

# Populist party-producer group alliances and divergent developmentalist politics of minimum wages in Poland and Hungary

Competition & Change  
2025, Vol. 29(3-4) 419–436  
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DOI: 10.1177/10245294231213417  
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## Abstract

In the advanced peripheral economies of East-Central Europe, right-wing populist parties have increasingly politicized the dualism between larger, export-competitive foreign-owned enterprises and smaller, inward-oriented and less productive domestically owned firms. By focusing on the two most-similar cases of right-wing populist governments in the region—namely, Hungary and Poland, this paper documents a striking attempt by Poland’s Law and Justice party to use increases in the minimum wage and social security contributions as a developmentalist tool that should force domestically owned firms to achieve greater efficiency and technological upgrading. In sharp contrast, Hungary’s Fidesz party has systematically compensated minimum wage increases with cuts in employer social contributions and has refrained from assigning developmentalist aims to labor cost increases. Both parties have cultivated a cross-class electoral base and have faced electoral trade-offs in emphasizing minimum wage increases. Yet we argue—and show through a comparative historical analysis—that variation in their policy approaches stems from their distinct, electorally motivated, alliances with influential producer groups and the distinct policy quid pro quos they have struck with those groups, namely, organized labor for Law and Justice and organized business for Fidesz.

## Keywords

Minimum wages, right-wing populist parties, producer groups, developmentalism, Hungary, Poland

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## Introduction

We are in September 2019. Poland's right-wing populist Law and Justice (PiS) party is launching its campaign to win a second consecutive majority at next month's general election. At the campaign's first hustling, the party's founder and long-time leader, Jarosław Kaczyński, proposes to build a "Polish model of the welfare state." His very first election promise is to increase the statutory minimum wage (MW) from 2250 zlotys per month in 2019 to 4000 "by the end of 2023" (PiS, 2019: min. 42:18-44:42). In the following days, as the opposition accuses him of wanting to drive many of Poland's small and medium-sized enterprises (SMEs) out of business, Kaczyński argues that, for MW increases to happen, "the Polish economy must modernize. Here we are dealing with a causal relationship. If incomes and wages increase, there is pressure on the economy to modernize. If the economy modernizes, workers' productivity also increases. As a result, there are good economic grounds for wages to further increase" (polskieradio.pl, 2019). He adds that MW increases are in the interest of employees and of "good" employers, that is, "those who are able to look ahead, at least a little bit, and want to stay on the market" by modernizing themselves. Kaczyński contends that SMEs will "not go bankrupt if they are able to function in this new reality. They have a few years to prepare. Demand for various types of goods will also grow."

With Poland and other East-Central European (ECE) countries having been "global leaders" in economic liberalization in the 1990s and 2000s (Appel and Orenstein, 2018: 11), this kind of developmentalist discourse is unprecedented. Implicitly, it defines the contours of a wage-led growth strategy in which MW increases should drive up productivity and aggregate demand and, ultimately, growth (Bondy et al. in this special issue; Lavoie and Stockhammer, 2013; Schulten, 2012). Kaczyński's discourse is also reminiscent of aspects of the Rehn–Meidner model—an economic policy blueprint developed in the 1950s by two economists from the Swedish Trade Union Confederation and subsequently adopted by the Swedish Social Democratic Party—which posited that "solidaristic" wage compression could be used as a tool for technological upgrading (Erixon, 2010; Meidner, 1986; Pontusson, 1992). The model postulated that, at the bottom of the wage distribution, wage increases would squeeze the profit margins of less efficient, typically small, firms in sheltered sectors thereby forcing them to modernize or to go out of business. By contrast, wage restraint at the top of the wage distribution would free up the profits of more efficient, typically larger, export-oriented firms thereby promoting their expansion. Active labor market policies (ALMPs) would help reskill workers and reallocate them from low-productivity towards high-productivity firms. Granted, reforms introduced by Law and Justice have lacked other core elements of the Rehn–Meidner model—including wage restraint for top earners and massive spending on ALMPs, but the party's emphasis on MW increases as a tool of technological upgrading is remarkable in and of itself.

PiS's developmentalist discourse on MW has been part of the party's broader politicization of the Polish economy's dualism between a predominantly foreign-controlled segment of large, highly efficient and export-competitive firms and a typically more inward-oriented, less productive segment of domestically owned SMEs (Naczyk, 2022). This type of dualism has been typical of countries at risk of experiencing the so-called "middle-income trap" and of getting stuck in a peripheral position in global value chains (Doner and Schneider, 2016). In Europe, it has been a key feature of ECE's advanced peripheral economies. Having become destinations for foreign direct investment (FDI) in high value-added manufacturing and services from the 2000s (Bohle and Greskovits, 2012), most ECE countries have unquestionably been characterized by sustainable FDI- and export-led growth models (Baccaro and Hadziabdic, 2023; Ban and Adăscăliței, 2020): Czechia, Estonia, Latvia, Lithuania, Slovakia, and Slovenia graduated from "emerging" to

“advanced” economy status by 2022 (IMF, 2022: 38). Yet, as they all became “dependent” on FDI, ECE countries got stuck in a specific form of peripherality: They failed to develop a significant pool of domestically owned, internationally competitive “national champions.” Instead, subsidiaries of foreign-owned multinational companies (MNCs) from “core” countries have typically constituted their largest and most productive firms (Nölke and Vliegthart, 2009).

This economic dualism and peripherality have been most noticeably politicized by right-wing populist parties in Hungary and Poland both of which were still considered as “emerging” economies by 2022 (IMF, 2022: 38). As Viktor Orbán’s Fidesz returned to power in Hungary in 2010 and Jarosław Kaczyński’s PiS did so in Poland in 2015, these parties attempted to drive foreign capital out of strategic sectors—for example, banking, retail, utilities, and the media—servicing the domestic market while continuing to subsidize foreign MNCs for their FDI in export-oriented manufacturing (Bohle and Greskovits, 2019; Bohle and Regan, 2021; Sebök and Simons, 2022). At the same time, Fidesz and PiS trumpeted their ambition of supporting the growth and international expansion of domestically owned SMEs through industrial policies (Naczyk, 2022; Scheiring, 2020a; Toplišek, 2020).

Given major similarities in their constitutional and economic policy reform agendas, PiS and the Fidesz have often been considered as sister parties (Bluhm and Varga, 2019; Buzogány and Varga, 2023; Orenstein and Bugarič, 2022). After all, Jarosław Kaczyński vowed in 2011 to entrench “Budapest in Warsaw” when returning to power. Yet these seemingly “most-similar” right-wing populist parties have strikingly differed in their approach to MW and labor cost increases—and, more generally, to tax and social policy—and in their discursive framing of reforms. Fidesz has systematically offset MW increases with *decreases* in employer social contributions thereby shielding firms—particularly SMEs—from labor cost increases. It has primarily framed these policy moves as helping to reduce welfare dependency in Hungary’s “work-based society” (on this concept, see Szikra, 2014: 492). By contrast, PiS has combined more aggressive MW hikes with stable social security contributions and, in contrast to Fidesz, it has presented labor cost increases as building blocks of the “Polish model of the welfare state” and as a developmentalist intervention that should push domestic SMEs to modernize.

While political economists have increasingly seen electoral politics—instead of interactions between governments and producer groups—as the driving force behind variation in economic policy design and growth models (Beramendi et al., 2015; Hall, 2020), we relate these different policy mixes and different discourses to distinct quid pro quos PiS and Fidesz have struck with organized labor and business in response to different political alliances the two parties have historically formed with producer groups in order to better reach out to their core electorates. Originally founded as a liberal party, Fidesz styled itself in the late 1990s as a champion of the middle classes and, to strengthen that electoral focus, it built close links with business groups representing small entrepreneurs while having arms-length relationships with trade unions. By contrast, PiS emerged from the ruins of the Solidarity movement and has therefore built privileged links with the working-class Solidarność trade union while maintaining a distant relationship with organized business. Those different party-producer group alliances have resulted in a different political calculus in the context of MW increases: As it has risked seeing discontent among SMEs for MW and labor cost increases being inflated by its allies in organized business, Fidesz has systematically agreed to introduce tax compensations for employers. As it has been under much greater pressure to cater to its core trade union ally, PiS has adopted a more aggressive approach to labor cost increases while its developmentalist discourse presenting these increases as a win-win proposition for business and labor has been functional in reducing resistance to change among SMEs and cementing a broader, cross-class developmental alliance for Poland.

We develop our argument in the next section after briefly embedding it into an emerging literature on the politics of minimum wages. Shifting to empirics, we trace the role of distinct historical alliances between right-wing populist parties and producer groups in shaping different strategies towards labor costs, and, indirectly, technological upgrading in the two countries. The last section concludes.

## Theoretical framework

Although a huge literature exists on the employment effects of MW increases (Card and Krueger, 1995; Manning, 2021), political economists have surprisingly paid little attention to MW politics until recently. The most influential research has focused on the introduction of statutory MW in “core” economies—Germany and the United Kingdom—that had so far relied on collective bargaining to set wage floors. That research has highlighted the transformative role of lobbying by trade unions representing low-wage workers in contexts where organized labor has felt unable to set adequate wage floors through weakening systems of collective bargaining (Bosch, 2018; Mabbett, 2016; Meyer, 2016). Others have also pointed out the importance of political parties’ reactions to growing discontent among their electorates about rising inequality and job precariousness (Marx and Starke, 2017).

In more “peripheral” ECE economies, MW increases have become an increasingly salient political issue in the 2010s as minimum wages in the region experienced the EU’s largest nominal and real increases (Lübker and Schulten, 2022: 14). Several factors—that we take for granted and do not further explore—have contributed to bring MW increases on the agenda of all ECE governments, regardless of their political orientation. Firstly, while ECE economies traditionally drew comparative advantage from their cheap labor model (Drahokoupil, 2016), massive emigration, falling unemployment, and ensuing labor shortages in the 2010s have created a “quasi-Kaleckian” context where ECE employers and governments have been under pressure to grant real wage increases to employees (Ban and Adăscăliței, 2020: 31). Secondly, the dominance of a market-oriented paradigm after the collapse of communism prevented ECE policymakers from building strong institutions of collective bargaining (Ost, 2000): In that context, statutory minimum wages emerged as the most influential wage-setting mechanism in the region (Kohl and Platzer, 2007). Thirdly, EU-level debates about the Directive on adequate minimum wages—which was adopted in late 2022 and whose original inspiration was to help ECE minimum wages catch up with Western levels—created an additional, if latent, pressure on ECE policymakers to use this specific policy instrument (Drahokoupil, 2016; Schulten, 2012). Fourthly, growing evidence on the non-detrimental employment effects of MW increases helped weaken the credibility of a low MW approach (Wilson, 2017).

What can explain variation in two most-similar parties’ approach towards MW increases? Two usual suspects in the context of any type of labor market reform—namely, union strength and the strength of corporatist institutions—are unlikely to be drivers. Given a comparatively low union density and low coverage of collective bargaining in ECE countries, it is conventional wisdom that unions have little autonomous power in setting wages in the region (Kohl and Platzer, 2007). And there have been no significant differences in the power resources of Hungarian and Polish unions: Union density has been higher in Poland (16.5% in 2015) than in Hungary (11.0% in 2014), but coverage of collective bargaining has been higher in Hungary (28.3% in 2015) than in Poland (17.3% in 2015; Supplementary Table A.2.1 for sources). Moreover, in contrast to West European bipartite institutions gathering organized labor and business, corporatist institutions in both countries have been weakened by their tripartite character, which has given states great discretion in

decision-making, particularly regarding MW increases (Ost, 2000; Kahancová and Kirov, 2021). Fidesz and PiS have, in fact, further reinforced state influence over such institutions while in power (Olejnik, 2020).

As mentioned, ECE governments have been under growing pressure to increase wages in the 2010s. This structural context has undoubtedly created opportunities for political parties to benefit *electorally* from implementing MW increases, especially if a highly discretionary MW-setting framework has increased their salience. In line with theoretical approaches focused on electoral politics, it would be reasonable to assume that parties' political calculus in introducing MW increases should be influenced by the composition of their electorates. For example, it has been argued that, in Southern Europe's peripheral advanced economies with similar class structures to those of ECE countries, parties' willingness to deregulate labor markets has depended on the extent to which they have represented anti-regulation small business owners and the self-employed as opposed to pro-regulation production workers (Afonso and Bulfone, 2019; Bulfone and Tassinari, 2021).

By emphasizing cultural issues based on nationalist, anti-establishment, or religious tropes, Fidesz and PiS have emerged as wide coalitions drawing their electoral support from various social strata (Knutsen, 2013; Ost, 2018; Scheiring, 2020b; Stanley, 2019). Compared to their main competitors, they have had an overrepresentation of production workers, service workers, and small business owners among their electorates (Simons, 2021). Since production workers should favor MW increases while small business owners should oppose labor cost increases, both parties should face electoral trade-offs for MW increases. Yet, as we will show below, production workers have been overrepresented in Fidesz's electorate compared to PiS while PiS has had a greater proportion of small business owners among its voters compared to Fidesz. A focus on the social composition of the two parties' electorates should therefore lead us to expect PiS to be *more* sensitive than Fidesz to potential electoral losses resulting from MW increases.

We argue that the two parties' political calculus when deciding to introduce MW increases has been strongly mediated—in fact, more powerfully shaped—by the alliances the two parties have formed with specific producer groups in earlier processes of party formation. Although political economists have typically focused on the lobbying activities of producer groups, such groups can also play an important role in helping parties to mobilize specific constituencies (Allern et al., 2021). This has not only been the case of trade unions (Arndt and Rennwald, 2016), but also of business groups representing thousands of small entrepreneurs and managerial cadres with political parties having often played a crucial role either in creating new business groups or in strengthening pre-existing ones both for policy and electoral purposes (Martin and Swank, 2013; Doner and Schneider, 2020).

For a party that has forged a core alliance with organized business (Fidesz), MW increases have helped it offer side payments to its working-class supporters, but such increases have presented the twofold risk of antagonizing its core electoral constituency of cost-sensitive small entrepreneurs and of undermining the credibility of the leaders of allied business groups among a constituency that those leaders have helped mobilize on behalf of the party. In order to avoid a double blame for the party and allied business group leaders, these two types of actors have had strong incentives to agree on compensations for MW increases in the form of decreases in social security contributions. Such cuts in non-wage labor costs have been facilitated by the fact that, as a result of the same business-party alliance, spending on a number of social protection arrangements has been reduced over time thereby requiring fewer tax resources for their financing (Fabry, 2019; Szikra, 2014).

By contrast, for a party that has traditionally forged a core alliance with organized labor (Law and Justice), MW increases have constituted a main deliverable to its historical constituency of working-class supporters. Were it to fail to deliver on a politically salient policy, the party would not only risk

antagonizing that constituency, but it would also risk undermining the credibility of the leaders of allied trade unions among that same constituency. MW increases have thus become a requirement for preserving the party-union alliance. Simultaneously, this alliance has resulted in the expansion of other social protection arrangements (Lendvai-Bainton and Szelewa, 2021; Meardi and Guardiancich, 2022; Toplišek, 2020). This in turn has created a need for the preservation, if not an expansion, of social security contributions to help finance such arrangements. Since MW increases combined with stable or higher social contribution rates have been likely to antagonize the party's constituency of small entrepreneurs, a discourse presenting labor cost increases as an industrial policy pushing SMEs into higher value-added activities might perhaps not help appease this constituency, but, by pointing to benefits for business, it might reduce their resistance to change.

## Empirical strategy

In the next two sections, we carry out a comparative historical analysis of the Fidesz- and PiS-led governments' different approaches to labor cost increases. After substantiating systematic differences in relevant policy outcomes and discourse under these two "most-similar" governments, we provide within-case, causal process evidence for our hypothesized mechanism based on electorally motivated quid pro quos between parties and allied producer groups being at play and against the main alternative hypothesis based on an unmediated response to parties' electoral constituencies. Our method of data analysis, process tracing, is underpinned by "folk"/informal Bayesian belief updating where, starting from initial degrees of belief in a set of competing hypotheses, the analyst and the reader should, firstly, assess the extent to which each new piece of evidence they observe either increases or decreases their confidence in a given hypothesis and, based on that, they should update their prior beliefs into posterior beliefs in each hypothesis (Fairfield and Charman, 2022).

In line with best practices in process tracing (Bennett and Checkel, 2015: 20-31), we have been relentless in gathering diverse and relevant evidence for and against alternative explanations. We screened all Hungarian (for the years 2010–23) and Polish (2015–23) news reports made available in the *Factiva* database using "minimum wage(s)" as a keyword in English, Hungarian, and Polish. In addition, we systematically analyzed discourse on MW increases in the two parties' manifestos published since the mid-2000s and in their leaders'—as well as producer group leaders'—speeches or media interviews while the parties have been in government. Due to difficult<sup>1</sup> access to "illiberal" politicians in the two countries in a context where such politicians deeply distrust "Western" universities deemed to be too "liberal" (e.g., Enyedi, 2018), we have only conducted one interview in Poland with a PiS-appointed civil servant. Information contained in publicly available sources has nonetheless allowed us to draw inferences.

Please note that, due to space constraints, full references of empirical sources cited below are available in online appendix A.1.: Such references are cited as "A.1-author, date," while references of academic papers are available in the regular bibliography. Tables and figures are available in online [Supplementary Appendix A.2](#).

## Different policy trajectories

In November 2021, Hungary's trade unions, employers' associations, and the government agreed to increase the regular<sup>2</sup> statutory MW (*minimálbér*) and the "guaranteed wage minimum" for skilled jobs<sup>3</sup> (*garantált bérminimum*) by about 20% to 200,000 forints and 260,000 forints per month, respectively, from January 1st 2022. As the 2022 parliamentary election was nearing, Prime

Minister Viktor Orbán gave a speech to mark the signing of the agreement (A.1-Orbán, 2021b). The right-wing populist leader first reminded the audience that his government's "most important commitment was to create a work-based economy." He argued that work was not "punishment" and was "a good thing, provided that it is paid fairly." Increasing minimum wages helped to "break with the policy of offering welfare instead of work." Orbán highlighted that, after his return to power in 2010, the regular statutory MW had increased by 172%. He labelled MW increases as "the greatest success of the Hungarian trade union movement" but added that Hungary's full employment was the "the biggest success of employers" while the country's healthy public finances—propped up by rising wages—were the "success of the government." With the election nearing, Viktor Orbán concluded by expressing his "trust in the wisdom of Hungarians" and his hope that "those at this table, those who are looking at us and ourselves [would] meet here in a year's time."

In 2019, Poland's Law and Justice party had made MW increases an even more central plank of its ultimately successful attempt to gain a parliamentary majority for a second consecutive term. At the campaign's first hustling, Jarosław Kaczyński listed not only "respect for human life," "liberty," "family," "the nation," and the "Catholic Church," but also "solidarity," "equality," and "justice" as the core principles underpinning the "unchanging value system" of PiS (A.1-PiS, 2019a). In sharp contrast to Orbán's conceptualization of minimum wages as an element of a "work-based society" that would replace "the uncompetitive Western type of welfare state" (2012 speech by Orbán cited in Vidra, 2018: 73; see also Szikra, 2014: 492), Kaczyński made minimum wages the first pillar of his proposal to build a "Polish model of the welfare state," that is, the title of his party's 2019 election manifesto (A.1-PiS, 2019b). That manifesto insisted that "economic development should benefit all Poles, regardless of their occupation, place of residence and social background" (A.1-PiS, 2019b: 210). Highly striking and reminiscent of elements of the Rehn–Meidner model was PiS politicians' developmentalist discourse on proposed MW increases. Like Kaczyński, Prime Minister Mateusz Morawiecki, a former banker, contented that MW hikes would "push up productivity and work efficiency" and would "also be profitable to employers" (A.1-TVP, 2019). He talked about "a fundamental change in the economic model."

No similar utterances could be heard from Fidesz politicians. The only exception was when, before the 2021 negotiations over minimum wages, László Parragh, the president of the Hungarian Chamber of Commerce and Industry (MKIK) and a key Orbán ally (see paper's next section), came out in support of the 200,000 forint target for the regular statutory MW and declared that "in Europe, the minimum wage is increasingly viewed not as a cost element, but as an economic development tool. By raising the minimum wage which affects the entire wage scale, efficiency goes up and productivity improves. Anyone who is unable to fulfil this will simply drop out of the market. (...) I know it is strange to hear this from a chamber president, but the Hungarian minimum wage is one of the lowest in the European Union" (A.1-Hornyák, 2021).

Fidesz-allied elites had perhaps started taking a leaf out of PiS's discursive playbook, but, in practice, policies introduced by the two right-wing populist governments had divergent distributive and economic implications. As such, minimum wages in the two countries grew at a similar rate both in nominal and in real terms (Supplementary Tables A.2.2 and A.2.3). Yet MW hikes decided by PiS had different distributive consequences for several reasons. Firstly, having inherited a statutory MW with a significantly higher "bite"—that is, MW level relative to the median or average wage (51% and 41%, respectively, in Poland in 2015)—than the Fidesz had in Hungary (47% and 35% in 2010, respectively), PiS maintained that bite and even increased it to 55% and 45% by 2021, after implementing the MW hikes it promised in 2019 (Supplementary Table A.2.2). By contrast, Fidesz let the regular statutory MW drop to 45% of the median wage and back to 35% of the average wage by 2021. This is even though the average wage increased at a similar rate in the two countries

between 2010 and 2021, namely, 67.3% in nominal terms in Hungary versus 63.4% in Poland and 19.4% in real terms in Hungary versus 31.6% in Poland (own calculations based on figures reported in [Supplementary Table A.2.4](#)).

The lower bite of Hungary's regular statutory MW partly had to do with that minimum wage's co-existence with the higher "guaranteed wage minimum" for skilled jobs. Yet it also had to do with the Fidesz's own, less egalitarian, approach towards wage-setting. Thus, after letting the guaranteed wage minimum dwindle to 116.1% of the regular statutory MW in 2012, the Orbán government consistently increased it to circa 130% from 2018 ([Supplementary Table A.2.3](#)). Moreover, in 2011, it introduced a subminimum wage for participants in its high-profile Public Works Scheme (on that workfare program, see [Vidra, 2018](#); [Szombati, 2021](#)) and let its value erode from 77% of the regular statutory MW in 2013 to about 50% from 2020 ([Supplementary Table A.2.3](#)). Hungary's more inegalitarian trajectory was further evidenced by the fact that, despite being lower in Hungary than in Poland when PiS started governing Poland in 2015, the incidence of low pay and inter-decile ratios of gross earnings (P90/P10 and P50/P10) all ended up being significantly lower in Poland than in Hungary by 2020, that is, after only 5 years of rule by PiS ([Supplementary Table A.2.4](#)).

Crucially, the Fidesz-led and PiS-led governments adopted widely divergent approaches towards (not) compensating employers for MW increases through reductions in non-wage labor costs. In 2021, Viktor Orbán crisply summarized his government's approach: "Each wage agreement entails not only an increase in minimum wages, but also a reduction in taxes and contributions for employers. (...) Our philosophy is extremely simple. We are saying that, if we cut taxes, entrepreneurs can give this money to workers" (A.1-Orbán, 2021b). While the level of Hungarian employee social contributions was kept stable at 18.5% of gross pay since 2010, the effort focused on the reduction of employer social contributions. Indeed, the employer rate dropped from 28.5% of gross pay in 2011 to 13% by 2022. The government started reduced it for the employment of vulnerable groups—youths under 25, workers aged 55+, etc. – through a 2012 "job protection action plan" that was negotiated separately from MW increases, but was "linked" to them (A.1-Orbán, 2012). In 2016, a 6-year "wage and tax agreement" negotiated between the government and the social partners combined MW increases with across-the-board decreases in the employer rate by 5% points in 2017 and 2.5 percentage points in 2018 with promises of further reductions by 2 percentage points per year if real wage growth reached 6%. The 2016 agreement led revenue from social security contributions to drop from 13.2% of GDP in 2016 to 10.1% in 2021 ([Supplementary Figure A.2.1](#)).

No such compensations were introduced by PiS in Poland: Employee and employer social contributions remained stable at 22.71% of gross pay and 19.21%–22.41%,<sup>4</sup> respectively. Granted, temporary exemptions from social contribution payments were implemented during the COVID-19 pandemic resulting in revenue from such payments to drop from 13.5% of GDP in 2020 to 13.0% in 2021, but, before that, this revenue had steadily increased under right-wing populist rule from 12.4% in 2015 ([Supplementary Figure A.2.1](#)). In fact, there was widespread suspicion that PiS might be tempted to increase social security contributions. When the party pledged to increase the MW to 4000 zlotys by 2023, opposition politicians and media tried to sow fear among SMEs by citing a passage of a speech Jarosław Kaczyński had made 2 years earlier at a conference on *Entrepreneurs' Responsibility for Poland*: "If somebody is unable to run a firm in such conditions [of high labor costs], it means that they are simply not suitable for business" (A.1-Kalisz, 2019). It is also noteworthy that, from 2019, the PiS-led government effectively increased Polish firms' non-wage labor costs by gradually forcing all Polish employers automatically to enrol all of their workers, and to pay an employer contribution of at least 1.5%, into a new type of private pension plans called "employee capital plans" ([Naczyk, 2018](#)).

We now turn to demonstrating the impact of the two right-wing populist parties' distinct alliances with producer groups on their contrasting approaches to labor cost increases.

### *Different party-group alliances*

MW increases have emerged as a salient issue on which Fidesz and PiS have tried to capitalize electorally. Polls suggest that most Hungarians and Poles have supported such increases. For example, after the Hungarian government proposed to increase the regular statutory MW by 15% and to reduce employers' contributions by 4% in 2017, surveys conducted by Századvég—a political foundation allied with Fidesz—showed that 93% of respondents agreed with the proposal (A.1-Napi.hu, 2016). In Poland, independent polls revealed that half to two-thirds of respondents were in favor of increases of the size promised by PiS during the 2019 election campaign (A.1-Super Express, 2019; A.1-Business Insider Polska, 2020). However, those same polls gave an indication of where political risks might lie: In Poland, only 34% of entrepreneurs supported significant MW increases while 44% opposed them (A.1-Business Insider Polska, 2020). Even in Hungary where the Orbán government has combined MW increases with contribution cuts, only 69% of surveyed companies agreed with this approach (A.1-Napi.hu, 2016), which suggests that many of them remained unconvinced by MW increases.

MW increases have represented both an opportunity and a risk for Fidesz and PiS because both parties have relied on extensive cross-class coalitions with small business owners, production workers, and service workers being overrepresented—versus managers being underrepresented—in their own electorates compared to the electorates of their most direct opponents, namely, the social-liberal MSZP-SZDSZ coalition in Hungary and the liberal-conservative Civic Platform in Poland (see data on the share of different occupational groups in main parties' electorates in [Supplementary Tables A.2.5 and A.2.6](#) based on [Simons, 2021](#)). Yet, if the policy positions of Fidesz and PiS were to be purely shaped by the social composition of their electorates, one should expect Fidesz to be more pro-labor than PiS and PiS to be more pro-business than Fidesz. Indeed, production workers and service workers—who should be winners from MW increases—have represented a greater part of the Fidesz's electorate (about 60% in the late 2000s and early 2010s—see [Supplementary Table A.2.5](#)) than they have in the case of PiS (about 41%–43%—[Supplementary Table A.2.6](#)). By contrast, small business owners—who should be losers from labor cost increases—have been overrepresented in PiS's electorate (about 18.1%–20.9%) compared to that of Fidesz (4.7% to 8.7%). Only a consideration of party-producer group linkages can explain why Fidesz has systematically offered more tax concessions to business than PiS has.

*Fidesz's alliance with the chambers of commerce.* The electoral risks associated with MW increases have clearly preyed on Viktor Orbán's mind. As the 2016 agreement was being negotiated, Orbán reminded public radio listeners that, in 1998–2002, he had raised the regular statutory MW from “less than 20,000” forint to “50,000 partly through personal decisions, because I was dealing with this issue even then” (A.1-kormany.hu, 2016). He immediately added that “according to some, this contributed to the election defeat, because it was too much for the entrepreneurs. We do not know whether this is true, but I have acquired experience that shows that, if we raise the minimum wage stepwise, it will have a beneficial economic effect. And we also know how to do it because we have done it once. So, what I want to say is that raising the minimum wage is now possible, but entrepreneurs are also right in that payroll taxes they pay are too high, the tax burden is too high.” Similarly, in a 2021 public radio interview, he observed that, after the 1998–2002 MW increases,

“we lost the [2002] election regardless, so raising the minimum wage alone does not bring political success” (A.1-Miniszterelnok.hu, 2021).

Back in the early 2000s, employers’ associations complained that the Orbán government did not offer sufficient compensations for MW increases (A.1-MTI-ECO, 2001b). Those complaints and Orbán’s 2002 electoral defeat pushed Fidesz to reduce its emphasis on MW increases in its electoral campaigns: Although its 2002 manifesto clearly highlighted its support for such increases (A.1-Fidesz-MDF, 2002: 5), the 2006 and 2010 manifestos no longer mentioned minimum wages and called for a “radical reduction of tax and contribution burdens” paid by employers (A.1-Fidesz, 2006: 4; 2010: 11). The 2010 Orbán government’s official “program of national cooperation” also failed to mention minimum wages, but, importantly, it featured two “cooperation agreements” signed with the Hungarian Chamber of Commerce and Industry (MKIK) and the National Association of Entrepreneurs and Employers (VOSZ), respectively, both of which mentioned tax reductions as a major priority for the new government (A.1-Országgyűlés Hivatala 2010: 41–42).

The VOSZ’s head, Sándor Demjén<sup>5</sup>—openly called on Hungarians to vote for Fidesz in the 2010 election (A.1-Fidesz.hu, 2010), but the relationship between Demjén and Orbán subsequently deteriorated (A.1-Zsidai, 2013). Among organized business, the Fidesz’s most stable ally has been the MKIK, which has been headed uninterruptedly since 2000 by László Parragh. Orbán and Parragh concluded their first “cooperation agreement” in 2001 (A.1-MTI-ECO, 2001a; see also Scheiring, 2020a: 234–237) and signed similar agreements in the run-up to the 2010, 2014, 2018, and 2022 parliamentary elections (A.1-MKIK, 2022). The MKIK thus played an important role both in mobilizing small entrepreneurs to vote for Fidesz (see also Parragh’s manifesto statement in A.1-Fidesz, 2010: 14) and in supplying policy ideas to the Orbán government with the Chamber describing itself as the government’s “most important partner in economic policy” (A.1-MKIK, 2013) and with Orbán regularly praising its “brilliant proposals” (A.1-Miniszterelnok.hu, 2021).

Fidesz never developed such links with organized labor. The MSZOSZ/MASZSZ, Hungary’s historically largest union confederation, has always been allied with the Hungarian Socialist Party (e.g., Labanino, 2020: 98). From 2010, the Orbán government increasingly favored two other confederations—the LIGA and MOSZ—in policy consultations (Olejnik, 2020: 187–188). Fidesz has had the greatest affinities with MOSZ (National Federation of Workers’ Councils), a union that has increasingly emphasized its defense of “Christian values” and has started advocating a “new type of trade union mentality” based on the maintenance of “labor peace” (A.1-Nagy, 2019; A.1-Munkasztanascok.hu, 2023). Yet, in contrast to his “cooperation agreements” with MKIK and VOSZ, Viktor Orbán never signed any agreements with MOSZ or any other union.

Orbán has had a clear tendency to bypass corporatist institutions and to politicize negotiations over MW increases so that his party and his allies in organized business could claim credit for the compromises they have struck. Thus, in 2011, his government replaced the tripartite National Interest Reconciliation Council (OÉT)—where minimum wages used to be negotiated by trade unions, employers’ associations (not including chambers of commerce gathered within the MKIK) and the state—with a National Economic and Social Council (NGTT). The NGTT enlarged its membership to NGOs, churches, artists, and chambers of commerce and would no longer have negotiations over minimum wages within its remit thereby leaving the government fully responsible for setting them. After union protests, the government created a new tripartite Permanent Consultation Forum (VKF) which only gathered social partners representing the private sector thereby excluding potentially more radical public-sector unions and, again, *not* including the MKIK as a social partner. After the VKF reached an agreement over MW increases in 2012, Viktor Orbán felt compelled to insist that “this agreement was not brokered by the government, but by unions and employers” and that he did “not want to take away this right [of setting minimum wages] from the

negotiating parties” (A.1-Orbán, 2012). But he also emphasized how his government facilitated the agreement by implementing the “unusual solution” of a government “undertaking a budget expenditure [in the form of social contribution cuts] in order to establish a minimum wage agreement.”

When sustained growth in the following years opened greater space for MW increases, Fidesz resumed politicizing the MW-setting process so as to claim credit for itself and its business group allies for wage-tax agreements. As the 2016 multi-year “wage and tax” agreement was being negotiated within the VKF, Orbán catered to his working-class electoral constituency and proposed a higher increase of the regular statutory MW than that advocated by trade unions. He argued that Hungary’s “lower middle class” needed to receive “higher recognition, more respect” and that “what is needed here is a government intervention, a bold, a brave decision that exceeds even the imagination of the trade unions and says that, people, it is possible to significantly increase the minimum wage” (A.1-kormany.hu, 2016). At the same time, both Orbán and László Parragh highlighted the MKIK’s—which was not a party to MW negotiations—own input in agreeing payroll tax compensations for MW increases. During the negotiations, Parragh claimed that “the government’s recommendation is the same as the chamber’s previous proposal, which called for the reduction of public burdens and the catching-up of wages” (A.1-Napi Gazdaság, 2016). Once an agreement was struck in the VKF, Orbán declared that “there is a community here that is not represented [at the VKF] and that will receive a very serious tax cut starting next year. These are small and medium-sized entrepreneurs. (...) it is a world whose voice is rarely heard because there is no association of industrialists to represent them. The Chamber [MKIK] might do this instead (...) we rarely talk about that stratum of over a hundred thousand people (...) I would like them to know that we were thinking of them” (A.1-Orbán, 2016).

The MKIK and the Orbán government bypassed the VKF even more openly in 2021. At a June 2021 event, Parragh himself suggested a significant increase in the regular statutory MW (A.1-Tóth, 2021). At that event, Orbán replied that “the HUF 200,000 minimum wage is on my horizon. In one or two steps, we will negotiate this with the *chamber* and the trade unions. Obviously, small and medium-sized enterprises need help for us to pay a high minimum wage. We can provide this in a single form, with a perceptible reduction in the taxes they bear. (...) So, I suggest to President Parragh that we take up the thread” (A.1-Orbán, 2021a; own emphasis). On the public radio, Orbán further insisted that “if a business cannot manage the burdens, including wage burdens, then it will lay off. So good intentions can easily lead to the opposite result. Therefore (...) an agreement must be made again with the Chamber of Commerce and Industry” (A.1-Miniszterelnok.hu, 2021). The government subsequently organized a “national consultation” survey where 94% of respondents supported the 200,000-forint MW thereby giving it greater popular legitimacy (A.1-kormany.hu, 2021). Before negotiations in the VKF even started, Parragh and Finance Minister Mihály Varga held a bilateral meeting and announced they agreed that SMEs should be supported with new tax compensations (A.1-Kiss, 2021b). VKF members vehemently denounced Parragh’s role in pushing for MW increases (A.1-Kiss, 2021a). By November, Orbán presented the official agreement struck in the VKF as the “success” of trade unions, employers’ associations and the government and, in the pre-2022-election context, he expressed his “trust in the wisdom of Hungarians” (A.1-Orbán, 2021b).

*PiS’s alliance with Solidarność.* Law and Justice was founded in 2001 after the collapse of Solidarity Electoral Action (AWS)—a coalition of Christian parties with roots in the Solidarity movement—that governed Poland together with the liberal Union of Liberty (UW) in 1997–2001. While the Fidesz had struck up its alliance with the MKIK in 2001, PiS only started actively wooing Poland’s business community from the early 2010s. It established personal relationships with various elite

entrepreneurs and managers with the help of a PiS-allied think tank—the Sobieski Institute—and of Mateusz Morawiecki—a top banker who became Minister of Development in 2015 and Prime Minister in 2017 (Naczyk, 2022). Yet PiS failed to link up with a business group in the way the Fidesz has with the MKIK. In fact, it struggled to shed its reputation as an anti-business party. During the 2015 election campaign, PiS's candidate for Prime Minister, Beata Szydło, had to insist that it was a “stereotype that PiS does not like business” (A.1-Osiecki, 2015).

Two years earlier, Jarosław Kaczyński had made damaging comments in a high-profile interview (A.1-Jabłoński et al., 2013). PiS's staunchly anti-communist leader declared that “in no small part, large and medium-sized businesses, but also small businesses have been a haven for people of the old [communist] system” and that this led many entrepreneurs to be “absolutely un-innovative” and to “live off the exploitation of workers.” Kaczyński called for the state to “force” employers to increase wages and said that there were “many methods” to achieve that, including minimum wages and “penalty taxes.” Kaczyński argued that “Poles earn too little, given the economic position of our country. They should earn more to increase demand and their quality of life. And believe me, this will translate into growth.”

The business group that has been closest to becoming an ally of PiS has been the “Federation of Polish Entrepreneurs” (FPP – Federacja Przedsiębiorców Polskich). The group was founded in 2015 largely at the initiative of Zbigniew Jagiełło (author interview with bureaucrat in the Ministry of Development, 11 July 2020), at the time chief executive officer of state-controlled PKO Bank Polski—Poland's largest bank—and a long-time<sup>6</sup> friend of Mateusz Morawiecki. The FPP joined the tripartite Council of Social Dialogue (RDS) in early 2021, but, strikingly, it regularly signaled its “moderate,” if not pro-labor, stance on various policy issues from the mid-2010s. For example, in 2018, together with trade union NSZZ Solidarność, FPP issued a common statement calling for a labor market reform that would, among other things, make earnings from all so-called “junk contracts”—civil law contracts leading to bogus self-employment—subject to social security contributions (A.1-FPP, 2018). In 2019, FPP also called on other employers' associations to start participating in hitherto totally inexistent sectoral collective bargaining (A.1-FPP, 2019)—a key demand of trade unions, especially Solidarność (A.1-Solidarność, 2015; A.1-tysol.pl, 2017).

Yet, even here, FPP has at times had tense relationships with PiS. One good example was when the PiS-led Morawiecki government was preparing its post-COVID-19 “Polish Deal” (*Polski Ład*) reconstruction program as part of which it increased the progressivity of Poland's tax system—while Orbán introduced a flat tax in 2010—and promised to increase public spending on an underfunded healthcare system to 7% of GDP (A.1-gov.pl, 2023). Noticeably, the Polish Deal hit the self-employed and small entrepreneurs by prohibiting them from deducting their own health contribution payments from their income taxes. During the program's preparation, the government also signaled its intention to lift a cap on social security contributions for high-income earners although that intention ultimately failed to materialize. As employer associations were complaining about tax increases, Kaczyński publicly stated that “cunning” employers tempted by tax optimization could “really lose out” with the Polish Deal while “the vast majority will gain, but such changes require money, so I would not reduce state revenues” (A.1-rmf24.pl, 2021). In response, the FPP stated that “Jarosław Kaczyński's statement dividing entrepreneurs into those who are honest and those who ‘live from cunning’ is both dangerous and harmful to hundreds of thousands of small and medium-sized Polish entrepreneurs. It is also unfair to foreign entrepreneurs who have invested in our country and have created hundreds of thousands of jobs” (A.1-FPP, 2021). So much for an alliance between PiS and organized business.

Historically, PiS's closest ally among producer groups has been NSZZ Solidarność. That alliance has always had electoral undertones. Having emerged bruised from its direct involvement in Solidarity Electoral Action (AWS) until 2001 (Ost, 2005: ch. 6), Solidarność subsequently insisted it should remain independent from political parties. Yet, from 2004 to 2005, it informally allied itself with PiS after a 2004 internal survey of the union showed that 75% of its members felt programmatic affinities with PiS and many activists insisted that it should have representatives in Parliament (A.1-Rzeczpospolita, 2004). Since 2005, Solidarność has seen many of its activists elected in Parliament via PiS's electoral lists even though the confederation never officially supported the party for parliamentary elections. However, Solidarność's regional bodies have regularly signaled their support for PiS. In addition, the confederation itself officially supported PiS's candidates for the presidential election—including Lech Kaczyński in 2007 and Andrzej Duda in 2015 and 2020—after signing “programmatic agreements” with the latter (A.1-Solidarność, 2015; 2020).

Solidarność has also often influenced the content of PiS's electoral manifestos with MW increases being systematically mentioned because of Solidarność pressuring its party ally. PiS's first manifesto did not mention minimum wages (A.1-PiS, 2005), but the next one boasted about MW increases introduced by the first 2005–2007 PiS-led government (A.1-PiS, 2007: 41–42). That government and Solidarność agreed MW increases bilaterally, that is, outside of regular corporatist dialogue, after the union threatened to call a general strike (A.1-Gazeta Wyborcza 2007a). Other unions and employers' associations denounced a “breach of the principles of social dialogue” (A.1-Gazeta Wyborcza, 2007b; 2007c). The next 2011 election manifesto only mentioned MW increases for specific professions (A.1-PiS, 2011: 168; 181), but this was at a time when Solidarność submitted its own citizen bill<sup>7</sup> on the issue to Parliament (A.1-Guza, 2011). The bill aimed for the statutory MW to reach 50% of the average wage via an automatic, over-proportional indexation of the MW in case of high growth. PiS supported Solidarność's bill, but, once it became clear that the liberal-conservative Tusk government would not pass it, PiS's next manifesto promised to “aim for” the MW to reach 50% of the average wage (A.1-PiS, 2014: 114). So did Presidential candidate Andrzej Duda in his 2015 programmatic agreement with Solidarność.

Although it has not initiated all of PiS's social policy initiatives—for example, universal family benefits 500+ or a “thirteenth” and “fourteenth” pension payment for retirees (Lendvai-Bainton and Szelewa, 2021; Meardi and Guardiancich, 2022), Solidarność has been highly supportive of them and has, for example, mentioned them in its programmatic agreements with Andrzej Duda (A.1-Solidarność, 2015; 2020). The need to finance such social policy initiatives also explains why PiS has had much less leeway to offer Fidesz-like tax compensations for MW increases. Solidarność's friendly, but firm pressure on PiS was also an important factor in leading the party to focus its 2019 election campaign on the “Polish model of the welfare state.” Indeed, when in early 2019 PiS prepared new social policy proposals for the 2019 campaign, Solidarność signaled that they were insufficient and that it would “hit hard” and even dismiss its leader, Piotr Duda, if PiS failed to up them (A.1-Fakt, 2019). With Solidarność and other unions having proposed during negotiations in the corporatist Council of Social Dialogue (RDS) to increase the MW to 2520 zlotys in 2020 (A.1-Rozwadowska, 2019), Kaczyński undoubtedly catered to its core trade union ally when he unexpectedly promised in September 2019 to increase the MW to 4000 zlotys by 2023 and, in the meantime, to 2600 zlotys in 2020. Something for something before an important election.

As the 2023 general election neared, Prime Minister Morawiecki met with Piotr Duda and agreed to increase the statutory MW to 3600 zlotys (below the 4000 that had been promised in 2019), Morawiecki declared that “this was NSZZ Solidarność's proposal. I can say that today” and he insisted that “we have solidarity in our blood, in our DNA” (A.1.-Kancelaria Premiera, 2022).

## Conclusion

Although Fidesz and PiS have been typically seen as sister parties, they have parted ways on a significant issue—labor cost increases—that has been at the intersection of several policy areas, namely, minimum wages, tax policy, and social policy. PiS has systematically adopted a more aggressive, worker-friendly approach than Fidesz has and has couched it in a developmentalist discourse on the modernizing effects of labor cost increases for Polish SMEs. We have related this divergence to the two right-wing populist parties' need to strike distinct *quid pro quos* with organized interests because of their having forged widely divergent historical alliances with such groups when defining and consolidating their core electoral focus. With comparative political economy having become increasingly polarized between an electoral politics and a producer group perspective (see also Hacker et al., 2022), the study of electorally motivated party-group alliances should help solve research puzzles in other geographical contexts and help bridge the divide between these two research foci.

For students of ECE's advanced peripheral growth models, a focus on party-group alliances certainly helps clarify a conceptual issue that has arisen in recent literature on the social policy-making and growth strategies of the PiS-led and Fidesz-led governments. Studies of PiS's policies have documented significant, albeit familialist, social policy expansions implemented by the party (Lendvai-Bainton and Szelewa, 2021; Meardi and Guardiancich, 2022) and have labelled its growth strategy as "developmentalist" (Naczyk, 2022) and as putting Poland "in a better position to upgrade and climb up the ladders of global value chains" than Hungary (Toplišek, 2020: 398). By contrast, students of Fidesz have clearly documented the party's workfare-focused social policy paradigm (Szikra, 2014; Szombati, 2021; Vidra, 2018) and have highlighted its *continuation* of neoliberalism in economic policy, its institutionalization of corruption, and crony capitalism as well as its lack of a developmental strategy for domestic SMEs (Ban et al., 2023; Bohle and Greskovits, 2019; Fabry, 2019; Scheiring, 2020a). This broader contrast in the social policies and growth strategies pursued by PiS and Fidesz undoubtedly has to do with the divergent coalitions the two parties have forged with organized labor and organized business.

With its emphasis on "solidarity" as a core value, PiS's Warsaw has at times felt closer to 1960s-style social-democratic Stockholm than to Orbán's "bourgeois" Budapest (Scheiring, 2020a). One should nonetheless be cautious not to overstate the contrast in the two countries' reform trajectories. For example, PiS has failed to deliver on a key demand of *Solidarność*, namely, the promotion of sector-wide collective bargaining. The lack of wage coordination in Poland prevents domestic unions to institutionalize Rehn–Meidner-style "solidaristic" wage compression and to become true agents of technology upgrading through Nordic-style "creative corporatism" (Ornston, 2013). Paradoxically, the strongest push for such coordination may come from the 2022 EU Directive on adequate minimum wages that the Eurosceptic Fidesz- and PiS-led governments both opposed and that requests EU members states to achieve 80% coverage of collective bargaining (Natili and Ronchi, 2023).

One should also not brush aside the possibility that reforms introduced by Fidesz in response to its "cooperation agreements" with the MKIK are "developmentalist" in spirit and might lead to technological upgrading and greater export competitiveness of Hungarian SMEs. Like the Erdoğan regime in Turkey (Doner and Schneider, 2020), Fidesz has given a prominent place to chambers of commerce in the skill formation system—an important ingredient of upgrading. With Parragh having been a director of the Hungarian Export-Import Bank since 2002, the MKIK has also closely cooperated with Hungary's development finance institutions (e.g., A.1-MTI, 2020). Subsidies from such institutions have most likely benefited Orbán's cronies, but, after all, authoritarianism and

systemic corruption did not prevent Korea from becoming a “developmental state” (Kang, 2002). Although democratic backsliding has been a tragedy for ECE citizenries, there is a real need for further, perhaps more detached, inquiries into the capacity of ECE countries’ institutional ecosystems to upgrade and de-peripheralize domestic businesses.

### Declaration of conflicting interests

The author(s) declared no potential conflicts of interest with respect to the research, authorship, and/or publication of this article.

### Funding

The author(s) disclosed receipt of the following financial support for the research, authorship, and/or publication of this article: This work was supported by the National Science Centre Poland [grant number 2020/37/B/HS5/00328].

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### Supplemental Material

Supplemental material for this article is available online.

### Notes

1. We contacted 2 PiS parliamentarians, 1 former PiS-appointed Minister, 1 former Fidesz-appointed Minister, and the representative of a Hungarian business group and never received responses.
2. In the rest of the paper, we refer to the *minimálbér* as the “regular statutory” MW while “minimum wages” stands both for the *minimálbér* and the “guaranteed wage minimum.”
3. Such jobs require at least a secondary school qualification or vocational training. The guaranteed wage minimum was introduced in 2006. By 2023, it affected circa 741,000 wage-earners versus 223,000 for the regular statutory MW (A.1-kormany.hu, 2023).
4. The employer rate varies because its accident insurance component differs by business sector.
5. Demján was a real estate developer and one of Hungary’s largest fortunes (Scheiring, 2020a: 245).
6. Jagiełło and Morawiecki were both active in the 1980s in *Fighting Solidarity* (*Solidarność Walcząca*), a radical splinter group—founded by Morawiecki’s father—of the Solidarity trade union.
7. Polish citizens have a right of initiative if they gather support of 100,000 petitioners.

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