

# POPREBEL

**Populist rebellion against modernity in 21st-century  
Eastern Europe: neo-traditionalism and neo-feudalism**

**Working Paper no. 9**

**Do inequality, perceptions and economic insecurity usher in  
political populism? A Polanyian Approach**

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## POPREBEL Working Paper series

POPREBEL (Populist rebellion against modernity in 21st-century Eastern Europe: neo-traditionalism and neo-feudalism) is a large Horizon 2020-funded research project on the rise of populism in Central and Eastern Europe. The aim of the project is to describe the phenomenon, create a typology of its various manifestations, reconstruct trajectories of its growth and decline, investigate its causes, interpret its meanings, diagnose its consequences and propose policy solutions.

This project has received funding from the European Union's Horizon 2020 research and innovation programme under grant agreement No 822682.

The POPREBEL consortium comprises six universities – UCL (co-ordinating institution), University of Belgrade, Charles University, Corvinus University of Budapest, Jagiellonian University and University of Tartu – and Edgeryders, a social enterprise.



## 1. Background

In the redesigned WP5 on economy, the ultimate goal of D5.5 has been to describe and critically analyse how growing economic inequality and/or insecurity can be understood as a result of the historical process of increasing marketization in Central and Eastern Europe. Our analysis has relied on a Polanyian narrative that would possibly explain the rise of populist forces in the CEE from a critical historical perspective.

The analysis has been based on the idea that the demand for populism increases due to the socioeconomic difficulties caused by marketization. In this sense, our paper is part of the branch of literature that assumes that the demand for populism is an economic phenomenon. According to Karl Polanyi, in marketization, economic activities are not controlled by society, which leads to the establishment of fictitious commodities, such as money, land and labour (first movement). This will cause society to push for protection against the negative effect of marketization (second movement, or countermovement), which then leads to the emergence of politicians promising policies and actions that will enforce the people's will. We argue that the socioeconomic transformation of the CEE was a marketization process that led to the above-mentioned countermovement; thus, the goal of this paper has been to illustrate which transformation affected the people and that such a transformation led to increasing demand for a 'countermovement'.

Hard data have been collected to track down long-run historical patterns of socioeconomic indicators. This includes GDP, unemployment and employment trends, various indicators of poverty and inequality, and consumption levels. We have also relied on indicators of surveys of the World Values Survey (WVS), European Values Study (EVS), the Pew Research Center, and the EBRD's Life in Transition Survey. We have also relied on many other surveys conducted by local scientists to augment the analysis. We have used these indicators to illustrate the potential 'countermovement' and increasing demand for populism in these societies. We have augmented this analysis with a small amount of secondary literature to help embed our analysis into a historical narrative.

Our research in D5.5 has connections with the findings of both D5.1 (economic insecurity and income inequality) and D5.2 (empirical database). Together with the framework provided by D5.3 and the results of other empirical research work of WP5 (i.e. D5.6 and 5.7), a coherent supply-demand model of populism for V4 countries can be built. By applying a Polanyian approach, WP5 can have a better fit with WP1. Additionally, the interdisciplinary character can be substantially strengthened in this way.

## 2. Activities carried out and results

### I. Activities carried out

- Setting up an analytical framework based on Karl Polanyi's double movement theory;
- Gathering relevant literature on the economic history of the CEE and narrowing down the research to the Visegrad 4 countries (V4);
- Identifying, gathering, and analysing relevant data regarding the socio-economic effect of the transition;
- Identifying, gathering, and analysing relevant data regarding the declining support for capitalism and democracy in the region;
- Presenting the results first at the end of August 2021 at the ECPR online conference; and
- Developing the text further to obtain a full supply-demand understanding of populism in the region.

### II. Results

#### a) Introduction, theoretical and methodological background

Currently, there is a great emergence of populist parties in Central and Eastern Europe. According to various research institutions (see Bakker et al. 2020, Norris 2020, Rooduijn et al. 2019), in all Visegrad 4 (V4) countries, populist parties are included in the government.



The causes of this increasing demand for populism are a contested issue. According to the literature, there are two main possible explanatory variables behind emerging populism: economic globalization and cultural backlash. According to the latter, Inglehart and Norris (2016, 2019) argue that the emergence of populism “can be explained not as a purely economic phenomenon but in large part as a reaction against progressive cultural change” (Inglehart and Norris 2016: 2). In this sense they find “that the classic economic Left-Right cleavage in party competition is overlaid today by a new Cultural cleavage dividing Populists from Cosmopolitan Liberalism” (Page 3) and they find in their empirical investigation, that “populist support is strengthened by anti-immigrant attitudes, mistrust of global and national governance, support for authoritarian values, and left-right ideological self-placement.” (Page 4)

The globalization argument usually refers to increasing inequality and insecurity due to the disappearance of the “embedded liberalism” (Ruggie 1982) compromise (Rodrik 2018, 2021). According to this, there are strong global economic causes behind populism. Globalization has adverse effects on the income level of various groups in developed countries, where populism is surging. As conclusions of the famous elephant curve (Milanovic 2016) suggest, the real increase in the income of the middle and lower middle classes of developed countries was close to zero between 1988 and 2008. This led to the increase in inequalities in the developed world, which then caused social unrest among the members of these losing social groups.

These trends are usually associated with globalization and its effects on the economy. (Rodrik 2018) Trade liberalization, i.e., the increase in foreign direct investment (FDI), has a negative effect on the low- and medium-skilled workers of the developed world, as they must compete with the low wage labour of the emerging world. At the same time, due to the increase in the mobility of capital, taxing capital also becomes harder. This leads to the decreasing taxation of profits that also has a huge influence on increasing inequalities (see, i.e., Piketty 2013). Since the end of the 1970s, a political compromise has been built around this process, which is called the “competition state” (Cerny and Evans 1999). The losers of these processes feel themselves let down by their governments and elite; hence, they are the most important supporters of populist movements and parties (Guiso, Herrera, Morelli, & Tommaso 2018).

This argument fits well with the political economic argument of Karl Polanyi (1944/2001). According to Polanyi, capitalist transformation, or marketization, in the 18th and 19th centuries caused the economy to disembed from society, which meant that economic activities were not controlled by society; thus ultimately led to the establishment of fictitious commodities, such as money, land and labour (first movement). However, while Polanyi does not question the fact that this process led to an unprecedented increase in material wealth, he does state that this process cannot last long, as it “means to subordinate the substance of society itself to the laws of the market.” This first movement will cause society to push for protection against the negative effect of marketization (second movement, or countermovement). He describes the politically and economically stormy 1920s and 1930s as great examples of his theory; he argues that the various leftist and rightist undemocratic movements of his time were the result of the disembedding economy of the long 19<sup>th</sup> century. In this sense, we define the emergence of populism as the countermovement against the negative effects of globalization<sup>1</sup>.

Although Polanyi does not emphasize word inequality or insecurity throughout his book, it is clear that one of the key concepts behind the fictitious commodity problem of labour is insecurity. Based on this, many authors argue that the current movement towards globalization and the marketization of previously regulated economies has led to a world with an increasing need for flexibility (Boltanski and Chiapello 2007) and growing insecurity. (Webster et al. 2008)

In the case of the V4 countries, however, these arguments might be slightly misleading. In many ways, V4 countries have been the winner of globalization, as their modernization model is based on foreign direct investment-based exporting. Additionally, although some V4 countries, especially Hungary, were used as transit countries for migrants during the 2015 refugee crisis, CEE countries lack those cultural conflicts, as emphasized by Inglehart and Norris (2016, 2019)<sup>2</sup> However, are there any other possible explanations that we can use to explain the increasing demand for populism in V4 countries? That is the central question of our research.

Although Mudde (2016) states that the emerging populism in Europe (including the V4) cannot be called Weimarization, which means that the economic variables are not the sole explanation, we agree with Guriev and Papaioannou

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<sup>1</sup> We are not the only one using this logic in a CEE context; see for example Scheiring (2020) for Hungary or Czech and Kassner (2021) for Poland.

<sup>2</sup> However, in case of Hungary, the Fidesz government has put the question of migration at the centre of their political agenda



(2020), who focus on economic variables and the effect of the 2008 crisis and austerity measures introduced by various governments as the main trigger for increasing populism.

We argue, however, that the case of the CEE is more complex by stressing some important differences between the socioeconomic institutional development of V4 countries (and the broader CEE region) and Western Europe, which have an important influence on these processes as well. We will introduce these differences later in this paper; however, it is important to mention one important factor, namely, the change of political and economic regimes in the early 1990s. This is important because, although, one might argue that globalization might have brought about benefits for the regions, the regime change meant a formerly unseen institutional transformation of these societies. This regime change meant an economic and political transition into the “competition state” model in a rapid way that has never been seen before.

In our research, we try to investigate this issue in a Polanyian approach; we try to illustrate that regime change brought marketization to the region but that marketization did not bring about the hoped-for increasing welfare or catching-up with Western Europe or other developed regions. The final realization of this came about with the 2008 recession; hence, the ‘countermovement’ strengthened again. While it seemed in the 1990s that there was no large political force satisfying the demand for populism, after the 2008 crisis, the demand slowly led to an increasing supply.

To achieve our goal, we tried to collect hard data to track down long-run historical patterns of socioeconomic indicators. This includes GDP, unemployment and employment trends, various indicators of poverty and inequality, and consumption levels. We also relied on indicators of surveys of the World Value Survey (WVS), European Values Study (EVS), the Pew Research Center, and the EBRD’s Life in Transition Survey. We also relied on many other surveys conducted by local scientists to augment the analysis. We used these indicators to illustrate the potential countermovement and the increasing demand for populism in these societies. We augmented this analysis with a small amount of secondary literature to embed our analysis into a historical narrative.

## **b) Historical background**

In the modern socioeconomic development path of the now V4 countries<sup>3</sup>, we believe that there were three critical moments:

1. The second half of the 19<sup>th</sup> century meant the transition to and the development of the region capitalist systems;
2. After World War II, the region fell under Soviet influence, which led to a second transition into a socialist economy that led to deep changes in society and the economy; and
3. The regime change and the integration of the V4 into the European Union in the 1990s again meant a serious transformation of their economies and societies.

What is, however, common in all these periods, is that neither of them meant closing the already existing development gap compared to that of Western Europe. According to Berend (2003), the per capita GNP of Austria-Hungary was approximately 55% of that of Britain in 1800, while it was 51% in 1860. These numbers for the region further declined later, according to Morys (2021: 175), to approximately 40% during the interwar period; furthermore, at the time of 1989, for most countries, the figure was below 50%. (Berend 2009: 34, and Voskoboynikov 2021: 387) The first two periods are examined in this paper only briefly, and only those points are highlighted, which we believe are critical to understanding the developments after the 1990s.

Regarding the first time period, we have to highlight the following issues:

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<sup>3</sup> It is very hard to make proper historical analysis on the macro level of these countries. Poland in her current form was established after WWII, during the interwar years, although she was independent; however, she encompassed very different territories than today. Before WWI, in the territory of today, Poland was divided between Prussia/Germany, Russia, and Austria-Hungary. Slovakia was part of Hungary before WWI, while the Czech Republic of Austria, together with Ruthenia, formed Czechoslovakia after WWI, then did so without Ruthenia after WWII. Hungary was part of the Habsburg Monarchy, after the Ausgleich in 1867 Austria-Hungary. After WWI, Hungary lost about two-thirds of her territories to neighbouring countries. Additionally, we have to acknowledge, that there are no two same cases. In order draw conclusion, we will treat the region as a whole; however, we will try to emphasize some important differences.



While in Western Europe, feudal institutions were entirely or partially abolished until the 17<sup>th</sup> century; in some cases, they remained until the 18<sup>th</sup> century, while, as in the case of CEE, some remained in place until the mid-19<sup>th</sup> century or even later. Additionally, after the abolishment of feudal rights, the past elite political and economic power-holders (as landlords, as part of the political and bureaucratic elite) remained quite significant until the Second World War. (see Berend 2003, Lukacs 1988). Thus, feudalistic institutions and legacies might have a much stronger influence in the region, as our POPREBEL team’s other research efforts illustrate.

Modernization and economic development happened in the region largely through the help of external capital, knowledge, and entrepreneurship and led to a dependent way of development (Berend 2003). This, especially during times of crisis, created from time-to-time tensions within society from the age of dualism, through the interwar period and during the last 30 years. Most important out of these was probably the ‘Jewish question’ (Berend 2003, Lukacs 1988, Ungváry 2012). This led to the development of incomplete societies that lacked entrepreneurs and a wide middle class, as well as a significant number of industrial workers (Berend 2003).

In this sense, the region can be considered a ‘latecomer’ of economic development. As Gerschenkron (1962) observed, latecomers develop different institutional solutions to overcome their backwardness compared to other, more developed countries. In his work, he differentiates between the German and Russian types of modernization, the first being dominated by new types of financial institutions (universal banks), and the Russian one being carried out by state-led developmental policies. The CEE region might be a borderline case; however, in most countries, the state plays an essential part in the development process. This might also cause path dependency; thus, state and state intervention is much more widely accepted in the region, as in the case of Western countries.

The overall economic development and standard of living fell well behind those of Western Europe, especially Great Britain. The two figures below illustrate these differences using GDP estimates and welfare ratios, “where estimated annual earnings of a common labourer were divided by the expected annual expenses for a family of two parents and two children. A welfare ratio of 1 implies that an unskilled labourer could support his whole family on his own annual earnings alone” (Cvrcek 2020: 144-145, see Figure 1).

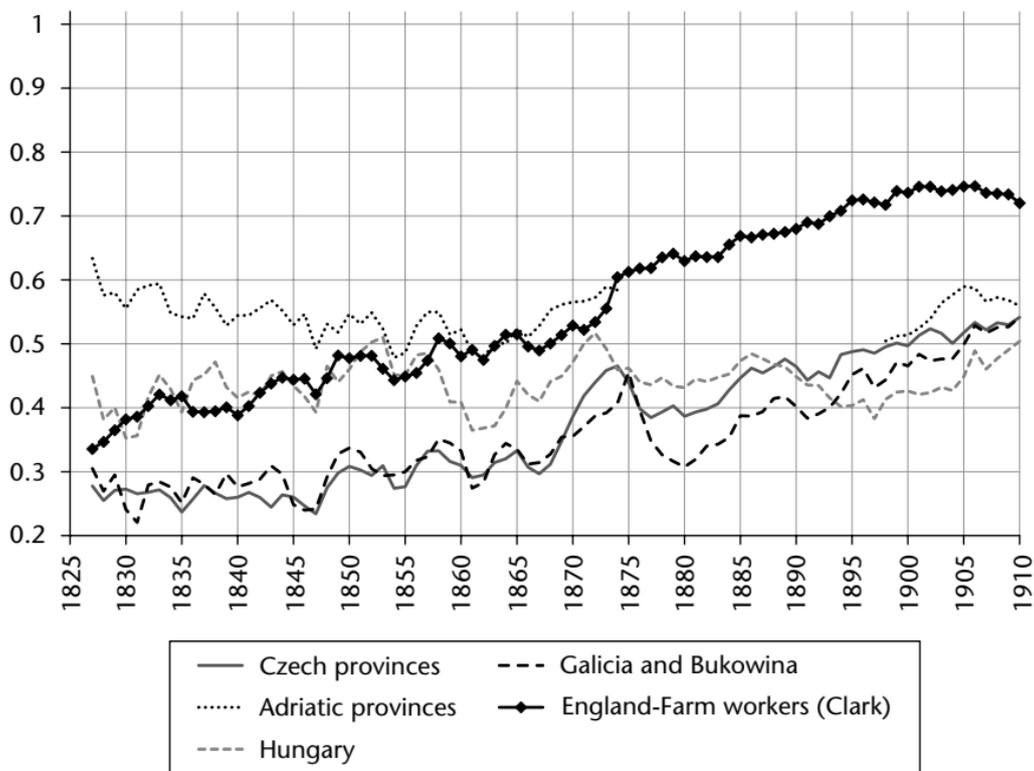


Figure 1: Welfare ratios among agricultural labourers in Central Europe and England, 1825–1910. Source: Cvrcek (2021: 145)



	<i>Panel A: GDP per capita in 1990 dollars</i>					<i>Panel B: Average annual growth rates</i>			
	1870	1880	1890	1900	1910	1870–1880	1880–1890	1890–1900	1900–1910
Austrian provinces <sup>a</sup>	1,953	1,938	2,118	2,526	2,802	−0.1%	0.9%	1.8%	1.0%
Czech provinces <sup>b</sup>	1,638	1,640	1,883	2,154	2,545	0.0%	1.4%	1.4%	1.7%
Upper Hungary <sup>c</sup>	1,018	1,047	1,293	1,444	1,650	0.3%	2.1%	1.1%	1.3%
Poland (1921 borders)	946		1,284	1,536	1,690		1.5%	1.8%	1.0%
Hungary <sup>d</sup>	987	1,070	1,271	1,442	1,683	0.8%	1.7%	1.3%	1.6%
Yugoslavia <sup>e</sup>	599		843	902	1,057	1.7%		0.7%	1.6%
Adriatic provinces <sup>f</sup>	911	997	1,091	1,195	1,454	0.9%	0.9%	0.9%	2.0%
Romania	931		1,246	1,415	1,660	1.5%		1.3%	1.6%
Bulgaria	840		1,131	1,223	1,456	1.5%		0.8%	1.8%
Greece	880		1,178	1,351		1.5%		1.4%	
Germany	1,839	1,991	2,428	2,985	3,348	0.8%	2.0%	2.1%	1.2%
United Kingdom	3,190	3,477	4,009	4,492	4,611	0.9%	1.4%	1.1%	0.3%

*Notes:* <sup>a)</sup> Includes Lower Austria, Upper Austria, Salzburg, Styria, Carinthia, Tyrol and Vorarlberg. This area overlaps to a considerable extent with the territory of the post-1918 Austrian Republic, except for Burgenland (gained from Hungary), Lower Styria, parts of Carinthia (ceded to Yugoslavia) and Alto-Adige (ceded to Italy). <sup>b)</sup> Includes Bohemia, Moravia and Silesia. The territory of these three provinces mostly overlaps with the modern-day Czech Republic. <sup>c)</sup> Includes the Danube Left Bank and Tisza Right Bank, a territory that largely overlaps with interwar Slovakia, except for Borsod County and a few other territories. <sup>d)</sup> Includes the area of the historic Kingdom of Hungary, comprising both modern-day Slovakia and Transylvania but not Croatia-Slavonia. <sup>e)</sup> In 1921 borders. <sup>f)</sup> Includes the Austrian Littoral, Carniola, Croatia-Slavonia and Dalmatia.

Figure 2: Living standards in Central and East Europe, 1870-1910. Source: Cvrcek (2021: 147)

For the second time period, we have to highlight the following issues.

After the Second World War, the region became part of the Soviet Empire, and despite many attempts to overcome socialism, the Soviet occupation either stopped or heavily limited the potential changes or reforms (Poland 1956, Hungary 1956 and 1968, Czechoslovakia 1968). Communism can be considered in many ways as the direct continuation of the state-led modernization process and could have the same effect on the previously mentioned path dependency.

Socialism did not lead to the desired catching up either in terms of GDP or in any other social aspects; however, during the period, especially in education and health care, there was a significant improvement (van Leeuwen-Foldvari, 2021), and the previously agriculture-dominated economies became industrialized (Vonyó-Markevich 2021). The lack of market mechanisms meant that a large part of society heavily relied on state subsidies in the form of a 'welfare state' or as an employee of a subsidized industry.

### c) The regime change and its socio-economic effects

The regime change meant a tremendous economic shock for the entire region; basically, it was an experiment regarding the transformation from a socialist, planned economy into a market economy, and parallel to that, from a one-party dictatorship into democracy. As this kind of transformation has been unprecedented in history, no one had clear ideas on the following:



- a) How can these changes be conducted? What should the timing be of these reforms? Should they be implemented gradually, or should a ‘shock therapy’ be used? (Kornai 1990 and 2000, Wyplosz 2000); and  
 b) What could the potential effects of this process be on society?

In our research, we focused on the second question: the socioeconomic effect of the transformation and marketization on V4 countries’ society.

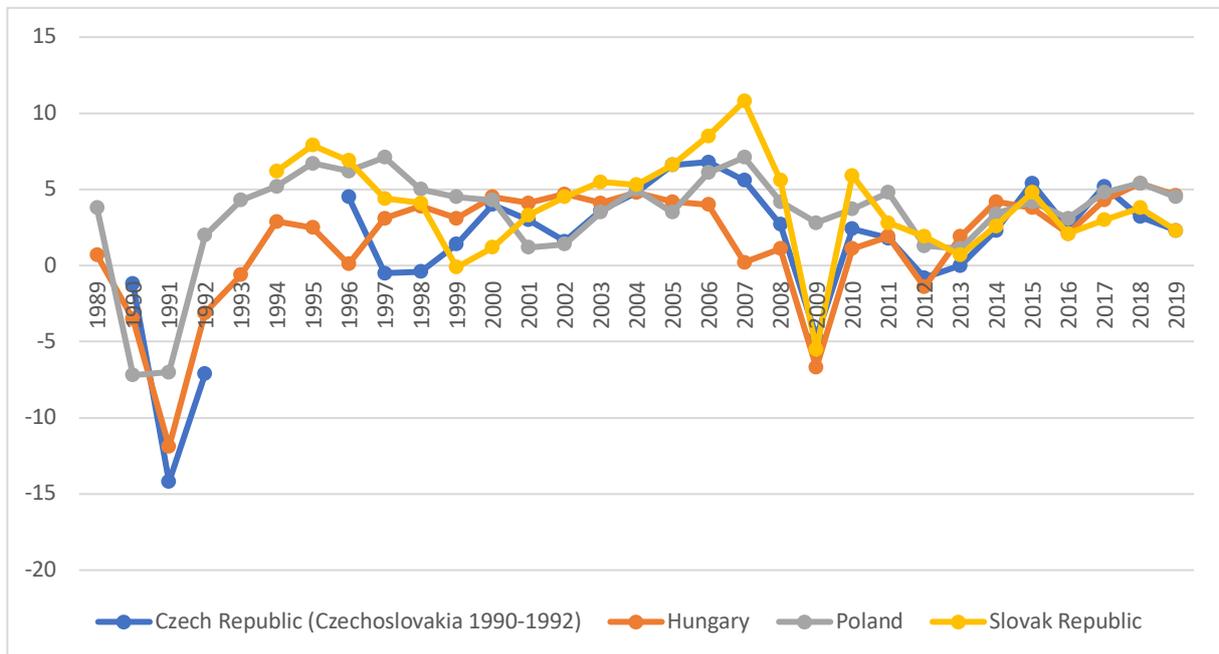


Figure 3. Real GDP growth rates of the V4 countries. Source: IMF (2021), and Sojka (1994) for Czechoslovakia

As we can see in Figure 3, the growth rate of the real GDP collapsed for all of the countries starting in 1990, and this growth returned only after 1993. It is also visible that from this perspective, although there were some minor recessions and slowdowns in growth (in the case of Hungary, the effect of late stabilization in 1995 is visible; in the case of Poland, the effect of restrictive monetary policy can be seen in 2001 and 2002, the 1998 recession in the Czech Republic and Slovakia), only the magnitude of the 2008-9 crisis is comparable to the effect of the transition.

The liberalization of markets and prices also led to inflation. In the case of Poland, the pretransition hyperinflation of more than 500% in 1990 was moderated by the Balczerowicz Plan, but inflation also appeared in Hungary before the transformation. In the early 1990s, both countries still experienced two digit figures over 20%. Slightly smaller values can be estimated for Czechoslovakia for the early 1990s. (Figure 4 and 5)



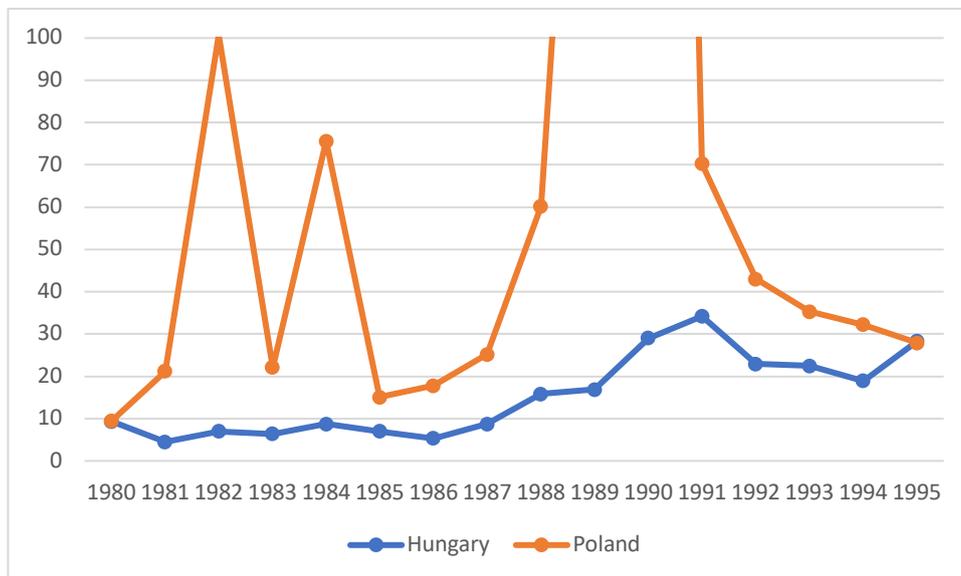


Figure 4: Annual inflation measured as the consumer price index in Hungary and Poland 1980-1995. (Note: in case of Poland the peak in 1990 is 585.8%) Source: IMF (2021)

From the mid-1990s, disinflation started; however, inflation disappeared slowly (the efforts of Poland to disinflate caused high unemployment and recession, while in Hungary, fiscal spending encouraged inflation), and real moderate inflation appeared only after the 2008 crisis.

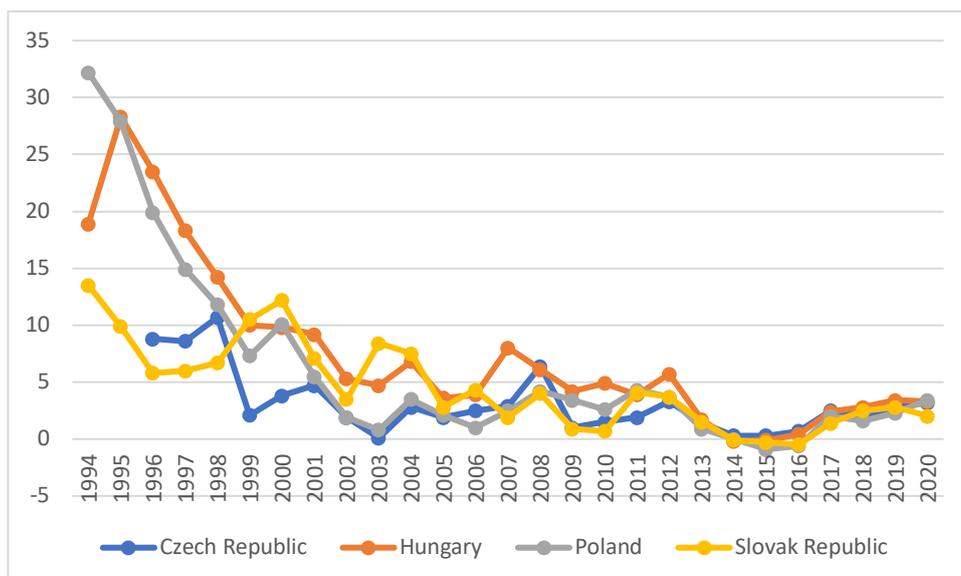


Figure 5: Annual inflation measured as consumer price index in V4 1994-2020 (no data for the Czech Republic in 1994-95) Source: IMF (2021)

Of course, this recession had a shocking effect on these societies. The previously almost unknown phenomenon of unemployment appeared en masse and increased as both previously heavily subsidized industrial and agricultural production shrunk. Employment gradually moved towards the service sectors, while the value added of agriculture and industry decreased. (Figure 6)



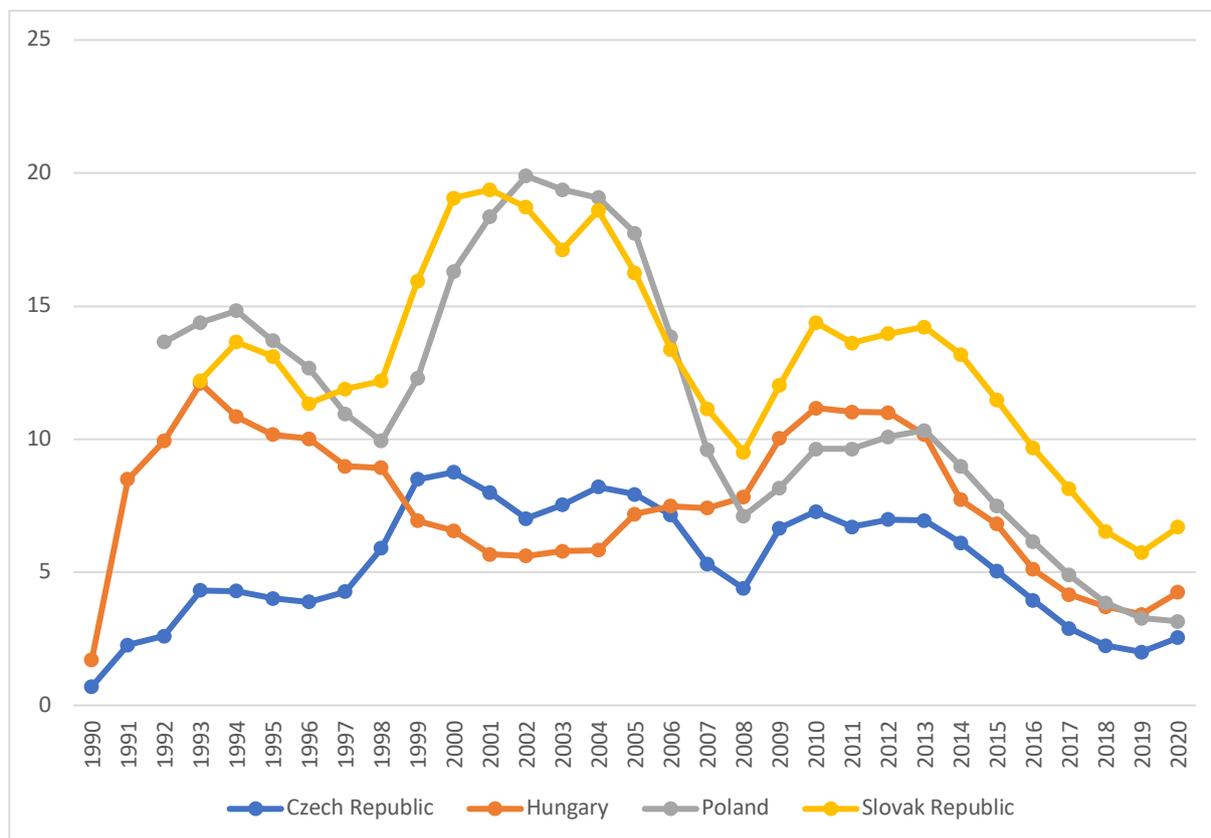


Figure 6: Unemployment level as the percentage of the labour force. Source: World Bank (2021a)

Unemployment remained relatively high throughout the 1990s; then, in the early 2000s, there was a divide in the trends, as Slovakia and Poland experienced a second, even larger surge in unemployment levels (which fits the previously mentioned recession patterns of Poland and Slovakia). It is also visible that over the entire time period, the Czech labour market performed the best.

Concerning the labour market, it is important to mention that in most countries, the employment level significantly decreased. The reason for this is that governments tried to keep many unemployed people away from the labour market, especially those from older generations and those with lower skill levels. This mostly happened through early retirement schemes and invalid pension programmes. This process can be observed the most in the case of Hungary. These solutions, although they provided a relatively moderate income, helped people to have a steady income.

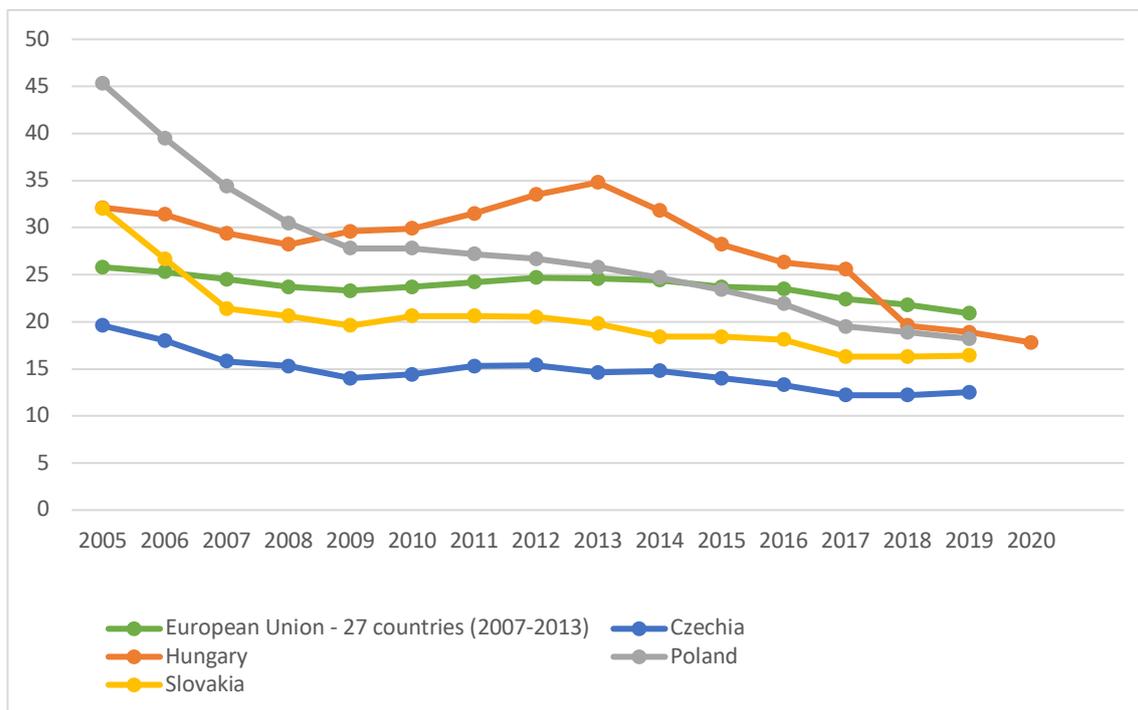
These macroeconomic problems also obviously affected other welfare-related indicators. Absolute poverty, as measured by the World Bank during the 1990s as the number of people living on less than 4 dollars a day measured by PPP, increased from 3.3% to 25% in seven Central European countries. Relative poverty, as measured as the share of population earning less than 35-45% of the average wage, increased from 4% to 25% in the Czech Republic, from 10% to 30% in Hungary, from 25% to 44% in Poland, and from 6% to 34% in Slovakia (Berend 2009: 188-189). In addition, the composition of the poor changed, with more people from younger generations with children becoming poor. (Kahanec et al. 2014).

Poverty remained a significant problem after the transformation (Figure 7). Eurostat (2021a) uses the measure of people at risk of poverty or social exclusion<sup>4</sup> to measure this phenomenon. As we can see, poverty was the most

<sup>4</sup> "This indicator corresponds to the sum of persons who are: at risk of poverty after social transfers, severely materially deprived or living in households with very low work intensity. Persons are counted only once even if they are affected by more than one of these phenomena. • Persons are considered to be at risk of poverty after social transfers, if they have an equivalised disposable income below the risk-of-poverty threshold, which is set at 60% of the national median equivalised disposable income. • Severely materially deprived persons have living conditions severely constrained by a lack of resources, they experience at least 4 out of 9 following deprivations items: cannot afford i) to pay rent or utility bills, ii) keep home adequately warm, iii) face



significant in Poland in the middle of the first decade of the new millennium; the only country where we can see a worsening situation because of the effect of the 2008 recession is Hungary, where the share of poor people increased by approximately 6 percentage points between 2008 and 2013. It is also worth mentioning that in a European comparison, the Czech and Slovakian numbers are quite low and are mostly below the EU average, while the Hungarian and Polish numbers have been below the EU average since 2015 (Poland) and 2018 (Hungary).



1. Figure: Share of people at risk of poverty or social exclusion. Source: Eurostat (2021a)

Another measure of poverty used by Eurostat (2021b) is material deprivation<sup>5</sup> (Figure 8). According to this, the picture is less beautiful. Material deprivation was very high in Hungary after the crisis, i.e., still above the EU average, and material deprivation was also above the EU average in Slovakia. The number was also high in Poland; however, since 2014, it has been approximately the same as the EU average. Both of these indicators show that poverty increased significantly after the 2008 crisis only in Hungary (Fabian et al. 2014)).

unexpected expenses, iv) eat meat, fish or a protein equivalent every second day, v) a week holiday away from home, vi) a car, vii) a washing machine, viii) a colour TV, or ix) a telephone. • People living in households with very low work intensity are those aged 0-59 living in households where the adults (aged 18-59) work 20% or less of their total work potential during the past year.” (Eurostat 2021a)

<sup>5</sup> "The indicator is defined as the percentage of population with an enforced lack of at least three out of nine material deprivation items in the 'economic strain and durables' dimension." (Eurostat 2021b)



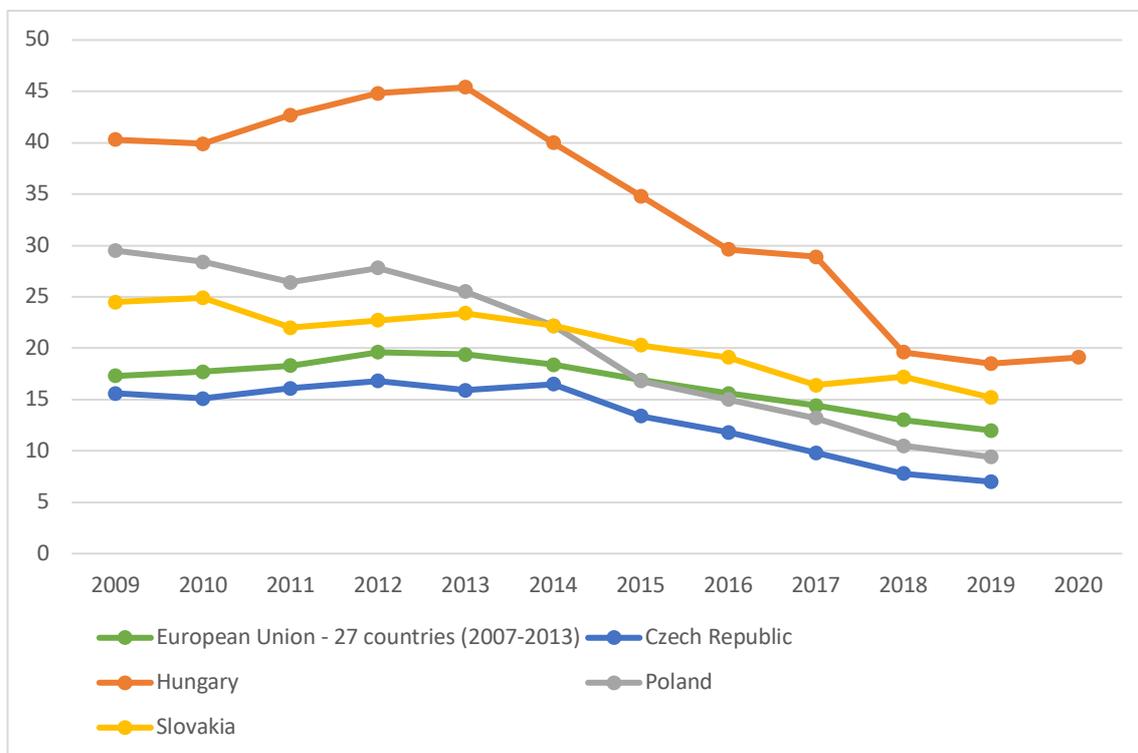


Figure 8: Share of people in material deprivation. Source: Eurostat (2021b)

Another measure in the case of social well-being, and a very important measure based on the theoretical overview, is that of inequality. Inequality is mostly measured with the Gini coefficient<sup>6</sup> (Figure 9); however, it is difficult to find comparable historical data, as the estimation methods can be different. We collected data from various sources and combined them on a single graph; however, we have to emphasize that only trends can be described by these indicators.

<sup>6</sup> The Gini coefficient measures how the distribution of income in a country deviates from a perfectly equal distribution. The smaller the value of the Gini is (0 means equal distribution), the lower the income differences in the society are.



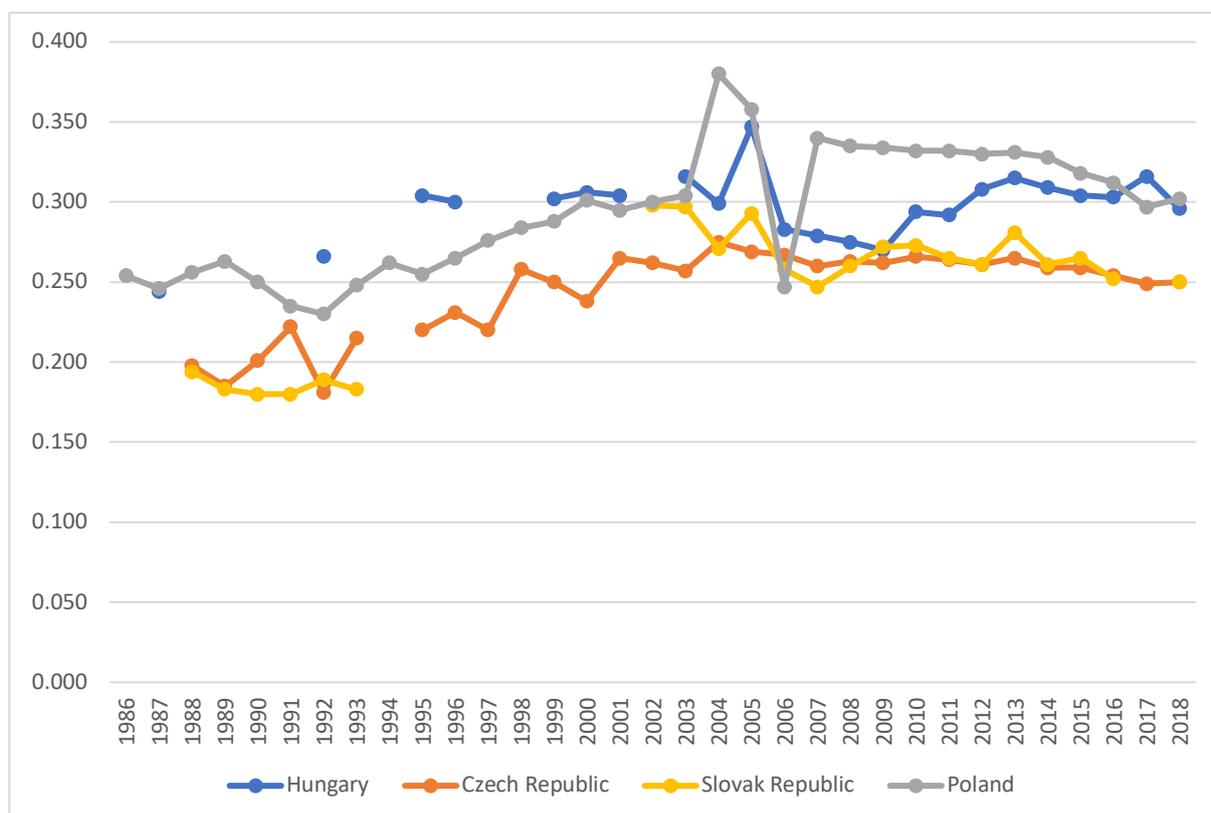


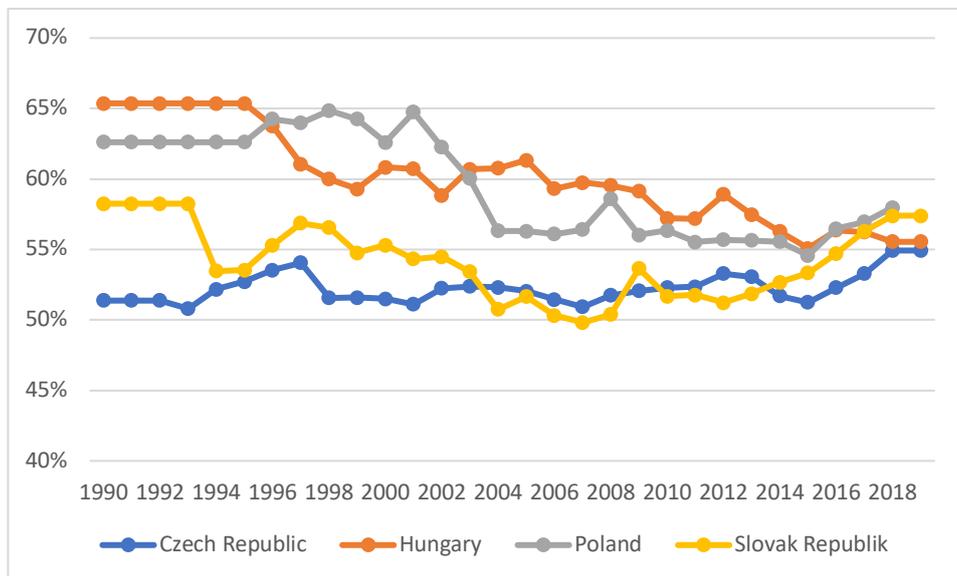
Figure 9: Gini coefficients in the V4.

Source: For data from 2004 onwards World Bank (2021b). For data before 2004: Hungary (Tóth-Medgyesi 2010), Czech Republic (Marek 2011 and Kahanec et al 2013), Slovakia (Maros-Rybansky 2016 and Kahanec et al 2013), Poland (Keane – Prasad 2002: 328 (for pre-1997), and Brzezinski 2010: 293 (for post 1997))

There is a mutual understanding among scientists that during the time of socialism, inequalities mostly decreased in the V4. Only after the mid-1980s did this situation start to change. As we can see in Figure 9, a regime change brought about a significant increase in inequality. Then, inequality seemed to stabilize at the end of the 1990s. Poland, which was the most inequal country among V4, experienced a slow decrease, while Hungary experienced an increase after the 2008 crisis; furthermore, the change of government in 2010 led to a different welfare policy that favours the upper-middle class. Although these inequality levels are not high compared to the European average or other developed countries, according to the literature, V4 societies have a quite low tolerance level towards inequality (Fabian et al. 2014: 335); at the same time, there is a growing number of people who think that it is the job of the government to reduce inequality (Fabian et al.: 336)

Authors (Fabian et al. 2014, Kahanec et al. 2014, Letki et al. 2014) also agree on the main causes of increasing inequality in the V4. The transformation and structural adjustment led to the disappearance of manufacturing and agricultural jobs and an increasing need for highly skilled educated people. This need decreased the income of many of the low and lower-middle income classes, while it increased the income of the upper classes and essentially hollowed out the middle class (Kahanec et al. 2014: 571). This also means that education and access to education played an important role, while also reducing social mobility. Additionally, many people were forced to choose self-employment. In the V4 and Romania, 3.6 million new businesses were set up in the 1990s, the majority of which were micro or small enterprises (Berend 2009: 182). This also led to increase of capital incomes. This is most visible in the case of Hungary, where the share of compensation of labour in the GDP fell from over 65% in 1990 to 55% in 2019. Apart from the Czech Republic, a similar trend is visible in the other V4 countries, with a bouncing back evident after approximately 2012-2014. This latter may be the effect of growing emigration to Western European countries. The appearance of self-employment also meant increasing insecurity of income.





2. Figure: Share of compensation of labour in the GDP (in percent). Source: Feenstra et al (2015)

Well-being is not just about material issues but also about possibilities and capabilities (or positive freedom (Sen 1985, 1992)) and perceptions. In the European Value Studies, people are asked the question “All things considered, how satisfied are you with your life as a whole these days?”, where people can answer on a 10-level scale with 1 meaning dissatisfied and 10 meaning satisfied. In the graph in Figure 11, we can see that the initial satisfaction level in the V4 in 1990 was lower than that in South, North and West European countries. The regime change clearly caused a decline in life satisfaction (with the exception of the Czech Republic); however, recent numbers indicate an improvement and catching up to other European countries.

In another question, people are asked about their freedom, choice, and control, and respondents again answer on a scale ranging from 1-10, with 10 being the highest level of freedom<sup>7</sup>. In this case, the values are less polarized. Poland starts with a clear lag (probably due to the economic crisis prior to the regime change), and except for the Czech Republic, there is a decline for the V4; however, after the new millennium, there is an improvement, and although the Slovakian and Hungarian numbers are still the lowest, the difference is no longer significant. (Figure 12)

<sup>7</sup> The exact question is as follows: "Some people feel they have completely free choice and control over their lives, while other people feel that what they do has no real effect on what happens to them. Please use this scale where 1 means "none at all" and 10 means "a great deal" to indicate how much freedom of choice and control you feel you have over the way your life turns out."



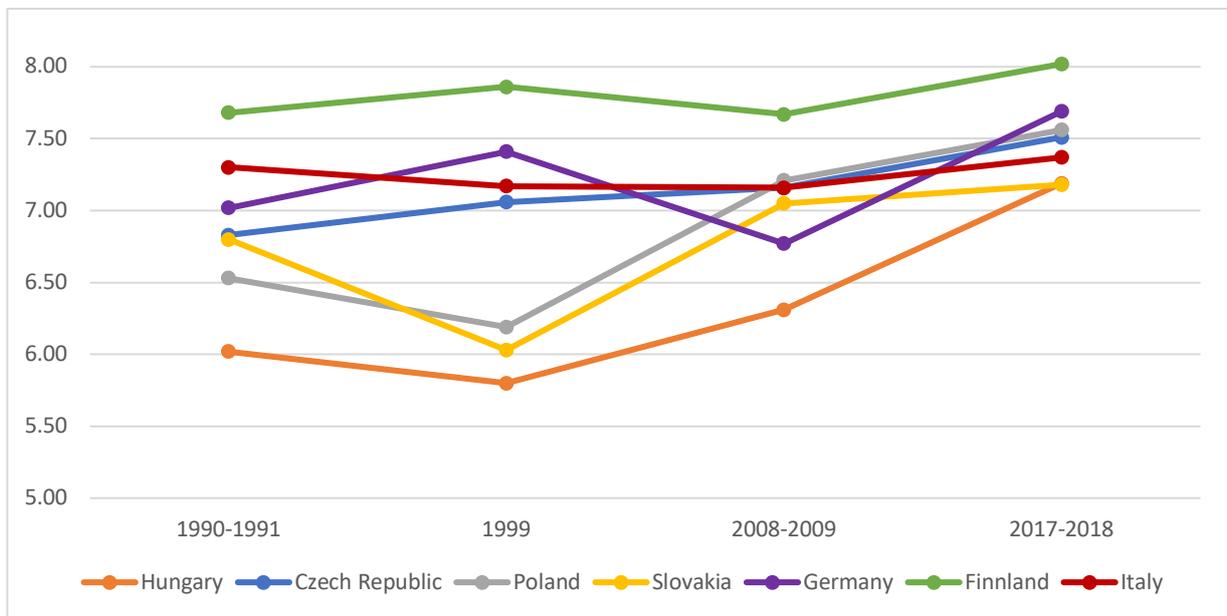


Figure 11: Mean of the answers to the question: “All things considered, how satisfied are you with your life as a whole these days? Answer on a 1-10 scale” Source: EVS (2021)

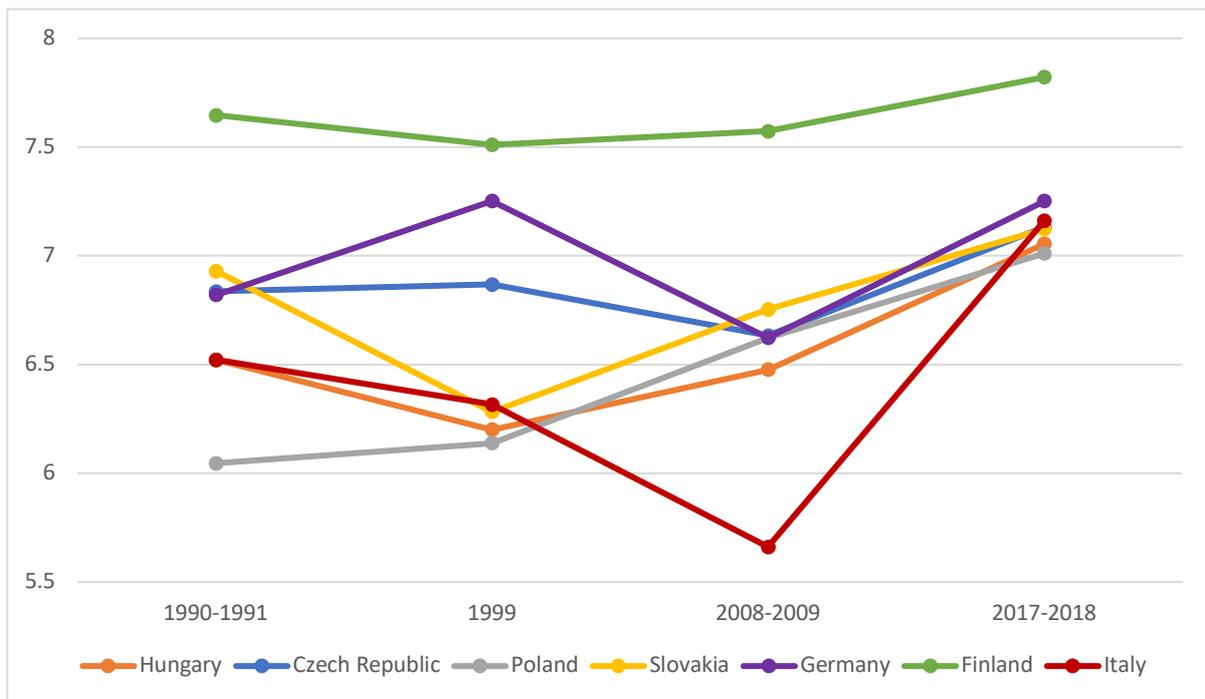


Figure 12: Mean of the answers to the question: “Some people feel they have completely free choice and control over their lives, while other people feel that what they do has no real effect on what happens to them. Please use this scale where 1 means “none at all” and 10 means “a great deal” to indicate how much freedom of choice and control you feel you have over the way your life turns out.” Source: EVS (2021)

In another survey, the Pew Research Center found that in Hungary, only 7 percent of the population is satisfied with their lives; these figures barely exceeded the two-digit threshold for Slovakia and Poland (13 and 12 percent, respectively), while in the Czech Republic, it was 23 percent. (Kohut et al. 2009)

According to the panel household survey of TÁRKI (Sik and Tóth 1998) in Hungary in 1993, 60% of households felt that their material well-being had decreased, and this figure started to improve after the elimination of the effects of the

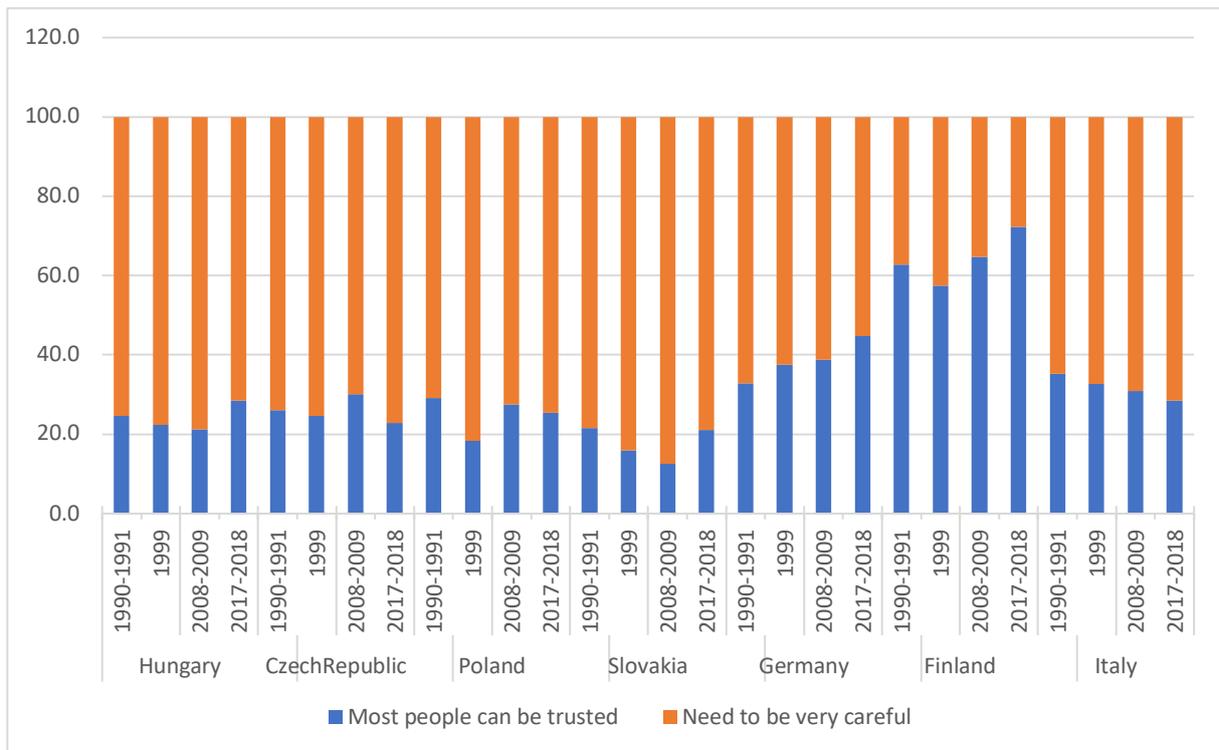


1995 stabilization package (Lengyel 1998: 202). In the same report, Elekes et al. (1998: 492) found, also in the case of Hungary, that people’s insecurity was growing over the years of the transformation. According to their results in 1978, only 14 percent of respondents felt that their life was insecure and unpredictable; however, in 1994, half of the population felt this way. Additionally, in 1978, only 23 percent of the population thought that the world was changing so fast that it was unknowable, while in 1990, 59 percent felt this way. These trends continued over the next years. Overall dissatisfaction was larger than average among people living in cities and towns outside of the capital (Budapest) and among people with a low level of education and low income. (Page 509)

We already mentioned that the 2008 crisis affected V4 countries differently, with Hungary being hit the hardest, and this is visible in the subjective well-being of these societies. In a survey, two-thirds of Hungarian respondents (66%) said in 2010 that the 2008 crisis affected their households “rather” or “to a large extent”. This outcome is significantly above both the 49% average of post-socialist countries and the overall 31% in Western Europe. (Steves, 2010). In 2009, only 15% of Hungarians thought that their situation had improved over the previous five years, and 60% felt that they had lost ground compared to their situation 2004. In the case of the other Visegrad countries, there is a one-digit difference between the positive and negative perceptions over the last five years (Poland: 6 pp; Czech Republic: 9 pp; SK: -3 pp) (Kohut et al. 2009).

Increasing poverty and inequality led to changes in the network of society, which were even enhanced by the fact that state-owned enterprises played a crucial role in maintaining social cohesion, as they subsidized cultural activities such as theatre plays, as well as other social events, or even provided holiday opportunities to their employees (Scheiring 2020).

According to World Values Survey data, active membership in trade unions, in voluntary charitable and social organizations, or even in educational organizations is low; i.e., in Hungary less than 5% of respondents reported being a member of a charitable or humanitarian organization. Overall trust level in society has decreased. According to European Values Study data, when asked the question “Generally, would you say that most people can be trusted or that you need to be very careful in dealing with people?” the vast majority of respondents in the region answered with a “no”, while in Western and Northern Europe, these percentages are clearly higher. As shown in Figure 13, the regime change worsened this situation, and while some improvement is visible, the region still lags behind the more developed part of Europe<sup>8</sup>.



<sup>8</sup> It is interesting to see the declining values for the trust level of the Italian society.



Figure 13: Answers to the question: “Generally, would you say that most people can be trusted or that you need to be very careful in dealing with people?” Source: EVS (2021)

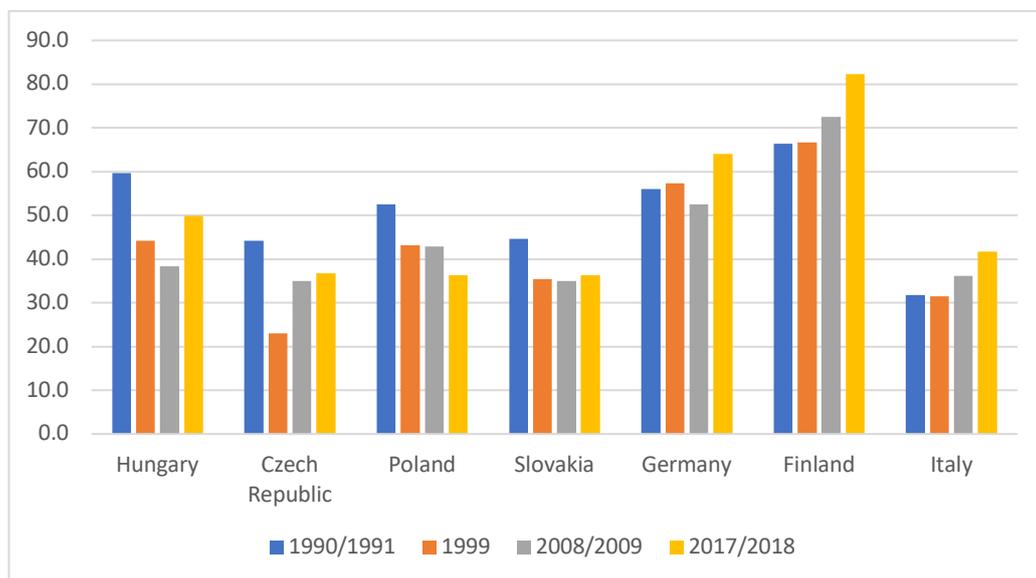
The decline in social cohesion is illustrated by Scheiring (2020, Chapter 5), who conducted interviews among workers in four different declining industrial towns and cities in Hungary. He shows that workers feel unprotected, mostly due to the lack of shared identity. He also emphasizes the weakness of trade unions and shows in other parts of his study how the traditional social democratic party lost its popularity among workers in these regions.

**d) Declining support for capitalism and democracy – an increasing demand for populism?**

The last step to be taken was to check for an increasing demand for undemocratic, anticapitalist sentiments and values. We collected data from four different databases, namely, the European Value Study, the World Value Survey, the EBRD’s Life in Transition Survey, and surveys made by the Pew Research Center.

Institutional trust in the V4 declined in the two decades after the regime change, and its level was lower than that in Western European countries. While trust in the legal system was above 50% throughout Germany and above 60% in Finland, in the Visegrad countries (except Poland), it fell below 40% everywhere by the 2000s. By 2008, the level of general institutional trust had fallen to a minimum; compared to 1991, trust in the legal system had fallen to two-thirds (38%), while trust in the press had almost halved (23%). (WVS 2021, EVS 2021)

During the decades following the regime change, Hungary experienced a greater loss of trust in its institutional systems than the regional average. While 60% of Hungarians trusted the legal system in 1991, by 1999, this level had fallen to 44% (Figure 14); however, similar trends, such as a decline in trust in the press (from 40% to 30%) and a decline in the level of trust in parliament (from 40% to 32%), were observable. In the other Visegrád countries, between 1990/91 and 2008/09, trust in the legal system decreased by an average of 9.5% points (Hungary: 21.3 pp), while trust in the press fell by an average of 5.3 percentage points (Hungary: 17 pp). Between 1995/98 and 2008/09, confidence in governments in the other V4 countries fell by an average of 5.8 percentage points (in Hungary: 26.9 pp). While in the two decades after the change of regime, the confidence indices of Eastern European countries often fell back to their fraction, in Germany and Finland, we usually find a difference of only a few percentage points (WVS 2021, EVS 2021).



3. Figure: The ratio of those trusting the justice system (in %). Source: EVS (2021)

Not only did confidence in the political institutional system falter after the change of regime but also the legitimacy of the economic system vanished quite quickly. According to Bruszt (1995), in 1990, more than two-thirds (68%) of Hungarians thought that “capitalism is the best for the country” and that “this system makes it possible to solve the country’s problems; in 1993, less than half of them (48%) agreed with both statements. In 1991, 31% of Hungarians had a positive opinion of the new system, and 40% had a negative opinion; by 1995, only 26% thought the new system was



better, and 50% through it was worse (Figure 2). Although in the 4 years after 1991 the perception of the new system in all V4 countries deteriorated markedly, by 1995 the relative majority of Czechs and Poles still saw the new system positively (44% -39%; 57% -23%, respectively); only Slovaks had a negative opinion similar to that of Hungarians (32% -51%) (Bruszt 1995). Additionally, two-thirds of Hungarians (67%) saw themselves as the losers of the regime change in 1995, thus making it the first among the Visegrad countries (PL: 56%; CZ: 32%; SK: 54%) (Bruszt 1995). The perception of the regime change has not improved over time; in 2006, more than 75% of Hungarians thought that the country's economic situation was worse than that in approximately 1989, while the rate was only approximately 30% for the Czechs, approximately 40% for the Poles, and over 40% for the Slovaks (Sanfey et al., 2006).

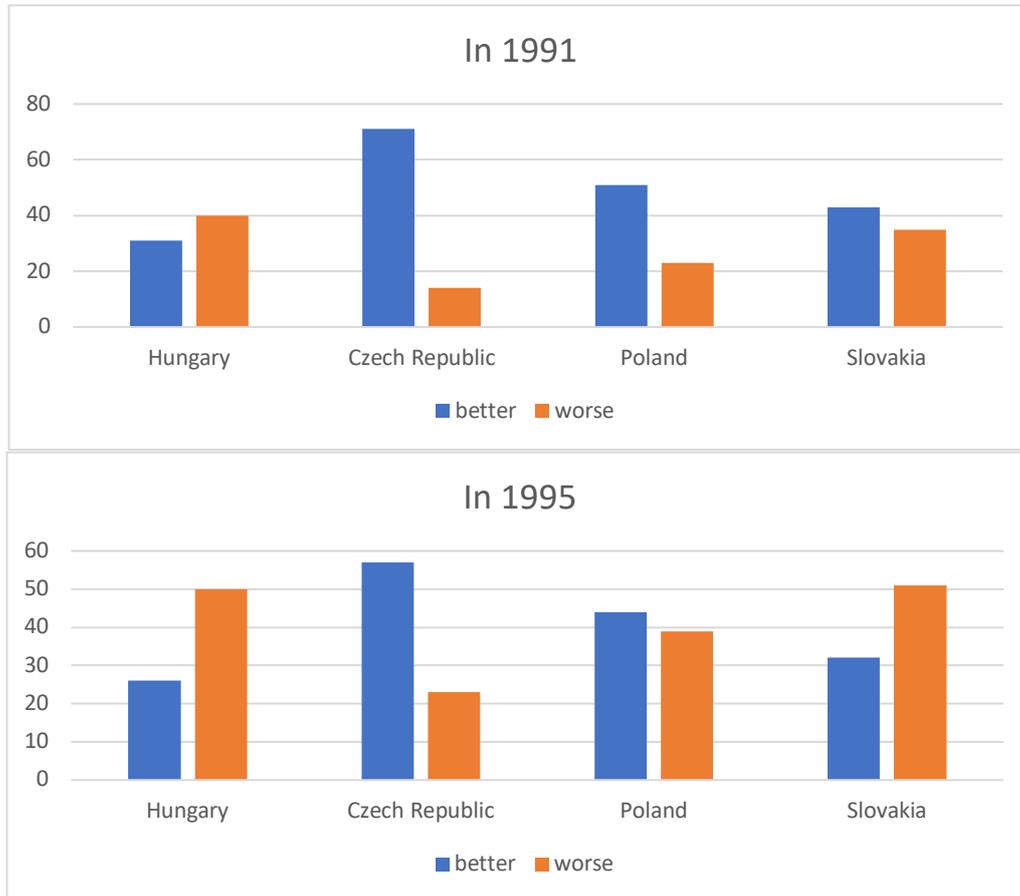


Figure 15: Answers to the question: “Is the new system is better or worse?” Source: Bruszt (1995)

In another survey of the Pew Research Center, people were asked about their approval of the change to democracy (multiparty system) and capitalism. It is interesting to see that in 1991, Slovakia had the lowest level of approval for both changes and that the popularity of capitalism and democracy declined heavily in Hungary after the 2008 crisis. With this exception, in all other countries, the approval of capitalism and democracy remained almost constant and at a relatively high level. (Figure 16 and 17)



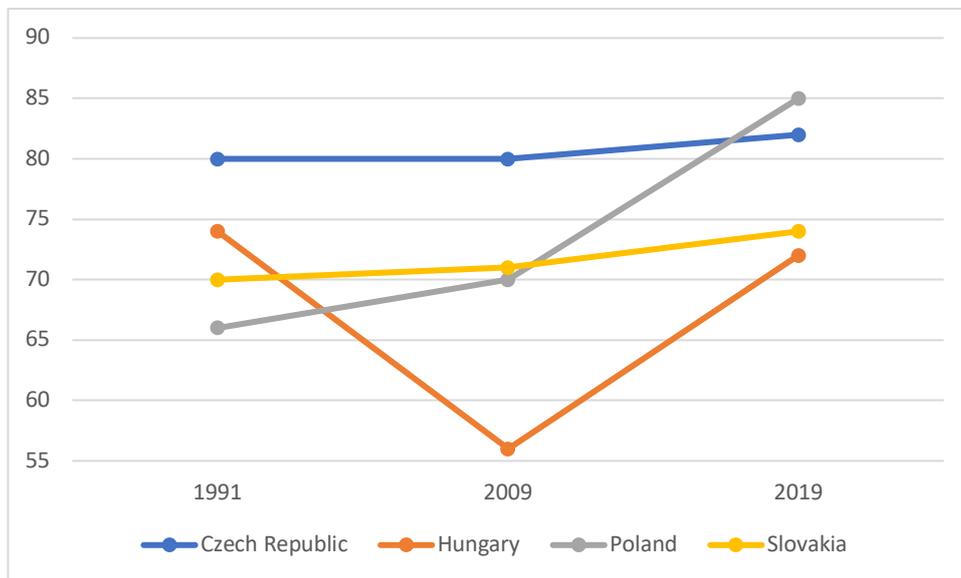


Figure 16: Approval of change to democracy (in percentage). Source: Pew Research (1991), Kohut et al. (2009) and Wike et al. (2019)

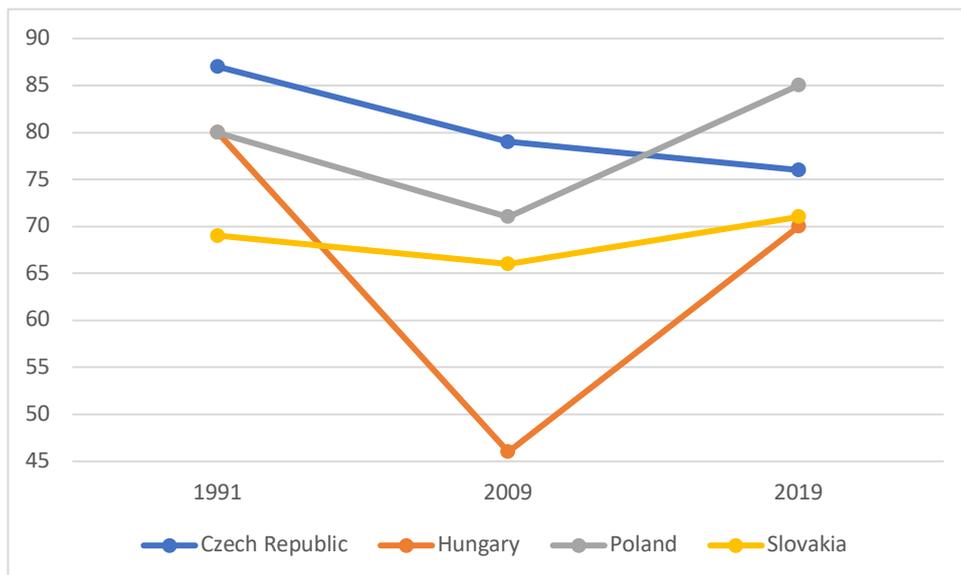


Figure 17: Approval of change to capitalism (in percentage) Source: Pew Research (1991), Kohut et al (2009) and Wike et al. (2019)

The Pew Research Center also asked people twice, in 2009 and 2019, who they thought benefited from the regime change. In both years and in all countries, approximately 90% of the respondents said that politicians were the winner of the transition. According to people, business owners also gained from the regime change (note that in Hungary, fewer people think that than in the others); much fewer think that ordinary people benefited. An extremely low number of people answered this question in 2009 in Hungary and again suggested that the 2008 crisis affected this country more (Figure 18).



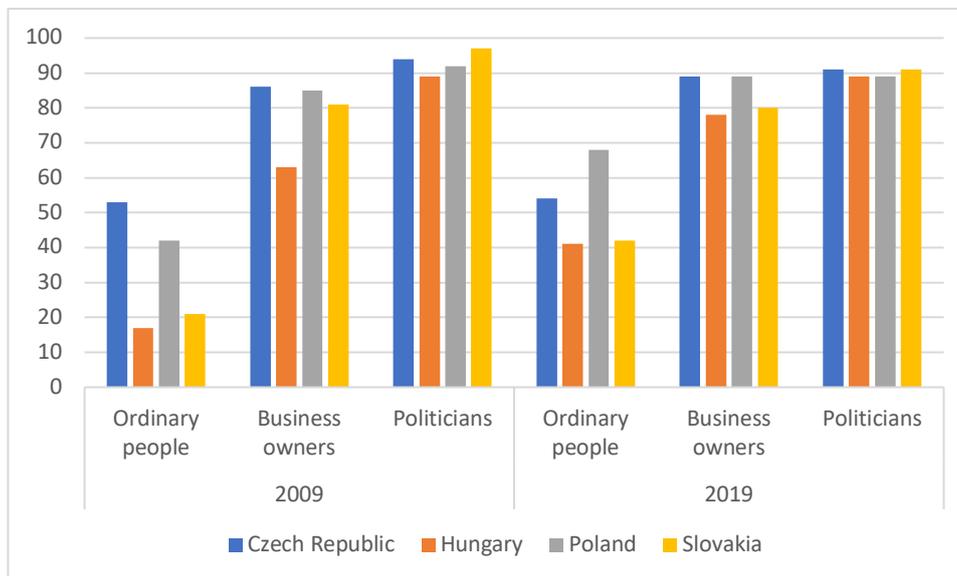


Figure 18: Answers to the question: “Did certain social groups benefit from the regime change?” (in percentages)  
 Source: Kohut et al. (2009) and Wike et al. (2019)

As we already mentioned, it seems that the 2008 crisis affected Hungary more<sup>9</sup> than it did the other V4 countries. Therefore, it is not surprising that 2009 not only brought about a low point in the assessment of regime change and one's own economic situation but also that general political and institutional opinions developed negatively, even compared to the Eastern European context. In the post-crisis year, only 8% of Hungarians thought that the post-1989 system was better than state socialism (other V4 averages: 40%); only 46% subsequently supported the transition to a market economy system (other V4 averages: 72%). Thirty-one percent agreed that people are better off with the free market (other V4 averages: 63%), and only 6% thought the country was moving in the right direction (other V4 averages: 34%) (Kohut et al. 2009, and Wike et al. 2019) (Figure 17).

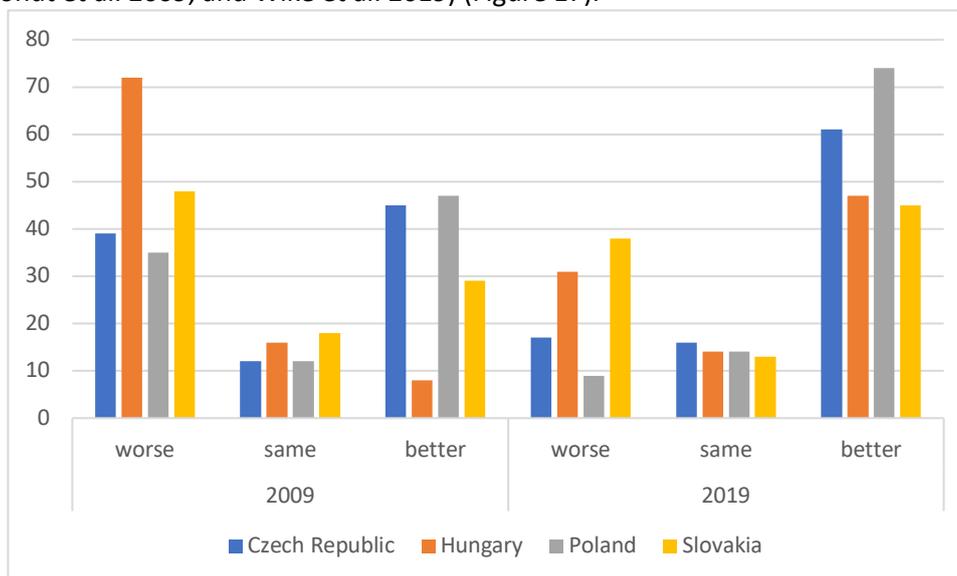


Figure 19: Answer to the question: “Is someone better off now than under communism (in percentages?)”. Source: Kohut et al (2009) and Wike et al. (2019)

<sup>9</sup> It should be mentioned, however, that Hungarian politics in 2006 was shaken by the scandal of PM Gyurcsány’s infamous leaked speech, in which he confirmed lying during the election campaign, which led to massive protests and even riots on the streets of Budapest in 2006 and 2007. This might add to the negative assessment of democracy and political institutions in Hungary.



While in Hungary, the people's confidence in political institutions had been shaken, in the meantime, the principles of liberal democracy (speech, press and religion) support for equality, the rule of law, free elections, etc.) was highest in the region, with a median value of 66% (Poland: 52%; Czech Republic: 52%; Slovakia: 43%) (Kohut et al., 2009). More than a quarter of Hungarians (27%) thought in 2008 that a strong leader would be good for the country, and one-sixth (18%) thought that a democratic political system was not a good system. Such high figures are found only in the Czechs (29% and 17%, respectively); in the other V4 countries and in the studied Finns and Germans, they were approximately 15% and 10%, respectively (World Value Survey, European Value Study, 1991-2018).

Based on these findings, we can argue that marketization led to social polarization, the dismantling and individualization of society, a declining level of trust, and increasing levels of insecurity and inequality. We also found that while, in general, people approve of democracy (and capitalism), this leads to declining trust in politicians and political institutions. This already indicates an increasing demand for populism, but as a last step, we also checked general election results and the political history of the region.

A common pattern in all four countries is the frequent change of governing parties and coalitions. In Poland and in Hungary, the initial right-wing governments of the first years of transition were replaced by left-wing governments. Economic downturns caused by stabilization policies (in 1995 and 2006-2010 in Hungary and the early 2000s in Poland) led to a collapse of the left. In Slovakia, the second Dzurinda government lost elections after the pro-market reforms to parties campaigning with higher redistribution (Deegan-Krause 2013). What is common is all these, is that political change correlates with economic slowdowns, and stabilization and liberalization are thrown away for more redistribution and protectionism, at least in campaign slogans. The exception is the Czech Republic; however, in this case, we have to note that extremist or populist parties have always been represented in the parliament (both left-wing and right-wing), and the 2008 crisis brought about significant changes in the party system. (Mansfeldova 2013) This also suggests that there is a demand for different policies as a reaction to marketization.<sup>10</sup>

### 3. Conclusions

The regime change from socialism to capitalism meant transforming economic and political institutions simultaneously, both from socialism to capitalism and from dictatorship to democracy. These parallel changes were, if not impossible, very hard to carry out simultaneously (see Offe 1992, and Hellman 1998). According to Offe (1992), the economic reforms related to transformation and stabilization might be reversed by losers of these reforms through acquiring power in democratic elections. On the other hand, according to Hellman, the winners of partial reforms might halt the transformation process to keep power and rents. Despite these concerns, however, in the CEE, the parallel transition happened rather smoothly; i.e., there was no return. However, as we saw above, there were important social changes that left their marks on the societies and economies of the V4 countries.

According to van Leeuwen and Foldvari (2021), the overall picture of regime change is positive. Although the first years of the 1990s brought about a social crisis, with increasing poverty, inequality, and increasing social insecurity, after the second waves of stabilizations (in Hungary 1995, in Poland the turn of the millennium, in Slovakia after 1998), the new millennium brought about economic and social development. Welfare indicators improved, such as the HDI, where even some convergence to Western Europe, but mostly to Southern Europe, was visible (van Leeuwen and Foldvari 2021: 488). Although real catching up barely happened, that is clearly visible, i.e., in the real income level (see below Figure 18), and the overall happiness level of V4 is still below that of Western Europe. The number of hypertension-related deaths is still high in regions, thus indicating stress and insecurity in society (Figure 19).

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<sup>10</sup> It should be however mentioned that according to researchers, cleavages in V4 politics were also strong around the nationalist-cosmopolitan divide in all four countries a la Iglehart and Norris



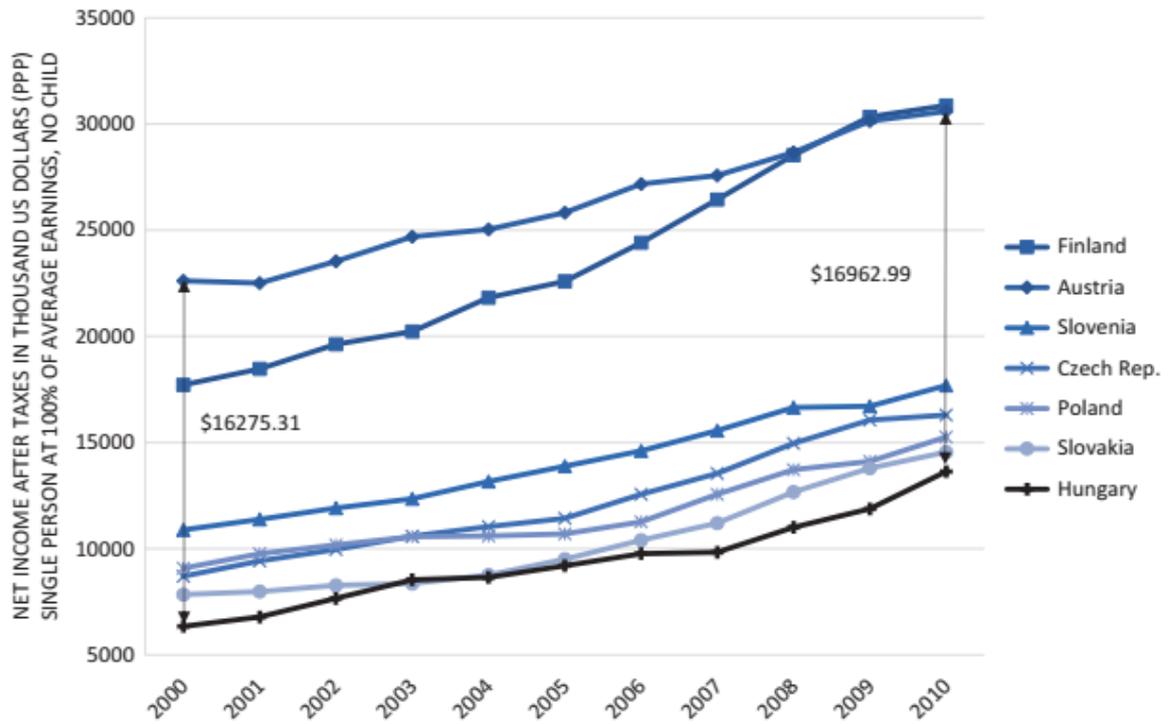


Figure 20: Net income after taxes in thousands of US dollars (PPP) per person at 100% of average earnings, no child source: Scheiring (2020: 155)

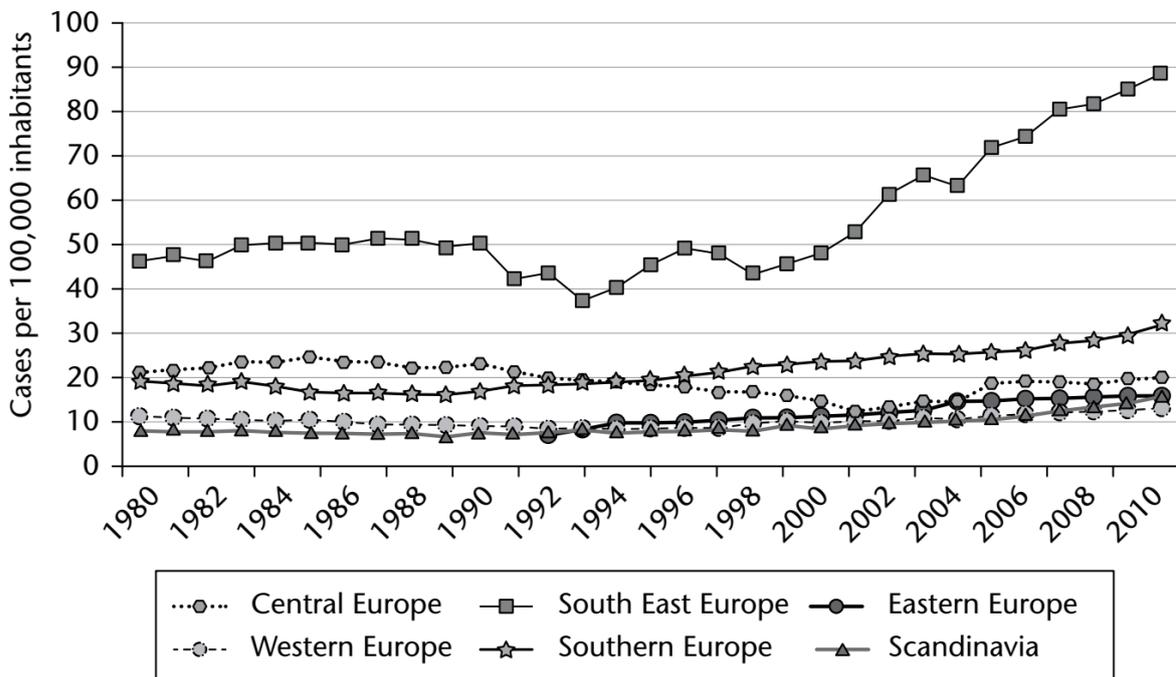


Figure 21: Hypertension-related death in European regions, 1980-2010. Source: van Leeuwen and Foldvari (2021: 491)

This means that the changes did not bring about the desired catching-up with the West; on the other hand, they destabilized society by increasing inequalities and insecurity and tearing up social ties. The situation is very similar to



that described at the very beginning of this analysis of the late 19<sup>th</sup> century. V4 countries still have incomplete societies and economies. Although this research was not about their economic structure, we can see that they again lack a wide middle class, and many people live in material deprivation.

The role of external sources of development is also a very important similarity with the 1990s. After the regime change, the role of external partners in modernization in the form of FDI was also essential, as well as an external constraint that shaped politics after the regime change and kept transformation on track (Gedeon 2004, Appel and Orenstein 2018). Hence, what Berend (2003) called dependent development in the case of the late 19<sup>th</sup> century was again seen as a “dependent market economy today” (Nölke and Vliegthart 2009).

“During the second half of the 19th century, most of the area adopted the Zeitgeist of laissez-faire, free trade and export-led industrialization and joined the international European economy. That attempt, however, failed, or, at least met with only limited success: Central and Eastern Europe remained agricultural, rural, and traditional, compared to the industrialized and urbanized West.” (Berend 2000: 3) This process led to a ‘countermovement’, i.e., a revolutionary and then antirevolutionary interwar period, where populism made its first appearance in the region (Polányi 1944).

In many ways, we might feel that the situation is very similar to that of the turning point of the long 19<sup>th</sup> century. It seems that Offe’s predictions failed for the 1990s and that capitalist and democratic transitions prevailed together. We can see from the analysis above, however, that this did not necessarily happen due to the lack of demand; rather, it was the lack of supply that we can observe. In the 1990s, decision-makers tried to embed neoliberalism as well, which decreased demand, and people hoped that the external controls on policy-making kept supply at a minimum. However, after 2008, societies of the V4 felt that (neo)liberalism failed to deliver” (Krastev 2016), and some sort of ‘countermovement’ was now observable. Perhaps it is not a surprise that the strongest countermovement occurred in Hungary, as she was hit by the crisis the most, as we demonstrated.

It looks like, the people of Eastern Europe act as Hirschman (1970) described, i.e., they either exit, mostly through increasing emigration<sup>11</sup>, or they use their voice, through electing politicians, who use the antiliberal narrative. For future research, however, one needs to pay attention to the supply side and analyse the policy steps taken by these populist governments, as sometimes the abovementioned narrative is hardly mirrored in policy steps.

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<sup>11</sup> According to Kováts (2020), the number of emigrants from V4 countries is between 6 (in case of Hungary and Slovakia) and 11 (Poland) percent of the population, while the value for the Czech Republic is approximately 8%. He also emphasizes that emigration increased after the 2008 crisis.



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