


# POLITICAL ECONOMY OF ILLIBERAL CAPITALISM IN HUNGARY AND POLAND\*

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## Abstract

Has the recent illiberal surge altered the neoliberal orthodoxy prevailing in post-1989 Hungary and Poland towards a more developmental *modus operandi*, or has it just camouflaged embedded neoliberalism with a developmental narrative? This article, trying to contribute to answering the aforementioned question, is structured as follows. First, we provide a general overview of the comparative capitalism approach. We extend the original conceptualizations by the framework of varieties of illiberal capitalism and present two ideal types of illiberal capitalism. Then, we assess five institutional areas of the political economy of contemporary Hungary and Poland. We conclude that although Hungary remains faithful to the neoliberal economic orthodoxy so far with illiberal political forces merely camouflaging its true essence due to political and utilitarian reasons, the post-2015 government in Poland managed to move its economic model closer to a more developmental *modus operandi*.

**Key words:** Varieties of illiberal capitalism, neoliberal market economy, developmental market economy, Hungary, Poland

**JEL Classification:** F52, O57, P16

## Introduction

Following the demise of communist regimes in Central and Eastern Europe in 1989 and subsequent socioeconomic transformation, Hungary and Poland opted for a neoliberal path of pro-FDI institution-building and export-led (re)industrialization, rapidly reorienting towards Western, predominantly German markets (Nölke and Vliegenthart, 2009). Confronting the legacy of the “shortage economy”, to paraphrase Hungarian economist János Kornai, political elites in both countries were, to a large extent, restrained by the

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catalogue of economic policies endorsed by the Washington consensus. The post-1989 social contract in Hungary and Poland was subsequently based on a combination of pro-market neoliberal reforms and a relatively generous system of social protection (Bohle and Greskovits, 2012). Despite experiencing certain economic difficulties during the period 1990–2010 – high levels of unemployment, excessive external indebtedness or macroeconomic instability – both countries achieved extraordinary results with regards to real economic convergence towards the European Union (EU) average, ultimately establishing themselves as consolidated liberal democracies (Magyar and Madlovics, 2020).

The change in the quality of democracy and subsequent democratic backsliding started occurring once Viktor Orbán and his party Fidesz (re)seized power in Hungary in 2010 and Kaczyński's Prawo i Sprawiedliwość (Law and Justice, PiS) in Poland in 2015 (Lindstaedt, 2021). Following Orbán's notorious speech at the annual youth camp in Romanian Băile Tușnad, foreshadowing the onset of the "illiberal state", many scholars and political pundits started referring to his appeal to build an "illiberal state" as a prerequisite for the end of liberal democracy first in Hungary (Scheiring, 2020) and subsequently in Poland (Przybylski, 2019).

At the same time, several authors stirred up debate assessing whether the socio-economic nature of these processes is "illiberal" as well and disrupts the post-1989 (neo) liberal consensus in these two post-communist economies. On the one hand, some authors argue that illiberal political development also influenced the realm of economic relations (Csaba, 2022). Other authors, on the other hand, are convinced that the "illiberal turn" is merely symbolic, a camouflage of sort, using a developmental narrative as a façade to sustain these regimes in power, whilst the socioeconomic essence remains neoliberal (Hans, 2019).

In this article, we aim to examine whether the neoliberal economic model prevailing in post-1989 Hungary and Poland was in fact challenged by Orbán's and Kaczyński's illiberal onset after they (re)assumed power in 2010 and 2015, respectively. The article is organized as follows. In the first part, we approximate the comparative capitalism approach arguing that the traditional approaches ought to take into account the specificities of the newly emerged illiberal regimes in the European Union (EU). In the second part of this article, we analyse the post-2010 economic development in Hungary, and the post-2015 economic development in Poland, employing our framework of varieties of illiberal capitalism. We assess whether the nature of the economic model shifted from a neoliberal market economy into a new developmental state, or whether the political changes represent merely a camouflage and persistence of the neoliberal orthodoxy.

# 1. Comparative Capitalism Approach

Comparative capitalism, an approach predominantly utilized to examine an institutional variety of market economies, stems from the foundations set up by the new institutional economics (*e.g.*, North, 1990; Williamson, 2000) and new economic sociology (*e.g.*, Granovetter and Swedberg, 2018). The most widely utilized frameworks to study nuances of the free market economies are the varieties of capitalism (VoC) and diversity of capitalism (DoC) approaches constructed by Hall and Soskice (2001) and Amable (2003), respectively.

## 1.1 Varieties of liberal capitalism

That capitalism comes in varieties and that these varieties can be rigorously researched was first cogently outlined in the seminal book by Hall and Soskice (2001), who identified two ideal types of Western capitalism based on their institutional architectures. The authors employ a firm-based approach and by singling out five spheres in which firms “must develop relationships to resolve coordination problems central to their core competencies”, the authors detect two ideal types of Western capitalism: liberal market economies (LME), predominant in the Anglo-Saxon world, and coordinated market economy (CME), representing the German Rhine capitalism (Hall and Soskice, 2001, pp. 6–7). According to the authors, institutional variety, in turn, determines whether an economy specializes in radical innovations (LME) or incremental innovations (CME). Since the original VoC framework was exclusively Western-centric, various authors have also attempted to extend the VoC approach to post-communist countries (*e.g.*, Nölke and Vliegenthart, 2009; Csaba, 2022).

The second major contribution in the field was in the form of Amable’s DoC framework. Amable (2003, pp. 9–10) rejects the functionalist argument according to which institutions evolve in a Hayekian fashion, arguing that institutions represent a compromise resolving the social conflicts stemming from the heterogeneity of interests among different societal stakeholders. Different economic models are therefore, according to Amable, based on specific social compromises over distributional issues and manifest themselves in qualitatively different institutions. Similar to Hall and Soskice, Amable (2003, p. 14) also singles out five fundamental institutional areas of the overall institutional architecture of a country: (1) product market competition (PMC), (2) the wage-labour nexus, (3) the financial intermediation, (4) welfare state and lastly (5) the education sector. For each of the five areas concerned, Amable selects a set of indicators best approximating their institutional setup and employs principal component analysis (PCA) along with cluster analysis, allowing him to identify five models of “Western” capitalism (Anglo-Saxon, social-democratic, Continental European, South European, and Asian model). The DoC framework has also gained popularity and has been elaborated on by authors such as Farkas (2016) or Rapacki *et al.* (2019) and used to categorize post-communist countries.

## 1.2 Varieties of illiberal capitalism

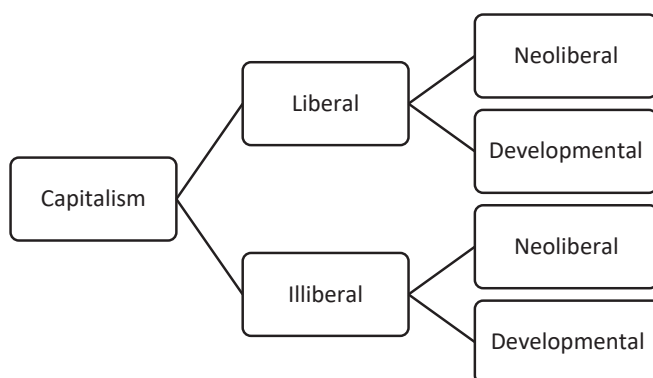
Literature comparing unique shades of economic systems is quite ample. However, be it Hall and Soskice's VoC, Amable's DoC or non-traditional approaches like the one presented by Bohle and Greskovits (2012), these frameworks implicitly presume the presence of liberal capitalism in a sense of John Locke's and Montesquieu's conceptions of separation of powers and the rule of law (Mihályi and Szelényi, 2020). Adopting this rather simplistic conception of liberalism, we can approximate liberalism as the existence of a relatively weak executive branch, which is bound by an independent legislature and overseen by a separate judiciary, essentially Max Weber's "legal-rational authority" (Weber, 2019). In Weber's view, capitalism functions effectively only under the "legal-rational authority", ipso facto liberalism, since a profit-seeking economy requires a secure and predictable environment, which is only possible if the branches of government remain separated. However, as was already indicated in the introduction, Hungary and Poland do not represent liberal capitalist societies any longer, since the separation of powers in these two countries has been partially dismantled, whilst the power of the executive branch has become more concentrated at the expense of the judiciary. Thereby, in the context of the recent illiberal upsurge, we are in agreement with Mihályi and Szelényi (2020) who argue that the original VoC and DoC frameworks have become inadequate in describing the wide variety of 21<sup>st</sup> century capitalism and must be updated.

In Mihályi and Szelényi's opinion, we have to be aware that economic progress might occur in illiberal capitalist states as well, especially in what they describe as a "soft version of illiberalism". Despite their illiberal nature, there is still some room for liberal capitalism and competition even in soft versions of illiberal systems, hence room for capitalism (Mihályi and Szelényi, 2020, p. 172). Illiberal capitalist regimes can function quite effectively, according to the authors, and even outperform liberal capitalist democracies, as long as there is still some degree of law and order secured with regard to the sphere of private businesses. Mihályi and Szelényi refer explicitly to poster children of illiberal economic development, such as Yeltsin's Russia, post-war Japan, Turkey, India, Singapore, and most importantly, contemporary Hungary and Poland. The economic "miracles" of the so-called Asian tigers should not be omitted as well (Wade, 2018).

We are also of the opinion that the original comparative capitalism approach ought to be expanded by the illiberal version of capitalism on top of the traditional VoC, which had always been implicitly liberal. Not to confuse the two, let us brand them varieties of illiberal capitalism (VoIC) and varieties of liberal capitalism (VoLC). We are convinced that this conceptual differentiation might avoid certain methodological confusions when analysing and comparing economic models in post-communist countries. In the same way that the lacking separation of Offe's "spheres of social action" distorts our understanding

of post-communist countries according to Magyar and Madlovics (2020, pp. 8–17), the overlooked illiberal tendencies might have the potential to distort our understanding of capitalism in formerly centrally-planned economies. The main reason behind this is that liberal capitalist democracy is historically a Western ideal type. Rent-seeking, a typical prebendal feature of illiberal regimes (Mihályi and Szelényi, 2019), can easily be confused with government intervention in terms of corporatist non-market coordination encompassing inter-firm collaboration and strategic planning as in the CMEs, even though the economy might, in fact, tilt to more market solutions with regard to economic coordination.

**Figure 1: New approach to varieties of capitalism**



Source: Own elaboration based on Hall and Soskice (2001) and Mihályi and Szelényi (2020)

In our conceptualization, we propose to combine three aforementioned approaches. Firstly, the bottom line of our framework is the proposition to ramify the traditional VoC approach into VoLC and VoIC, as suggested by Mihályi and Szelényi (2020). The schema can be found in Figure 1. Secondly, to simplify this conceptual framework, we decided to adopt a relatively simple, binary categorization as envisaged by Hall and Soskice (2001) in their original VoC approach, which portrays two ideal types: liberal and coordinated market economies. Two alterations are made on our part. We propose to swap liberal for neoliberal market economy (NeME). The reason for this is purely technical, so that economic and political liberalism do not get confused linguistically. At the same time, we replace CME with developmental market economy (DeME)<sup>1</sup>, since we are convinced

<sup>1</sup> We opted for DeME instead of DME, so that it is not confused with Nölke and Vliegenthart's (2009) "Dependent market economies".

that this categorization will be better suited for the study of post-communist economies. The DeME stems from the concept of the developmental state, as coined by Chalmers Johnson in his study of the rise of Japan, and in contrast to the CME, this model gives higher priority to the developmental role of the state in promoting industrial policies via protectionist trade measures (Wade, 2018). Typically, the ideal DeME can be viewed as a *mélange* of CME and Asian developmental models. Lastly, our framework is predominantly country-oriented, as opposed to Hall and Soskice's (2001) firm-based approach, since we are essentially in agreement with Mihályi and Szelényi (2020, pp. 163–164) that a firm's behaviour in the world economy is becoming more and more globalized and is of secondary importance. As a result, we decided to opt for Amable's five institutional areas from the DoC approach. A general overview of the NeME and DeME can be found in Table 1. It is important to emphasize that these two categories represent only Weberian ideal types, two polar extremes on a conceptual continuum of liberal/illiberal post-communist market economies, similar to Magyar and Madlovics's ideal-typical post-communist regimes (Magyar and Madlovics, 2020, p. 15).

**Table 1: Varieties of illiberal capitalism**

Institutional area	Neoliberal market economy	Developmental market economy
Product-market competition	Strong	Weak
Labour market	Flexible	Rigid
Corporate governance	Short-term	Long-term
Welfare state	Minimum safety net	Social protection
Education and training	General	Vocational

Source: Own elaboration based on Amable (2003, pp. 93–102) and Rapacki *et al.* (2019, p. 57)

## 2. Political Economy of Contemporary Regimes in Hungary and Poland

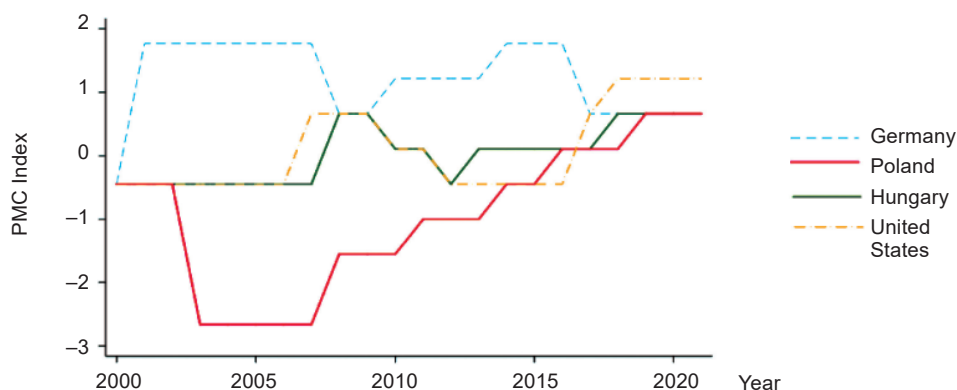
As was already established, contemporary Hungary and Poland deviate significantly from the ideal typical Western liberal capitalist democracies for the time being, leading us to the realization that this qualitative regime shift requires new conceptualization in the comparative economic systems approach, which we dubbed “varieties of illiberal capitalism”. In this section, we assess and compare the current state of Hungary

and Poland in five institutional areas according to Table 1, trying to determine whether these two economies tilt towards a more developmental mode of economic relations or whether the economic policies of these two regimes merely camouflage continuity of post-transformational neoliberal orthodoxy.

## 2.1 Product market competition

In line with Próchniak (2018), we can proxy product market competition via market regulation and guaranteed market freedoms. Employing the PCA, we bundled three indices from the Heritage Index of Economic Freedom to assess the degree of market liberalization. Taking a look at Figure 2, we can see that both Poland and Hungary are on the same level as the leading representative of Hall and Soskice's CME – Germany – in terms of the PMC, and at the same time slightly below the United States. Both countries are part of the EU common market and are therefore subject to the standards of (de)regulation implemented by the European Commission and enforced by the Court of Justice of the EU, leading to the gradual removal of trade barriers (*e.g.*, Article 102 of Treaty on European Union). As a result, the EU countries do not differ substantially in terms of product market flexibility (Rapacki *et al.*, 2019, p. 70). Thereby, Poland, with its continuous shift towards pro-market economic coordination and deregulation is not unique, and the onset of the PiS government in 2015 does not seem to alter this trend, quite the contrary. Even Hungary under Viktor Orbán, despite its anti-neoliberal rhetoric, keeps liberalizing its market relations and international flows of goods, services and capital. This might seem counterintuitive, especially following all the declared attempts of regaining economic sovereignty and granting privileges to the national bourgeoisie at the expense of foreign investors. Hungary, for instance, has introduced sectoral taxes and launched a process of renationalization in strategic industries (*e.g.*, energy sector, retail, telecommunications and banking). In spite of the rhetoric of developmental trade goals, Hungary has offered foreign investors specific tax allowances, financial incentives, the lowest corporate tax in the EU (9% flat-rate since 2017) and granted over 100 preferential strategic partnerships to pivotal foreign investors (*e.g.*, Audi, Coca-Cola, Daimler, GE, Microsoft, Sanofi and Synergon). Consequently, although the FDI inflows are on a decline, the country still attracts more FDI in relation to GDP than other Visegrád countries (Sass, 2017). In Poland, the PiS government seems to be less aggressive towards foreign investors, at least verbally, and promotes investment via a new system of special economic zones (Toplišek, 2020).

**Figure 2: Heritage PMC composite index 2000–2020**

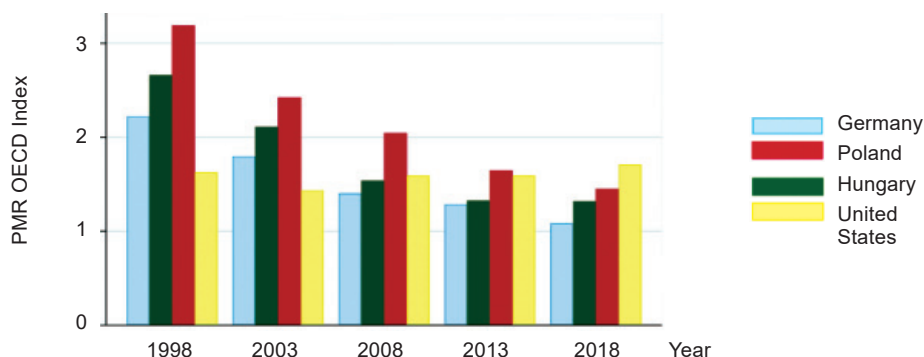


Note: PMC – “Product Market Competition” index constructed using PCA of three Heritage indices: Business Freedom, Trade Freedom and Investment Freedom.

Source: Author’s calculations based on Heritage Index of Economic Freedom

Figure 3 reflects OECD data measuring product market regulation (PMR). According to the OECD, gradual deregulation of Polish and Hungarian economies has managed to overpass even the United States, the poster child of Anglo-Saxon deregulated capitalism. Even though both countries still struggle with the legacy of the shortage (centrally-planned) economies, such as long average time required to enforce a contract or to start a business, there is definitely a convergence towards the liberal EU average with regard to the bureaucratic burden (Rapacki *et al.*, 2019, pp. 77–79).

**Figure 3: OECD PMR index 1998–2018**



Note: PMR – Product Market Regulation.

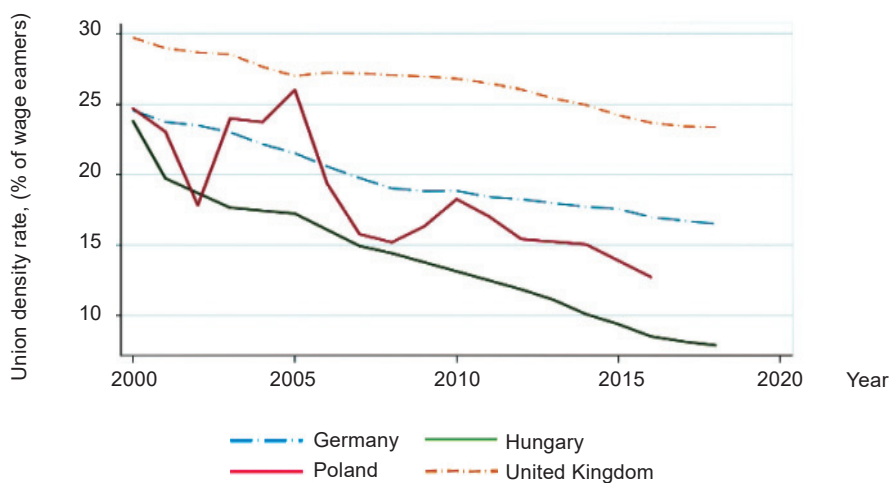
Source: Author’s calculations based on OECD Indicators of Product Market Regulation

This seems to be in contrast with some authors arguing that the nature of illiberal regimes has altered the whole dynamics between the state and markets in post-communist countries (Magyar and Madlovics, 2020, pp. 363–418). By interpreting Figures 2 and 3, we can see that there is no tangible proof that Poland or Hungary have moved towards a more coordinated type of product market competition, quite the contrary. More significant changes have occurred only with regard to FDI, especially in Hungary, with the government pushing out foreign capital from strategically important sectors. On the other hand, the position of already settled-down foreign investors was cemented via government subsidies in other sectors, balancing out the impacts of the “noisy” anti-FDI policies, leaving the overall *modus operandi* unchanged (Szabó and Kurucz, 2022).

## 2.2 Labour market

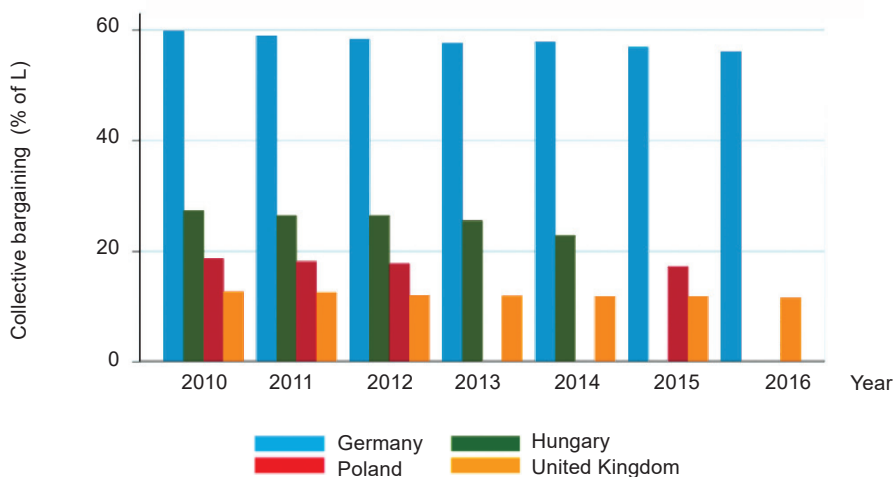
Hungary and Poland can be, according to Gardawski and Towalski (2020), characterized by feeble mechanisms of industrial democracy, low union density and weak coverage of collective agreements. On the other hand, the authors argue that whilst Hungary’s labour market is substantially deregulated, Poland evinces more features of statism in labour relationships. We can see that both the union density and collective bargaining coverage are on a decline in both Poland and Hungary, moving closer to the Anglo-Saxon model (Figure 4, Figure 5). Paradoxically, the union density in Hungary and Poland is even lower than in the UK, as our quasi-proxy for LME. The case of Hungary is the more perplexing one, with the unions becoming almost non-existent or, according to Magyar and Madlovics (2020), getting incorporated into the “mafia state” structures. Even though it does not automatically exclude the possibility of a developmental mode of capitalism, at least within our VoIC framework, a look at the collective bargaining coverage reveals that Hungary and Poland are nowhere near the German corporatist model. All these shifts happen, paradoxically, as the importance of government within industrial relations rises in both countries. Quite often, unilateral government decisions lead to unfavourable changes in the labour markets, at least from the point of view of workers. For instance, the notorious “slave law” in Hungary, passed on 12 December 2018, granted systematically important employers a unilateral right to raise the amount of overtime at work (Scheiring and Szombati, 2020).

**Figure 4: Union density as % of wage earners 2000–2018**



Source: Author's calculations based on ICTWSS (Institutional Characteristics of Trade Unions, Wage Setting, State Intervention and Social Pacts) data

**Figure 5: Collective bargaining as % labour force, 2010–2016**

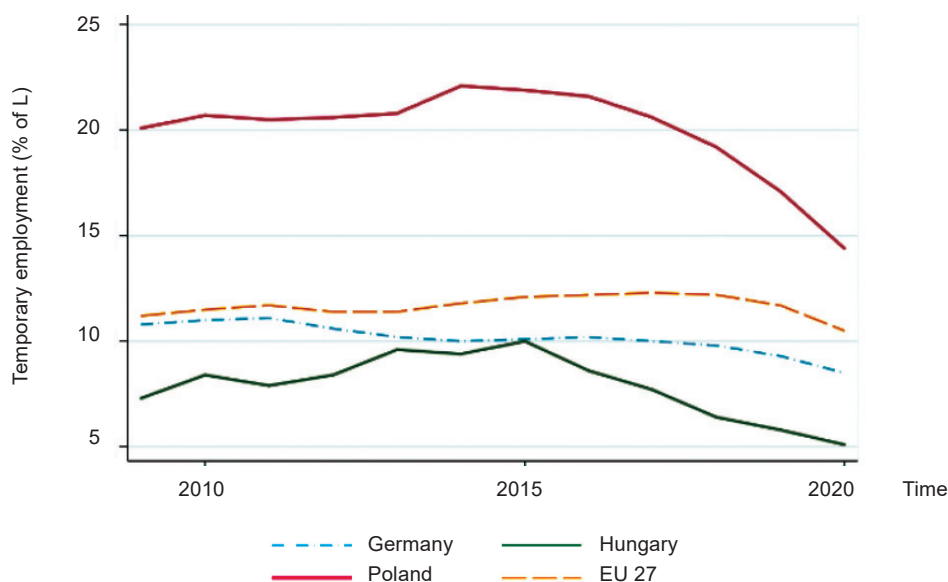


Note: Collective bargaining conveys the number of employees whose pay and labour conditions are determined by collective agreements.

Source: Authors' calculations based on ILO data

On the other hand, Figure 6 provides evidence that temporary employment is on a decline in both the analysed countries, especially after Fidesz and PiS (re)entered the government. The tendency is most visible in the case of Poland. Kurowska and Theiss (2018), for instance, observe that post-2015 Polish governments have gradually decreased labour market insecurities and inserted certain features of corporatist policies into the Polish labour market. The lowering rate of temporary employment in Hungary, however, goes hand in hand with gradual disassembling of the remaining of the labour market protection (Toplišek, 2020). Ultimately, we stumble across two contradictory tendencies. On the one hand, we observe declining importance of the labour unions and collective bargaining in both Hungary and Poland. On the other hand, labour precariousness declines as well, especially in Poland. Interventionist labour policies of the illiberal governments in Hungary, however, seem to merely camouflage the labour market deregulation with a developmental narrative.

**Figure 6: Temporary employment as % of labour force, 2009–2019**

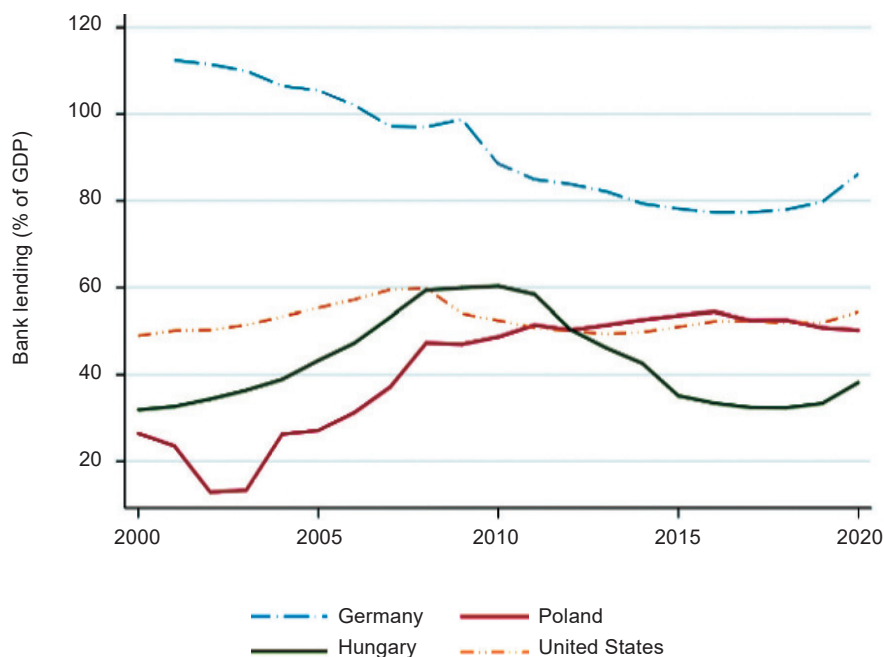


Source: Author's calculations based on Eurostat data

## 2.3 Financial intermediation

Nölke and Vliegenthart (2009) emphasize that the Polish and Hungarian economies are to a large extent dependent on FDI inflows as a source of capital, compared to longer-term bank-based lending in CME and shorter-term capital market financing in LME. In the recent years, according to Horbaczewska (2019), Hungary and Poland have moved closer to the German and Mediterranean economic models in terms of corporate finance. On the other hand, Figure 7 shows that the share of credit provided by commercial banks still did not catch up with Continental Europe; it even declined in the case of Hungary, and reached the levels of the United States. Not even the alleged more developmental stance towards Hungary's banking sector managed to alter anything in this regard. Várhegyi (2017, p. 297) argues that the “Magyarization” of the foreign banks in Hungary by Orbán's governments served merely the interests of their “adopted family” by creating “an institutional system suitable for the uncontrolled use of public funds”.

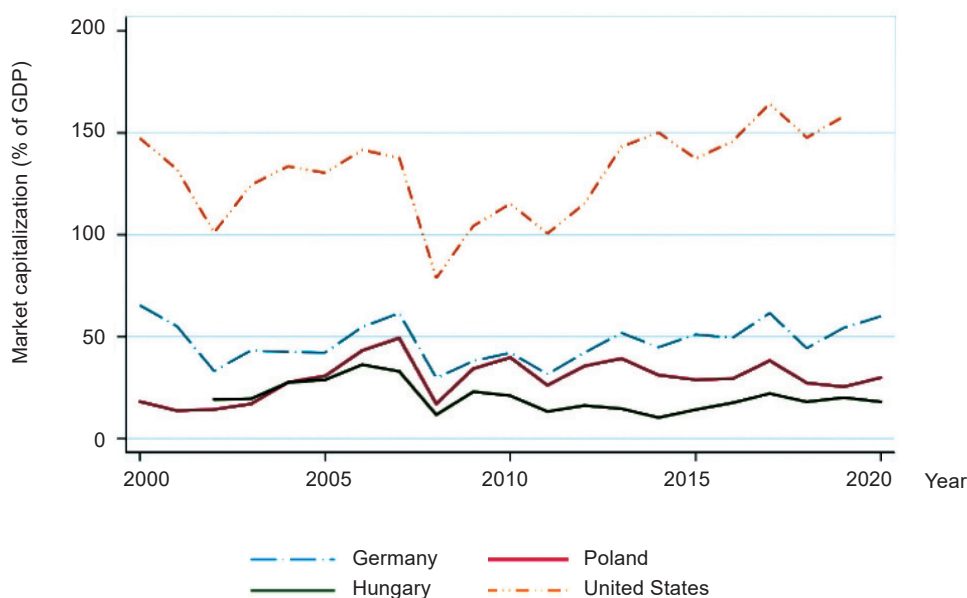
**Figure 7: Domestic credit by commercial banks as % of GDP, 2000–2020**



Source: Author's calculations based on World Bank data

Taking a look at Figure 8, we notice that capital market financing is still on quite low levels in Hungary and Poland as well, mainly due to insufficient capital market infrastructure, which is a phenomenon in all post-communist countries. It seems that FDI inflows still represent the most significant part of capital sources for Hungary, along remittances and EU funds, although its significance in the case of Poland is much lesser. One has to be aware that Poland represents a relatively large, in the Central and Eastern European context, domestic market, with lower domestic demand for foreign capital, at least compared to Hungary. Financial intermediation, as one of institutional pillars in our VoIC approach, indicates a divergent trend between Hungary, which increasingly relies on remittances, EU funds and FDI (amounting to approximately 4% of GDP each), and Poland, with relatively balanced sources of capital from the banking sector, FDI and, to a lesser extent, capital markets (Bohle and Greskovits, 2019).

**Figure 8: Market capitalization of domestic companies as % of GDP, 2000–2020**

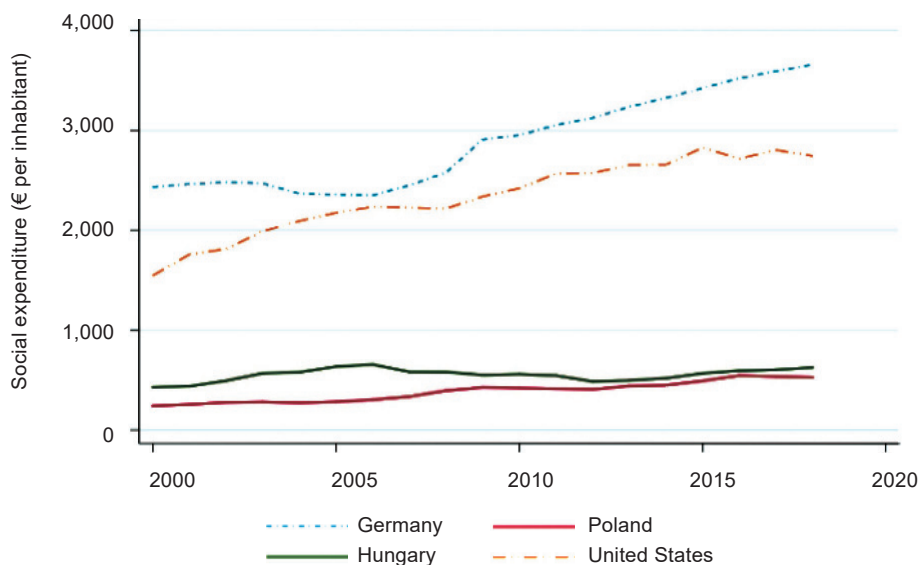


Source: Author's calculations based on World Bank data

## 2.4 Welfare state

The benefit-to-GDP ratio in the case of Hungary and Poland, covering public social benefits and healthcare expenditures and shown in Figure 9, oscillates around 500–600 EUR per year per person. This is substantially lower than in Germany (3,600 EUR) or in the United Kingdom (2,700 EUR). Naturally, this is a result of different levels of economic development. What is striking, though, is the divergent trend between Germany and the United Kingdom on the one side, and Hungary and Poland on the other. Rapacki *et al.* (2019) are right when pointing out that the latter countries have at their disposal fewer resources to redistribute. This does not, however, explain the regression in social expenditures in the case of Hungary when compared to pre-2008 levels and the OECD average (OECD, 2019). OECD data show that while social spending increased in OECD countries between 2008 and 2018, it declined in Hungary in the same period from 22% of the GDP to slightly above 18% of the GDP.

**Figure 9: Social expenditures € per inhabitant, 2000–2020**

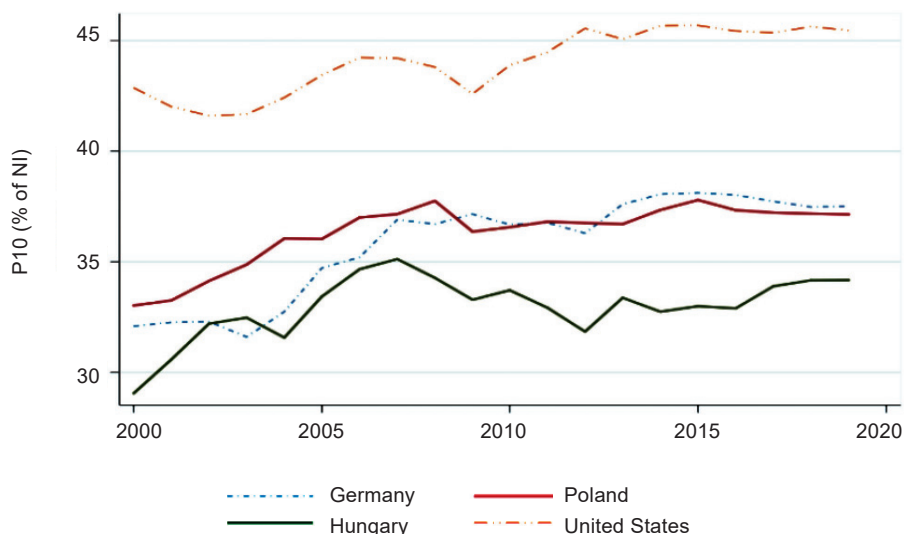


Note: Data include expenditures on social benefits and healthcare in 2010 constant prices.

Source: Author's calculations based on Eurostat

On top of that, the majority of the tax revenue in Hungary and Poland stems from consumption taxes, disproportionately burdening lower-income households. In combination with underdeveloped tax systems and chronically low top personal income tax rates (e.g., 16% flat income tax in Hungary), we can notice in Figure 10 that income inequalities in both historically quasi-egalitarian countries gradually increase, surpassing 30% of the national income being accrued to the top 10% earners.

**Figure 10: Pre-tax national income share held by P10, 2000–2020**



Note: Sum of pre-tax national income (NI) flows accruing to the top 10% highest earners.

Source: Author's calculations based on *World Inequality Database*

We saw that social welfare is stagnating, in the case of Hungary even deteriorating, while income and wealth inequalities seem to be on a rise, especially in Poland (Bukowski and Novokmet, 2021). This is paradoxical as Viktor Orbán based his political legitimacy on a pro-family agenda, aimed at strengthening the domestic national bourgeoisie via generous family allowances, various tax credits and deductions, as well as extending parental leaves (Szikra, 2014). Orbán has also nationalized the formerly private capitalizing pillar and introduced a new unemployment system, aiming to replace the welfare state with a “workfare state” (Lendvai-Bainton and Szelewa, 2020, p. 559).

When moving behind this ideological camouflage, we notice structural differences between Hungary and Poland. Data for Hungary clearly indicate an increase in the retirement age and a decline in retirement payments, replacement of activation policies with a compulsory public work programme, pairing of the aforementioned flat tax rate with tax credits and reduction of unemployment benefits (Scharle, 2017). In this context, the social dimension of PiS government's policies seems to be more valid. One of the cornerstones of the PiS-led governments in Poland, for instance, was a new government programme called "Rodzina 500 plus" (Family 500 Plus), granting monthly public transfers equal to 500 zloty to every child under 18 years of age (since the autumn of 2019), 300 zloty per child as a school starter kit and a thirteenth-month pension (Czech and Kassner, 2021). These family-oriented policies of the Polish government are not, however, surprising given the catholic and conservative background of the party PiS. Apart from the cash benefits, tax deductions for families with multiple children were introduced, the retirement age was decreased and the government managed to establish a minimum hourly wage. Naturally, even though there still remains a relatively high share of precarious employees, inadequate tax system progressivity, large emigration rates and low levels of investment in public healthcare (Lendvai-Bainton and Szelewa, 2020), Poland's post-2015 illiberal government has clearly diverged in terms of the social welfare policies from the development in post-2010 Hungary.

## 2.5 Education and training

Post-communist economies tend to be characterized by prioritization of vocational education and training (VET) as well as by low public and private expenditures on education (Farkas, 2016). Poland and Hungary seem to be exceptions in two regards. Firstly, expenditures on education in Poland are comparable to the old EU member states and significantly surpass other post-communist countries. Secondly, as opposed to other post-communist countries, VET – a prerequisite for coordinated market capitalism – does not seem to be a priority for the Hungarian government (Żurawski, 2019). Based on the OECD estimates, only 38% of secondary students enrol in vocational training programmes in Hungary, significantly lower than the OECD average (42%) and 14 percentage points lower than in Poland (52%), which ranks third in the OECD (OECD, 2021). Table 2 shows a comparison of expenditures per student on vocational and general secondary education in the V4 countries. We immediately notice that compared to Poland and the Czech Republic, Hungary puts a greater emphasis on general secondary education necessary for a fluid labour market than on VET. In the case of Poland, the gap between the expenditures per student

on general secondary education and vocational secondary education actually widened between 2008 (59 EUR) and 2018 (1,816 EUR). Nevertheless, although Hungary doubled its expenditures per student on secondary education between 2008 and 2018, general education still receives a larger share of public resources from the post-2010 illiberal governments. This development is paradoxical given the announced reorientation towards “workfare” society built on skill formation.

**Table 2: Expenditures on general and vocational secondary education in V4 countries in 2008 a 2018**

	Vocational secondary education (2008)	General secondary education (2008)	Vocational secondary education (2018)	General secondary education (2018)
<b>Czech Republic</b>	6,259	5,380	11,675	9,634
<b>Hungary</b>	4,345	4,516	9,077	9,112
<b>Poland</b>	4,643	4,584	8,866	7,050
<b>Slovakia</b>	4,645	3,194,	7,461	6,988

Note: Expenditures per student in EUR (purchasing power parity).

Source: Own elaboration based on OECD (2011; 2021)

The long-expected reform of the Hungarian vocational education in 2013, which effectively shortened the curriculum from four to just three years aiming to increase the share of practical training and seeking to foster closer public-private cooperation, led to a greater deterioration of the quality of vocational education (OECD, 2014). Even the more proactive workfare policies did not provide additional training, and compared to other countries in the region, Hungary now has the lowest number of adults in education and training, firms are unlikely to participate in additional training and the expenditures on education have steadily declined since 2004, reaching its peak during Orbán’s second government. When taking a look at the OECD (2021) statistics, higher education remains underfunded in Hungary as well. According to this OECD summary, public funding for higher education dropped by 18% between 2010 and 2015 and Hungary devotes one of the lowest shares of its public spending to higher education among the OECD Member States. On top of that, as the compulsory secondary school leaving age dropped from 18 to 16, the number of students who would fulfil the criteria for entering university and student numbers fell by 18% between 2010 and 2015. The access to social sciences and humanities at the university level became more constrained as these disciplines allegedly

fail to produce knowledge that is of immediate interest for the labour market, according to the government's communiqués (OECD, 2021). Contrary to the government's declarations, the OECD (2014) comments that recent policies of the Hungarian government led to a "large structural excess of low-skilled labour supply", while the supply of high-skilled labour remains tight, mainly due to the government's indifference.

Comparing Hungary and Poland, there are around 43% of Poles between 25 and 34 with a tertiary degree, with above-average representation in the field of natural sciences, mathematics and statistics, while Hungary has only 31% (45% the OECD average). The differences also manifest themselves in total expenditures per student on primary, secondary and tertiary education combined, representing 3.9% of GDP in Hungary and over 4.3% in Poland (OECD, 2021). The expenditures on education in Poland spiked right after PiS re-seized power in 2015, trying to patch up the lacking investments. This is subsequently mirrored in the results of the OECD PISA tests, where Poland achieves substantially better results than Hungary. In the realm of education and training institutional setup, Poland is gradually converging towards the DeME, moving away from general education typical of the NeME, whilst Hungary records the very opposite tendencies.

## Conclusion

Although the "noisy" politics of the developmental narrative is piercing in contemporary Hungary, we essentially agree with Bohle and Greskovits (2019) and with Toplišek (2020) that the nature of the Hungarian economy remains neoliberal, even when controlling for manifestations of political illiberalism, although certain changes have occurred in the last couple of years. The developmental agenda has been successful in crowding out foreign investors from the strategically important sectors and it has also contributed, to a certain extent, to the decline in labour market precariousness. Even in areas such as capital inflows or welfare state, where the influence of the developmental narrative is the strongest, the government has silently counterbalanced its actions by granting foreign investors preferential access at the expense of domestic labour force. Moreover, despite the announced attempts to reorient Hungary's education from general to a more vocational-based, Hungarian schools still seem to generate low-skilled labour force lacking specific skills necessary to support a developmental form of illiberal capitalism. Overall, we are of the opinion that we presented enough evidence that the essence of the post-2010 economic model in Hungary remains embedded in neoliberal orthodoxy so far, and the developmental narrative seems to merely camouflage its true essence, since there is nowadays no political demand for explicit pro-market stances (Szabó and Kurucz, 2022).

The situation is slightly different in the case of Poland, at least from our point of view. Despite the vehement product market liberalization and deregulation in the recent years, the post-2015 economic development in this Central and Eastern European country has contributed to declining labour market precariousness, secured balanced flows of foreign capital, not relying solely on one source, and clearly diverged from Hungary in terms of the social welfare state building as well as education system functioning. There is a clear tilt towards ideal-typical DeME in Poland in the recent years. We do not claim that Poland represents a pure prototype of DeME; however, there is a visible tendency of turning away from post-1989 neoliberal orthodoxy towards specific developmental goals in our opinion. The Polish economy still has its regional specificities, it has a relatively large internal market, and even the illiberal tendencies are not as embedded within its society as they are in Hungary (Magyar, 2019). Furthermore, the Polish government navigates within the constraints set up by the EU's institutional framework, so a complete shift towards the ideal typical developmental model is *de jure* out of the question even though the tendency is definitely there.

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