higher-than-doppelgänger spike during the economic crisis but also by an unsatisfactory pre-treatment fit. Therefore, the different observations in the difference in-difference analyses, suggest not giving too much weight to this result. Just as in the previous cases, there is no significant effect on the inflation rate while on productivity mixed developments can be observed dependent on the model, while the values all in all do not deviate from the doppelgänger to an noteworthy extent.
While a positive deviation of the liberal democracy score from the doppelgänger is visible in the years 2008-16, this is not caused by an absolute increase but rather by a decline of the doppelgänger score. The effect is also not significant. In the last year of the Fico-administration there is a notable downward tip, followed by an upward “compensation” in the first Pellegrini year. A negative outlier in the first pre-treatment year can be attributed to the effect of the Mečiar administration.

For Voice and Accountability, a negative effect being significant in both models on a 0.1 level (p=0.075 & p=0.0938) is observable and accounts to a relative loss of 0.3 points in model 2. This is mostly caused by absolute declines in the periods of 2007 to 2009 and 2016-18, corresponding to the first and the third Fico-administration. In contrast, the score increased between 2009 and 2011/12, the time between his first two terms with Iveta Radičová being prime minister. Thereafter, the score remained stable during Fico’s second term and slightly improved within the first year of the Pellegrini administration. The Political Stability and Absence of Violence score fluctuated around the same level for most of the observed period. A clear increase between 2006 and 2008 as well as from 2011 to 2013 can be observed and a drastic decline between 2013 and 2016 – the last years of the Fico’s second term. All in all, there is a barely significant positive effect observable in model 2 (p=0.0938) with the relative gain however being mostly lost again by 2019. Regarding Government Effectiveness, a decline between 2004 and 2007 brought the score to a level below the doppelgänger, where it remained mostly stable for some years, before declining notably again between 2016 and 2019 –mostly during Fico’s third term. The decline is only significant in model 1 (p=0.05) and amounts to a relative off slightly more than 0.3 points. In the area of Regulatory Quality, a decline (p=0.075 & p=0.0312) is significant in both models on different significance levels (relative loss of around 0.3/0.25 points). While in the first years of the observed period this is mostly due to a stagnation or slight decline of the score, which stands in contrast to the improving score of the Doppelgänger, an absolute decline is notable between 2012 and 2015 during Fico’s second term as prime minister. Just as in case of Voice and Accountability, and initial positive effect of the Pellegrini administration can be observed. For Rule of Law, only in Model 2 the pre-treatment trends of the Doppelgänger align to the observed developments. In general, a mixed development with deviations in both direction around a value of 0.5 can be observed. Since the Doppelgänger predicts an increase in the late 2000s, rather than the fluctuating stagnation that happened, a negative treatment effect is significant on a 0.1 level (p=0.0625, relative loss of around 0.14). In the area of Control of Corruption, a steady decline from 2009 to 2013 is visible. Especially in the years 2011 to 2013, a downward dealignment from the Doppelgänger can be observed. In the following years, the score increased again, chiefly faster than the Doppelgänger from 2017 to 2018. While none of the recent prime ministers had a very good track record in this area, it can be concluded that the main reason for the significant (p=0.0625) negative deviation with a relative loss of around 1.8 points in model 2 is the worsening of the score during the second term of Fico.

4.5.6. Austria

For Austria, the only significant economic treatment effect is for the variable of productivity. For the GDP, a slight negative relative development can be observed post-treatment. However, this is smaller than a number of pre-treatment deviations. The same is true for the
expenditure side GDP, while the post treatment development of the GDP p.c. change rate fits the doppelgänger relatively well. While the unemployment rate as well as its change rate declined during Kurz’ chancellorship, it did not do so to a significantly larger extent than the doppelgänger; there are also no visible treatment effects on the inflation rate. Speaking of productivity, a negative effect can be observed, being significant in a 0.05 level in both models (p=0.0256 & p=0.0312) and amounting to a relative loss of more than 2$ per hour worked. It is a continuation of a trend starting already in the year before Kurz’ takeover (Faymann II / Kern-administration) and can be explained by an observable stagnation of the productivity rate, which stands in contrast to the growth of the previous years and the doppelgänger.

In the area of liberal democracy, a negative post treatment effect is significant in Model 2 (p=0.0312). The negative development is a continuation of what already happened in the last years of the SPÖ-led government and is all in all quite small both in absolute (from 0.8 to 0.77 between 2016 and 2019) and relative (loss of less than 0.03 in model 2) terms with an increase from 2018 to 2019.

There are two Worldwide Governance Indicators for which a significant treatment effect is observable. First, a decline in the Voice and Accountability score is significant in model 2 on a 0.1 level (p=0.0645) with a relative loss of a bit more than 0.04 points. However, this is partly caused by a pre-treatment dip – the score only marginally declined in absolute as well as relative terms during Kurz’ chancellorship. A similar conclusion can be drawn about the Political Stability and Absence of Violence score, for which a decline is significant on a 0.1 level in both models (p=0.0769 & p=0.0645, relative loss of around 0.2 points). For the other indicators, no significant treatment effects are observable, while in general the fluctuations and deviations of the institutional scores are considerably smaller compared to all of the other cases.

4.6. Difference-in-difference analysis – Functioning

The subsequent description of the method is based on different introductions to its working, especially that of Clower (2020). The difference in-difference method is a frequently used way to compare the effects on a group or case receiving a treatment to a control group, mostly being applied to estimate the effects of changes in the economic environment or government policies. The point of departure is that the outcomes in regard to the dependent variable are influences by a case (here: country) and a time-specific effect, both being independent from each other, as well as the treatment:

\[ E(Y_{i,t}|i,t) = \gamma_i + \lambda_t + \beta \]

*Equation 7*

with \( E(Y_{i,t}|i,t) \) denoting the outcomes for a country in period t, \( \gamma_i \) representing the country-specific effect, \( \lambda_t \) the time-effect and \( \beta \) the effect of the treatment.

The outcomes can then generally be expressed as

\[ Y_{i,t} = \gamma_i + \lambda_t + \beta D_{i,t} + \varepsilon_{i,t} \]

*Equation 8*
with \( D_{i,t} \) being a dummy variable representing the case that received the treatment and \( E(\varepsilon_{i,t} \mid i, t) = 0 \).

With this basis, the differences in outcomes for the cases across time can be compared with

\[
E(Y_{i,t} \mid Treated, post - treatment) - E(Y_{i,t} \mid Treated, pre - treatment)
\]
\[
\lambda_{post-treatment} + \beta - \lambda_{pre-treatment}
\]

Equation 9

And

\[
E(Y_{i,t} \mid Control, post - treatment) - E(Y_{i,t} \mid Control, pre - treatment)
\]
\[
\lambda_{post-treatment} + \beta - \lambda_{pre-treatment}
\]

Equation 10

The differences in-differences measuring the treatment effect are then calculated in the following way, eliminating the common trend between the cases, \( \lambda_t \) and the permanent difference between them:

\[
E(Y_{i,t} \mid Treated, post - treatment) - E(Y_{i,t} \mid Treated, pre - treatment)] -
E(Y_{i,t} \mid Control, post - treatment) - E(Y_{i,t} \mid Control, pre - treatment)] = \beta
\]

Equation 11

(Angrist & Krueger, 1999; Clower, 2020)

This method can be realized with R without the need for additional packages. For this purpose, dummy variables are created classifying observations of the observed country as “treated” and all observations in the post-treatment period with an additional “time” dummy. A third dummy variable then marks the observations where both applies (“interaction”). Subsequently a linear regression is used for estimating the effects of the dummy variables.

For this analysis, the same data sources and control sets are used as for the synthetic control method. Additionally, the justification of assumptions of the previous part applies here, too. In general, it becomes apparent that this model is much less sensitive compared to the synthetic controls. While the observed trends are all in all consistent with the results of the previous analysis, the number of significant results is much lower.

### 4.7. Difference-in-difference analysis – Results

In case of Hungary, as well as Poland – but not the Czech Republic – the decline in liberal democracy is significant on a 0.01 level in both models. In Hungary, there are additional significances regarding the decline in Voice and Accountability (\( p=0.008 \) & \( p=0.032 \)) as well as Regulatory Quality (\( p=0.088 \) \( p=0.043 \)). In case of Poland, a decline in Voice and Accountability as well as Regulatory Quality is only significant in model 1 (\( p=0.032 \) & \( p=0.088 \)). Interestingly, the only economic variable where a significance can be observed in the initial three cases using this method, is the unemployment rate in Poland with the decline being significant on a 0.001 level. However, this does not stand in contrast to the results of the previous analysis but rather proves how unsatisfactory a pre-treatment fit of a synthetic controls model – in this case caused by the early 2000s spike in Polish unemployment – limits
the ability to gather significant results. In case of the Czech Republic, a variation of the treatment point to 2014 leads to significance in one area: The negative change of the unemployment rate – although only on a 0.1 level 1 (p=0.091 & p=0.095). For the additional two cases, the only significant observations are a decline in unemployment (p<0.001 in both models) and inflation (p=0.073 in model 2) as well as an increase in GDP p.c. (p<0.001 in model) in Slovakia. A full overview of the results based on this analysis can be found in the appendix B.

5. Analysis & Interpretation

In the following paragraphs, the main results of the empirical analyses will be synthesized, compared and integrated in the policy context.

5.1. Economic observations

When considering the development of the GDP p.c. in figure 1, the impression arises that the comprehensive economic reforms of the Orbán administration did not have the promised effect of turning the tide against the economic performance of the predecessor government that was widely being perceived as disappointing. In contrast, it is especially during the first years of the Fidesz government and directly after the 2014 election, when the most ambitious policy reforms in the economic area were implemented, where a stagnation de-aligned the Hungarian GDP p.c. from its doppelgänger. The growth of the later years was mostly in line with the expectations. It is only in 2018/19 (dependent on the model), that the distance to the doppelgänger slightly decreased again for the first time. For the expenditure side GDP, in contrast, a below-doppelgänger performance from 2015 onwards mainly caused the significant negative deviation. Negative effects on GDP p.c. in general and on the expenditure side are also confirmed by the difference in-difference analysis, although not on a significant level. While for the growth rates the model fits less well already pre-treatment, the general observation of a below-doppelgänger change in the early years of the Orbán government and a level slightly above it in the recent years fits to the observations for the GDP p.c. Those observations stand in contrast to Orbán’s promises of restoring growth after an area of austerity and leading Hungary on a path where the country will be more successful in a supposed (economic) competition of nations. The results are also line with the analyses of authors such as Rogers stating that Orbán’s strategy of archiving economic upturn through alignment with new international partners showed only limited effect. At this point it remains open if, on the other hand, Orbán could live up to his key promise of fighting unemployment. Employment policy was not only at the core of his campaign pledges – and part of his criticism of the predecessor government – but also of his subsequent policy ideology of “workfare” and the tetrachord of “family, nation, work and order”. His policy of decreasing the level of unemployment insurance is an element that would conventionally be assumed of having this effect, while his tax policy remains ambiguous (lower corporate taxation in general but punitive taxes for some sectors). In fact, the performance in this area looks better: Between 2010 and 2016, the relative unemployment rate went down by between 3% and 5%-points compared to the doppelgänger. As mentioned before, this difference is however only significant on a 0.1 level and only in model 2. A decrease in unemployment is observable in
the difference in-difference model, too, but also not on a significant level. It has to be noted that it was part of Orbán’s policy agenda to oblige unemployed people to engage in communal work, which might distort the rate since it remains questionable if such “jobs” can be equalized with those created by economic forces in terms of the value they add to the economy. The question about the economic contribution of the additionally created jobs gets new salience when looking at the development of the productivity. Here, a very clear relative post-treatment decline in the years from 2011 to 2017 is unambiguously visible. Between 2011 and 2016, even a slight absolute decline happened. This decline is observable but not significant in the difference in–difference analysis.

In case of Poland, the evaluation of the economic performance leads to more positive conclusions: While post-treatment case-doppelgänger differences in GDP p.c. remain below significance in both models and with both methods, the trend is clearly positive. At the one hand, it can therefore not be concluded that “changing the mode of development” by PiS to achieve a totally different level of economic output and catch up with richer nations is underlined by their performance, since the actual development is within the margin to be expected. At the other hand however, it speaks for them that they could continue the remarkable path of growth Poland has been following for many years and even show a slightly better performance than during the predecessor governments. Other economic indicators also shed a positive light on their performance. In the synthetic controls analysis, only a slight negative deviation in unemployment is visible. However, since the pre-treatment fir is unsatisfactory, it makes sense to give more weight to the difference in-difference analysis showing significant decline in unemployment. In contrast to the Hungarian case, the flipside of lowered productivity does not exist. On the contrary, a significant increase in productivity is observable in the synthetic controls analysis especially in the later years of the PiS administration.

A number of possible explanations for this very different performance of the two closely allied Visegrád states can be considered. Hungary represents the country with the most radical economic reforms being conducted in the name of “unorthodox” economic policy. Although other measures such as the “tax credits for growth” or the lower taxation rates aimed at attracting companies and monetary policy was directed in a stimulating fashion, property rights violations, dismantling of judicial protection, nationalization, rumors of new measures as well as well the establishment of “prebendalist” informal institutions can be expected to have the opposite effect. While the Polish government pursued a number of similar policies, they stayed short of implementing some of the most radical projects like a complete nationalization of pension funds or restricting the independence of the central bank. Poland pursued a less ambitious agenda in the area of nationalization of companies, listened more to advisors and international experts and kept a working relation with the established business community. While some measures were implemented conventionally assumed to have a negative effect on employment such as an increased minimum wage and higher taxation, other policies such as the designation of special economic zones as well as a focus on the exploitation of natural resources and a restriction of environmental regulation can be assumed to have a stimulating impact on the short-term. The last-mentioned part, however, triggers questions of long-term viability and external costs. In addition, a more cooperative stance towards traditional partners was chosen by the PiS-government compared to Fidesz.
While the economic policies were less transformative, policies in the social field were very much different from Hungary. While the Fidesz administration limited social benefits in different areas and tried to encourage employment by creating mandatory communal work programs, the Polish government vastly expanded social spending. A responsible fiscal policy of previous years and solid economic performance provided the room for implementing policies encouraging consumption and demand-driven growth. Improved and increased tax collection will have enlarged this room for maneuver. Simultaneously, the economy benefited from the influx of cheap labor from Ukraine. Apart from the actual policies and strategies it has to be noted that Hungary and Poland had very different options and points of departures at the juncture where the populists took over. While the previous performance provided Poland said room for maneuver for fiscal expansion, the Hungarian transformative projects happened in a time with high levels of debt. The only partly crisis-induced recession put sizable constraints on the government which needed to pursue some level of fiscal consolidation. On the other hand, such fiscal consolidation was not pursued to an extent leading to a reduced debt-to-GDP ratio. It rather increased from 85% to 101% percent in 2014 compared to 2009, before going down and approaching the old value again in the following years (OECD, 2021). The fact that the most visible negative de-alignment from the doppelganger regarding GDP p.c. in the Hungarian case happened in the first years of the Orbán administration also allows interpretation connected to longer-lasting effects of the predecessor’s economic performance.

It has already been analyzed that Babiš represents a very different kind of populists compared to the other two cases. While he shares with them the strong anti-elite and anti-system polarization combined with promises of changing a supposedly corrupt state in a way serving its people better, as well as a strong economic populism, pledging to lead the country to unseen wealth, growth and employment, he does not share their transformative and ideological orientation. In contrast, it became apparent that his policies were adapted to fit to the preferences of the electorate, rather than trying to win people for visionary projects. Babiš’ overall populism was more technocratic and efficiency-oriented, rather than being steered by an identifiable host ideology. The promise of efficiency vs. corruption, growth vs. self-enrichment, economic development vs. elite benefits and the drawing of a vision of a Czech Republic becoming more similar to countries such as Switzerland, however, did not translate into a sizable positive effect on growth - the GDP p.c. stayed within the expectable range. In the area of unemployment, in return, a positive effect of the Babiš administration is visible, although representing a mere continuation of trends already starting with the previous government. A closer look at the unemployment change rate proves that it went in the direction of negative relative change during the previous administration, but the trend clearly reversed after Babiš took over. This difference between the Babiš and the Sobotka administration is also being underlined by the increased significance of the decline in unemployment and its change rate when changing the treatment point to 2014 and the fact, that only after the change of the treatment point significance regarding the unemployment change rate is given in the difference in-difference analysis. A change in the treatment point makes visible that the Sobotka government had a positive influence on GDP p.c. (especially on the expenditure side), too, and the trend changed with the takeover of the government by Babiš.
For Slovakia it can be concluded that all post-treatment governments until 2015 had an above-expectations performance in terms of GDP p.c. while the effects on unemployment and productivity remained ambiguous with different non-significant observations dependent on the model used for the synthetic control analysis. The positive performance with regard to GDP p.c., however, is also partly influenced by the dominance of one donor country for the construction of the control, while a change in the donor pool casts more doubt especially on the performance of the latter two Fico administrations. In return, the clear significance in the variable of unemployment in the difference in-difference analysis hints in the direction of also drawing positive conclusions regarding the post-treatment development in this case. Looking at mandates of the four different governments being in power since the treatment point, it can be cautiously concluded that during the last two Fico administrations a worse performance in terms of GDP p.c. is observable compared to the previous two governments. This is also visible in the area of the expenditure side GDP during the term of Fico III. A similar negative effect is observable for the productivity in the later years of Fico II and during Fico III, while no positive Pellegrini-effect can be identified.

Although not being significant, the observable development relative to the doppelgänger in the area of GDP p.c. is clearly negative in both models for Austria. While there is also a relative decline in unemployment, this is connected to a significant loss in productivity.

An additional observation is that (with the exception of a barely significant change in only one model for Slovakia) all governments’ policies do not seem to have a significant impact on the inflation rate, in neither model and with neither method. There are also no sizable non-significance post-treatment deviations visible when analyzing the results of the synthetic controls analysis. This applies even the case of Hungary where notable endeavors limiting the independence of the central bank were undertaken and far-reaching economic reforms causing a significant effect on a number of other variables were implemented as well as in the case of Poland where government spending was vastly expanded. These observations show that the inflation rate of those countries being heavily integrated into the European economic structure is crucially dependent on external factors. In case of Hungary, similar observations were made regarding reactions of the bond market, which did not “punish” the Hungarian governments for its unorthodox policies and infringements on property rights.
Figure 1: Output of the synthetic control method regarding the real GDP per capita at constant 2017 national prices (own estimation using data from Coppedge et al. (2021), Feenstra et al. (2015) and World Bank (2021a))
Figure 2: Output of the synthetic control method regarding the productivity / real GDP per hour worked (own estimation using data from Coppedge et al. (2021), Feenstra et al. (2015) and World Bank (2021a))
5.2. Institutional observations

The consideration of the liberal democracy index clearly confirms cited literature on populism. For Poland and Hungary, a drastic decline is visible and significant with both methods and models. The fact that the observable decline in Czech Republic is not significant anymore in the difference in-difference analysis and qualitatively much smaller than in the other cases, underlines the role host ideologies play. The Polish and Hungarian Populists started their campaign with a clear ideological orientation and vision of how to transform the state, while Babiš might have little respect for established democratic procedures, he did not pursue a comprehensive project of changing the fundamental working of the Czech institutions. At the same time, the acceleration of the decline after Babiš became prime minister compared to the Sobotka administration and the difference levels of significance dependent on the starting point showcase the difference between the impact of a populist coalition partner and a populist leading party. This difference gets confirmed by the fact that the decline in Austria, too, is relatively small and only significant if main populist-led countries are excluded from the donor pool (model 2). In addition, the Slovakian case confirms the important difference between a government with populist tendencies and full-scale populists.

Similar observations can be made looking at the Voice and Accountability score. The most drastic decline being significant in both models with both methods (exemption: difference in-difference in Poland, model 2) is observable in Poland and Hungary. In the Czech Republic a decline is clearly visible, too, but to a lesser extent and not anymore significant in both models while declines in Slovakia and Austria are observable but less pronounced. Those negative trends are contrary to the rhetoric of the analyzed populists. All of them promised a state being less dominated by an unresponsive, self-serving elite and instead fully oriented on the interest of its people. Babiš, for example, pledged to increase the reactiveness of the government to ordinary citizens and adapted his program based on polling results during the campaign, while PiS and Fidesz promised to make the state listen to its people’s interests instead of foreign actors. Therefore, it is an interesting observation also in this context that the observed score concerning the voice possibilities of and the government accountability to the people actually developed in the exact opposite direction compared to what would have been expected if the concerned governments would live up to their promises.

Relatively unsurprisingly for Central European EU countries, Political Stability and Absence of Violence is the area where the least notable observations are present. An exemption to this pattern is present with the significant decline of the score in the Austrian case. For the area of Government Effectiveness, in contrast, quite the opposite applies. In all three main cases a decline is significant in the synthetic control method in both models - with the exception of model 1 in the Polish case. Again, the decline is more pronounced in the first two cases. The fact that the change from populist-involving to populist-led government in the Czech Republic triggered the decline, is even more striking here. In case of Austria, there seems to be no noteworthy treatment effect, while in the Slovakian case a clear negative development is observable during Fico III. Therefore, with this variable again the gap between populist rhetoric and reality becomes obvious. Instead of a reformation of a corrupt elite-ridden nation in the interest of a country’s people, an actual decline in the effectiveness of the state is
observable. This observation is especially interesting in the Czech case. Babiš’ campaign heavily focused on the quality of the government and its administration, on professionalisation and increased effectiveness, on managing the state in an efficient fashion, “like a firm”. Government Effectiveness, however, is one of only two variables showing a significant effect in the synthetic control method in both models on a 0.05 level in the Czech case –the opposite of what was promised. A similar contrast is visible in case of Poland and Hungary, where a strengthening of the state, and increased government capabilities also in connection to the “competition of nations” rhetoric were a central element of the campaign rhetoric.

In the related area of Regulatory Quality, a clearly negative trend can be observed for Hungary, being significant not only in the synthetic control but also in the difference in-difference analysis. In case of Poland, an initial decline was compensated by an increase in the last observed year, making the negative effect only significant in model 2 in the synthetic control analysis and in model 1 with the difference in-difference method. In the opposite fashion, an initial increase was followed by a decline in the Czech Republic. In Slovakia, the score drifted significantly below the doppelgänger with relative declines happening during most of the treatment years with the notable exemption of the first Pellegrini year.

Given the results literature about the effects of Populism draws, it is not surprising that Rule of Law also declined significantly (at least in the synthetic controls analysis) in Poland and Hungary. In the Czech Republic, decline is also clearly visible and stands in stark contrast to the positive performance during the Sobotka administration, although not on a significant level. This observation is interesting given Babiš’ explicit campaign promises to strengthen Rule of Law in the Czech Republic. A decline in Slovakia is significant in Model 2 of the synthetic controls and is mostly caused by the developments during the first two Fico administrations while the development in Austria is interestingly positive.

The fight against supposed or real corruption, especially on the elite level, played a key role not only for the campaigns and rhetoric all of the observed three populist parties but is also a crucial element of the ideal-typical populist from the theoretical literature. Therefore, the Control of Corruption indicator deserves special attention. In general, it becomes visible that also in this area the results do not fit to the promises, since in no case a (significant) positive development can be observed. In case of Hungary, the opposite happened, in case of Poland a slight rise was followed by a slight decline and in case of the Czech Republic a slight decline is visible, standing in strong contrast to a positive track record of the Sobotka administration (2014 starting point). In Slovakia and Austria, the developments are mixed with no notable deviations from the doppelgänger trends. While their heavy focus on corruption (e.g. the “Czech Palermo”-claims) could give optimism to some that, although populist governments’ effects on many institutions will be gravely negative, at least this problem is being tackled, the empirical results do not support such an optimism.

Such an observation is not surprising considering the conclusions of authors analysing the post-populist takeover in the considered cases. Rather than a campaign for the eradication of corruption, misuse of funds and conflicts of interest on highest level were observed in the Czech Republic, and prebendalist networks were established in Hungary. While in Poland some authors see comparable problematic tendencies e.g. political rent extraction and
clientelist relations, this indicator uncovers additional structural differences between the Fidesz and the PiS administration.
Figure 3: Output of the synthetic control method regarding the Varieties of Democracy Liberal Democracy Index (own estimation using data from Coppedge et al. (2021), Feenstra et al. (2015) and World Bank (2021a))
Figure 4: Output of the synthetic control method regarding the WGI Voice and Accountability score (own estimation using data from Coppedge et al. (2021), Feenstra et al. (2015) and World Bank (2021a, 2021b))
Figure 5: Output of the synthetic control method regarding the WGI Government Effectiveness score (own estimation using data from Coppelge et al. (2021), Feenstra et al. (2015) and World Bank (2021a, 2021b))
Figure 6: Output of the synthetic control method regarding the WGI Control of Corruption score (own estimation using data from Coppedge et al. (2021), Feenstra et al. (2015) and World Bank (2021a, 2021b))
6. Conclusion

Regarding the economic consequences of populism, a heterogeneous pattern occurs, proving the role economic legacies and environment as well as concrete ideologies and policies play. A noteworthy difference between the observed cases is the level of disruptiveness of the populist governments’ economic policy ranging from relatively low in the Czech case to moderate in Poland and more far reaching in Hungary. On the outcome side, the pattern in terms of GDP performance is very heterogenous. While it became visible that in all cases the countries had a focus on reducing unemployment, they did so with varying success and connected to different effects on productivity. In general, the Polish government, which could build up on an excellent economic track record, was able to use this room for maneuver to implement policies eventually having mostly beneficial economic effects, while with the “unorthodox” economic policy of Orbán the country performed far worse than expected on most indicators, including GDP p.c. and productivity while neither a positive trend change in debt-to-GDP ratio was achieved. More precisely, it was especially the first years of the Orbán administration, where most of the drastic economic reforms were implemented, when a negative deviation of GDP p.c. and productivity numbers from the doppelgänger happened. The technocratic-populist government of Babiš had less effects on economic indicators compared to the other two countries, fitting to its less transformative political agenda.

In the area of institutional variables, the post-treatment effects in general were more pronounced then in the economic area, which is unsurprising given a governments’ more direct effect on them. It became apparent that a populist effect on liberal democracy is not only a topic of theoretical literature and that in addition the governments being analyzed tend to reduce the voice possibilities for and the accountability to their citizens. Moreover, a general negative trend in the quality of governance, both expressed in terms of Government Effectiveness and Regulatory Quality, can be observed, while Control of Corruption effects are mixed to negative, too. Therefore, the institutional side is an area where clear and distinct differences between populist promises, and outcomes can be observed. This refers e.g., to pledges of improving the functioning of the government, making it more responsive and fighting corruption. The question remains what is meant by populist parties seeing themselves as representants of the “voice of the people” fighting “corruption of the elites”. Since it does not seem to be an actual improvement in government responsiveness and accountability or in the fight against corruption following standard definitions, their alternating definition of those terms could be a topic of further research. In addition, in this contribution the different reach of the transformational projects can be observed when looking at the extent of the change in institutional variables, with the Orbán administration changing the structure of state the most and Babiš having a relatively un-disruptive policy portfolio. All these observations clearly confirm literature classifying Babiš as a different type of populist, be it a technocratic populist or the leader of a business-firm party, compared to the more ideologically motivated leaders in Poland and Hungary. In addition, literature emphasizing the role of populist host ideologies is also supported by the presented observations.

The inclusion of a differing starting date in case of the Czech Republic as well as the consideration of the two additional cases allow drawing conclusions about the differences
between a populist-led and a populist-influenced government. For economic variables such as the GDP p.c. or productivity, and institutional variables, including the liberal democracy index and Control of Corruption, a positive change during the Sobotka administration, with Babiš as vice prime minister and minister a finance and a trend reversal afterwards can be observed. This raises the question of the extent to which Babiš might have benefited from the Sobotka administration’s positive performance in the 2017 election – a track record that he was not able to sustain in most observed areas.

In case of Slovakia, the ambiguous academic observations about Fico’s Smer as a partly populist and partly “mainstreamized” party are mirrored in the considered outcomes. As far as economic development is concerned, there are no clear trends that make the period of his government distinguishable from other periods – significant developments, such as an above average GDP p.c. continued in a similar fashion during the Radičová administration as before and afterwards. While the absence of clear negative trends in key institutional variables, especially the liberal democracy index, set the country apart from full-scale populist cases, a number of significant observations in areas such as Rule of Law and the more recent decline in liberal democracy might be connected to the populist characteristics of Fico’s administration. In a similar manner, it became apparent that Kurz’ Austria, too, does not resemble a full-scale populist government in the sense of gravity of the effects, while some minor comparable trends in key institutional variables might show relatedness.

The use of both the synthetic control method and the difference in-difference analysis allows drawing methodological conclusions in addition to the populism and case-related ones:

In general, the way a synthetic control is constructed means that it goes beyond a mere comparison with a control group of other cases but creates a counterfactual that is actually intended to mimic the observed case with the help of relevant covariates. This does not only allow drawing more detailed conclusions about qualitative changes after the treatment, also over time, but creates a much higher sensitivity to treatment effects, what is illustrated by the notably higher number of significant observations with this method. On the other hand, significance was often obtained only on a higher level, which is connected to the limited number of donors. Simultaneously, the quality of the results is highly dependent on the quality of the doppelgänger that serves as “the” one counterfactual, compared to the average trends of multiple countries in the case of the difference im-difference analysis. In some models, it was clearly visible that a heigh weight attributed to a specific donor country heavily influenced the results. Examples like the one of the Polish unemployment rate, in addition, show how a pre-treatment distortion of the model prevents the attainment of significant results. In such cases the difference in-difference analysis proved to be a valuable addition. The construction of two models is also connected to important questions about what kind of countries qualify as donors/control group. While most authors doing comparable works using the synthetic control method opted for large, unfiltered donor pool, some of this work’s result show the weaknesses of such an approach. In the synthetic control method, there were a number of variables where, while there was clear significance in model 2, that was not present in model 1, since this model was distorted by the inclusion of another populist-led country pursuing policies with a similar effect on the respective variable. This can especially become a challenge when more moderate cases of populist influenced governments, such as Austria,
are considered and countries like Poland or Hungary are in the control group. While an exclusion of some key populist countries therefore made the method more sensitive for identifying effects of the treatments, difficult decisions are connected to the question of which countries to exclude and include, where to draw the line regarding too which extend a government is being influenced by populism e.g., in case of the involvement of populist junior partners, parties that changed their profile and borderline cases. Those questions are also connected to the fundamental issue of what exactly one classifies as populist “treatment”: Is it the takeover of a specific government with specific policies, which is analyzed against the donor pool of all other countries that – obviously – are not led by the same government, or does the takeover need be considered as part of a broader trend of power takeovers by different populist parties with similar orientation and profile? The results of this contribution cannot offer an unambiguous answer to this question since some common patterns could be observed but important distinct characteristics remain. In addition, key differences between ideological and more technocratic populists as well as full-scale populist led governments and populist influenced ones are notable. The question to which extent the takeover of different governments falling in the populist spectrum are to be considered as the same treatment or if single-case observations or categorizing in different groups is more adequate, is therefore subject to different factors and decisions. This contribution, however, can serve as an example of the effects this research strategy decision has on the constitution of the models and the results, due to working with both assumptions in a comparable fashion. In addition, it seems that in the area of institutional effects there are more distinct “populist” trends, while the economic effects mostly vary in a case-specific way. Furthermore, populist-influenced countries will distort the model in a less significant way than full-scale populists given the observed much more moderate and ambiguous effects of their policy on the relevant variables.

This paper contributes to the under-researched area of institutional and economic consequences of populism by adding five quantitative case studies in a comparative fashion. In addition, the descriptive and analytical literature about the specific developments in those countries can be enriched by these results. On the methodological side both the question about which method is the most suitable for research in these areas and the question about adequate donor pools / control groups is further explored by this contribution. Further contributions can build on this by both extending or narrowing down the scale of the research. The inclusion of additional populist cases can help identify broader patterns regarding the institutional and economic consequences of populist government takeovers in general. The results of this paper point in the direction that a classification by type of populist party, especially in respect to (existence of a) host ideology could be beneficial as well as a differentiation between full scale populists, governments with populist partners and borderline/”mainstreamized” cases. Furthermore, a narrowing down to identify specific mechanisms and policies in which the observed effects were caused or influenced by the governments of the countries being considered can add to the specific strings of research. The contribution presents a large number of empirical observations regarding developments in various areas. Further research could analyze the results of a single or a number of those indicators more in-depth than an analysis based on a more general orientation can do. Both directions of research, more general effects of populism as well as the mechanisms happening in the observed countries, would allow a more reliable interpretation of the presented results.
In the wake of more current developments, updating the models with more recent data in order to analyze the effects of the handling of the Covid pandemic by populist governments compared to non-populist can be insightful at a later point. Dependent on future political developments in the countries being considered for this contribution, an update at a later date is also relevant for other reasons: It has been observed that some populist governments tend to trigger short-term booms by pursuing a policy of fiscal expansion which prove to be unsustainable in the long-term (“populist cycle”). Given the observations that have been made policy-wise as well as in terms of outcomes, it will be especially interesting to see if Poland might fit in such a pattern, since analysts note that the fiscal expansion happening there is connected to an increase in the government debt level. Moreover, further contributions can investigate additional variables. Analysis of development of inequality and wages would be relevant given the connection of this variables to further electoral promises of the mentioned parties. A consideration of a number of indicators compared for different social and regional groups would provide more insights into the beneficiaries and losers of populism and could be contrasted with patterns in voting behavior.
Appendix

The online appendix can be found under the following link:

https://zeppelinuniversity-my.sharepoint.com/:w:/g/personal/y_scharf_zeppelin-university_net/EEBwo2OqseSj7vR4VIWocBSA?e=9GuAXc
Bibliography


Rybnikář, J. (2021). Populism as a form of political communication: a case study of Slovakia


World Bank. (2021a). World development indicators

Declaration of Authorship

I hereby certify that the thesis I am submitting is entirely my own original work except where otherwise indicated. I am aware of the university's regulations concerning plagiarism, including those regulations concerning disciplinary actions that may result from plagiarism. Any use of the works of any other author, in any form, is properly acknowledged at their point of use.

Yannick Scharf, Friedrichshafen, November 18, 2021