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**Approaching the EU
and Reaching the US?
Transforming Welfare Regimes
in East-Central Europe**

JÁNOS MÁTYÁS KOVÁCS

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**ROBERT SCHUMAN CENTRE
FOR ADVANCED STUDIES**

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Transforming Welfare Regimes
in East-Central Europe**

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A Social Border?

According to a recent journalistic truism, the Iron Curtain that was dismantled in 1989 as a political and ideological frontier has since reemerged as an economic and social border. *Schengenland* protects itself from its Eastern neighbors with the help of import quotas and visa obligation, police buildup along the border and a blend of diplomatic arrogance and precaution. The truism is based on the identification of the new “police frontier” with a social border, more exactly, with a welfare cascade that ranges from the former Iron Curtain to Siberia. In the light of this assumption, the Iron Curtain remained a border beyond which social exclusion, human deprivation, poverty and criminality prevail. Probably, East-Central Europe can be still salvaged but the farther you move to the East, the more severe social crisis you find. Because this contradicts established European values, and – perhaps, more importantly – because of the need for protecting Western markets after *Osterweiterung*, one of the elementary requirements of the entrance examination to the European Union the ex-communist countries should meet is a quick and steady increase in their social performance levels.

As frustrating as it may be for Eastern Europeans, it is impossible to make this truism about the rich and poor halves of Europe questionable in the field of general social statistics. Of course, one could doubt its inherent geographical determinism (is Georgia socially more backward than Albania?) or point out those fields of social policy (e.g., family allowances), in which the shrinking „communist welfare state,, still provides more generous services than many of its advanced Western counterparts. Also, a thorough comparison of the general social performance of, for example, the Czech Republic and Hungary today with that of Greece or Portugal at the time of their accession to the European Community may reveal striking differences in development in favor of the ex-communist countries.

In this chapter I would like to cast doubts on the social border thesis from another perspective. The proponents of that thesis usually confuse performance indicators with regime characteristics and attribute poor performance to a particular welfare regime. This regime is frequently portrayed as a hybrid consisting of the relics of communist social policy and of a neophyte imitation of the US model of welfare. According to the implicit assumption, almost an axiom, Eastern Europe took resolute steps toward “Americanizing” its welfare regimes. The related accusation is, however, explicit: the ex-communist countries are committing a grave mistake by abandoning the “European tradition” in social policy and *thereby* preserving the Western frontier of the former Eastern Bloc as a border between more and less humane societies. They are combining the worst

of two possible worlds, welfare provided by incompetent and corrupt state bureaucrats with social myopia of the free market.

In what comes below I will try to show that:

1) New poverty, social exclusion, etc. in Eastern Europe is, to a large degree, a result of post-'89 economic recession. "Neoliberal" arguments are frequently used by local policy-makers to make virtue out of the necessity of introducing austerity measures in the economy. At any rate, in most countries of the region any "Americanization" of the welfare regimes has remained a rhetorical exercise rather than a powerful economic strategy.

2) The considerable drop in general social performance also represents a kind of "back to normalcy" process whereby the levels of welfare provision have been adjusted to the actual economic capacity of the new democracies during the first years of the transformation. Nevertheless, path dependency is strong, and, surpassing the stage of austerity, the ex-communist welfare states tend to recover in many fields and even radically liberal/communitarian reforms end with compromise and stalemate in the social sector.

3) As a consequence, while the fact of a social border cannot be disputed in real terms (though the gap between East and West is being reduced by the economic upswing in East-Central Europe), it would be difficult to identify that border as a demarcation line which also separates two essentially different types of welfare regime. Although occasionally Eastern European social reformers may make bolder experiments than their West-European colleagues in marketizing/privatizing certain welfare schemes, a.) these experiments are far from being irresistible under the pressure of the social legacies of communism, the daily challenges of the transformation and the requirements of European integration; b.) similar reforms have been initiated (also with mixed results) by a few West-European welfare states as well. Hence, a clear separation of regime types would be impossible even if they proved to be homogeneous on both sides of the former Iron Curtain. Given their heterogeneity in the West as well as in the East, the "border of models" may run, in a certain field of welfare and at a certain moment, between Great-Britain and Hungary on the one side and Germany and the Czech Republic on the other.

In crossing the real borders between the former Blocs in Europe in any direction, the traveller becomes a prisoner of new differential stereotypes of welfare such as "solidaristic versus socially irresponsible", "organized versus chaotic", etc., which complement the old one of "rich versus poor". These are based, in a way justifiedly, on visible and tangible indicators of welfare such as the number of

abandoned children, street beggars and tuberculosis patients or the measure of air pollution, the size of average old-age pension or the frequency of work accidents. However, if social policy analysts indulge in the preservation and multiplication of these indicators, they run the risk of elevating their differences onto a symbolic (almost mythical) level. To be sure, drawing symbolic borders which separate “us” and “them”, the “same” and the “other” in a strict moral hierarchy can easily become a self-fulfilling prophecy; a prophecy that may inhibit social innovation by exerting enormous pressure on the “unlucky” Eastern half of the continent to imitate the “lucky” Western one even if the latter represents only one of the successful development types in global context and its success has recently been questioned both from in- and outside.

If catching up with Europe is confined to sheer imitation, Eastern Europe may remain unlucky. By the time it copies any of the current welfare regimes of Western Europe, these regimes will not have probably been able to produce the same performance levels as they do today. While the European Union adjusts to the global competition of tomorrow (let us hope it will), the accession countries may adapt their social systems to those of the Union of yesterday and today and, as a result, may lag behind the world again. Therefore, the newcomers have to undertake the almost impossible task of satisfying the today’s conditions of entrance while preparing for those of tomorrow. Given the long building process, and later, the considerable inertia, of welfare institutions, Eastern European social reformers have no other choice than trying to have the entrance examiners of the Union accepted such welfare policies in the ex-communist states, which the same examiners would not yet put forward in their own countries. If the European Union is to tame global pressures among others in the social sectors, the accession countries are exposed to the changing proportions between “global” (which is not simply American) and “European” in the Union.

Disturbing Questions

The term “premature welfare state of communism” coined by János Kornai some time ago is widely discussed in East-Central Europe (ECE) today. Dedicated followers of free-market orthodoxy and nostalgic communists are making efforts to interpret the metaphor of the early-born baby according to their own preferences. While the former opt for active euthanasia, i.e., they would like to accelerate the death of the struggling baby, the latter try to keep the incubator working even if the baby has died. Between the two extremes represented by a few radicals there is an overwhelming majority of social scientists and policy-makers with diverse convictions who would be happy to find a viable combination of the two approaches.

Indeed, can the communist welfare regimes be transformed without falling into the trap of (a) conserving the statist, inefficient and pseudo-egalitarian character of the old system of social policy; (b) seeking new forms of welfare collectivism along the nationalist/populist "Third Roads" between capitalism and communism; (c) triggering popular discontent by dismantling the old welfare regimes too rapidly, in a haphazard way; and (d) targeting an end-state which has become unsustainable in the Western world during the past two decades?

These fairly disturbing questions become extremely annoying if one considers that the transformation of the communist social institutions and policies takes place in fragile new democracies, under the pressure of an unprecedented economic recession, amidst repeated privatization and marketization drives, in economies which have recently and vehemently opened up to global competition and are challenged by the vision of a near-term enlargement of the European Union. One can no longer disregard the related question: "to what extent are the emerging welfare regimes in East-Central Europe not only sustainable but also compatible with the European model(s)?"

In answering this question, one can hardly apply the convenient method of fixing, in a way or another, *the* European standards of social policy and examine to what degree the newcomers have approached it. The emerging welfare regimes in East-Central Europe are far from being identical and there has always been a variety of social policy models in Western Europe. In addition, the ECE experts do not find stable institutional arrangements in the West to copy but rather another reform process, the "domestication" of the classical welfare state(s). True, the general trends are not dissimilar: partial retrenchment, decentralization, marketization and privatization of public welfare services as well as an upsurge of the voluntary sector, that is, decreasing state involvement, are the main characteristic features of regulating welfare on both sides of the former Iron Curtain. Nevertheless, to tell if the two changing systems are likely ever to be harmonized is terribly difficult. Who would be willing to predict today whether or not in ten or fifteen years from now the post-communist welfare regimes will be compatible with the European standards of *that* time?

Theoretically, if one excludes the unlikely case of spontaneous perfect harmonization, where East-Central Europe catches up Western Europe without overtaking it in any respect, there may be two kinds of incompatibility. Despite any similarity of the two reform processes, either the Western or the Eastern part of Europe will happen to become in the long run less statist and more private (and/or "voluntary") than the other in terms of the welfare mix. To put it simply, either the EU or the ex-communist social regimes become more "North-American" (if the latter does not change in the meantime).

Currently, there is a growing consensus in the West about social trajectories in the ECE region. Unfortunately, this consensus has been forged under the influence of spectacular media images of societal polarization in Eastern Europe as a whole (e.g., Russian new-rich women in fur coats shopping in Paris versus children dying in a demolished AIDS clinic in Romania). Not only journalists but also many Western scholars assert that ex-communist countries are in a rush to jump over first the Scandinavian model of social protection, then the Bismarckian, the Beveridge-style and the South-European welfare systems to arrive in the world of US-type social regimes. If this is true, one should be prepared for the ironic situation, in which certain countries of the region will prove to be EU-incompatible in the future *not because they are still too communist-bound but because they are excessively pro-capitalist*.

For a long time, common wisdom was the following: East-Central Europe should be allowed to join the European Union only after a protracted phase of adaptation because of among other reasons its poor social performance in absolute terms. If the pro-capitalist – many observers will say, neoliberal – experiments succeed, while the similar West-European reforms slow down or get stuck (*horribile dictu*, if Europe creates a “social fortress”), will these experiments not constitute an obstacle as well?

The Dialogue of the Deaf

It was with these questions that I have tortured my colleagues, labor and social policy experts in the Czech Republic, Hungary, Poland and Slovakia, since 1992, the year in which we launched the *SOCO* (Social Consequences of the Economic Transformation in East-Central Europe) program at the Vienna Institute for Human Sciences. During the past eight years, I have assisted the birth of many dozen research projects and a large empirical survey within the framework of this program, attended workshops and conferences, edited volumes on the transformation of the communist social systems but have not become a veritable expert of welfare theory or policy.¹ I remained a student of current economic and political thought in Eastern Europe who is interested in the reemergence of the “social question” in the region, and in the ways local social scientists and policy-makers cope with the problem of imitation versus invention in designing welfare transformation programs.

To tell the truth, the intellectual attraction did not seem too great in the beginning. In exploring the social policy discipline in the region, one finds oneself on a battlefield with political mines lurking everywhere and antagonists frequently using a highly combative, ideological language against each other, which

camouflages the empirical facts of the underlying social processes and the research techniques applied to understand these facts.

By and large, the cast of the battle consists of liberal-minded economists on the one side and sociologists with social-democratic leanings on the other. The roots of their conflict reach back to the period of reforms under late communism, during which they drifted into a "state versus market" debate of a rather scholastic nature. At that time, the pro-market economists (market socialists, as they were called) asked the social policy experts to prove that their interventionist, social-protectionist claims (a reaction, by the way, to the falling welfare performance of the planned economy) were different from those made by the communist hard-liners. The sociologists felt offended by this accusation and responded to it with a counter-attack by simultaneously alluding to the "*laissez faire* fundamentalism" of the market socialists and refuting state dirigism. It is not by chance, they said, that from time to time the communist governments are ready to accept "social-darwinist" programs suggested by the "marketeers": this shows the common *Bolshevik* (i.e., inhuman, dictatorial) roots of the advisor and the advisee. It may well be that the conflict started the other way round and sometimes intersected the disciplinary frontiers. However, one thing was certain. The unfolding controversy reminded the observer of a dialogue of the deaf, in which mutual recrimination concerning social indifference of economists versus economic ignorance of sociologists frequently replaced reasonable arguments.

The conflict between the two groups, which had partly been repressed by their internal solidarity against the communists, erupted in 1989 causing huge waves of emotion all over the region. It should have originally revolved around day-to-day problems of crisis management (e.g., what kind of welfare services/expenditures could or should be reshaped, curtailed or deleted to reduce the overall budget deficit in the short run). Instead, it was elevated onto the level of social philosophy. Here "state" and "market" as such were confronted again: the sociologists stressed how expensive the market is in terms of social costs and downplayed government failures while the economists argued the other way round instead of comparing the social costs and social benefits of both institutions in a detailed analysis.

On the eve of the Eastern European revolutions, most of the social policy experts hoped that in the future there would be enough room for a kind of "sound interventionism".² They would not have to face incompetent, arrogant and pitiless state bureaucracies any longer; the welfare programs could be reconstructed to become more just and efficient at the same time; and certain welfare schemes would be managed by the civil society on a non-profit basis rather than marketized and privatized, and streamlined rather than abolished. The

“communist welfare state” should be dismantled, they believed, but the welfare state must be preserved or – more exactly – created anew following Scandinavian rather than any other Western European patterns, not to mention North America.

Now imagine this group of welfare reformers who in 1989 found themselves confronted with a great number of economists in their countries who eagerly wanted to launch strict stabilization programs, which were complemented by ambitious plans for marketization and privatization. Moreover, these economists were supported by an influential choir of foreign advisors, Western policy-makers and leaders of international economic organizations. Occasionally, they applied a rather low-quality neoliberal rhetoric to justify austerity. This mix of restrictive vigor, deregulation drive and neoliberal rhetoric prevailing in the first years of the post-communist transformation came as a real culture shock for the welfare reformers of East-Central Europe. As a first reaction they fell back on a routine language and continued demonizing the former economic reformers (now transformers) as “Chicago Boys”, “Wild-East Thatcherites”, etc., who represent the same kind of social indifference as before – now as agents of an “international neoliberal conspiracy”. To substantiate this theory it was enough to look around and see old beggars, child prostitutes and depressed unemployed in the streets, as well as closed kindergartens, encroaching slums and crumbling hospitals throughout the region. “This is Latin-America. You are responsible!”, pointed the social policy expert at the economic transformer. “Do you long for the *ancien régime*?”, so went the response, and the dialogue of the deaf continued. Incubator or euthanasia?

Did Anything Happen?

Two and a Half Narratives

Today, the antagonists are probably less strained and determined. Economic recession is over in Hungary and Poland, and the recent austerity measures in the Czech Republic were relatively unsevere. Many of the major steps toward welfare transformation ended with a compromise or were postponed. The welfare sectors display considerable inertia and neither the rhetoric nor the actual programs of the post-communist governments vary greatly. “New social democracy” in the West also offers the warriors a sufficient dose of relativism and pragmatism to bury their hatchets.

As regards the scientific environment of social transformation, hundreds of new research projects are underway; the involvement of Western scholars of a variety of persuasion result in more sophisticated techniques of survey and analysis; East-West studies are complemented with East-East comparisons;

normative fervor is counterbalanced by detached explanation; interdisciplinary research is ascendant and rival tendencies appear *within* the individual disciplines. Consequently, ten years after the Revolution, one may hope that the bilateral conflict described above will be moderated by cross-cutting the cleavage with the help of new insights, which mediate between the dominant discourses or transcend them for good.

Nevertheless, before the bright future materializes, it would not be too bad to know what has “really” happened in the welfare sectors of East-Central Europe in the course of the past decade. Given the still rather passionate moods in social sciences throughout the region and the lack of comprehensive and comparative works³, it is extremely difficult to reconstruct the most recent history of welfare in the ECE states. Let us first see how the “insiders” interpret the course of this history. Below I will focus on three (more exactly, two and a half) competing narratives of welfare development: for the sake of brevity, they will be named the “*leaping in the dark*”, the “*marking time*” and the “*muddling through*” stories. All of them have something to say about the point of departure of post-communist welfare transformation, the process of transformation itself and its probable destination.

In what follows, I will first try to retell those two stories that originate in the conflict between economic and social reformers. Then the main lines of a third, experimental “half-narrative” will be drawn. Finally, I will briefly discuss how the “what has happened” question relates to the problem of EU compatibility.

Needless to say, the narratives are my constructions and they are probably sharper than many of the authors (“Easterners” and “Westerners” alike) to whom I refer as representatives of the given discourse would like to see. If not stated otherwise, what comes below is *their* text in a stylized form, though some of the references include authors who share only one or two conclusions of the given narrative. Three countries of East-Central Europe – the Czech Republic, Hungary and Poland – are chosen as backgrounds to the stories. The examples pertain to quite a few important fields of social welfare with the clear exception of education. The narratives are reconstructed around two main topics: the general performance and the institutional design (mix) of the welfare regimes. The quantitative information, on which the individual narratives are based is to be found in the references and the chapter by Daniel Vaughan-Whitehead in this volume.

“Leaping in the Dark”

According to this narrative, since 1989 a fundamental – and appalling – change has taken place in the region concerning both the performance and the institutional character of the welfare systems.⁴ Following some years of stagnation, public provisions have been drastically reduced (a) by narrowing the scope and the period of eligibility entitlements (sick pay, unemployment benefits, family allowances, pensions, etc.), that is, by partly abandoning universalism for targeted transfer payments, (b) by fixing the statutory minimum wages or pensions too low and linking certain benefits to it; (c) by lowering the quality standards of the services; (d) by introducing the principle of private insurance (health care, old-age pensions) or (e) simply by inflating away the real value of the government transfers (pensions, family allowances, etc.). With the privatization of state enterprises a vast number of health clinics, kindergartens, apartments and holiday homes, i.e., a considerable share of public welfare provision disappeared almost overnight.⁵ The remaining social services became more expensive through curbing or terminating the government subsidies, establishing co-payment schemes (day care, medicine, hospital treatment, etc.) and taxing certain transfers. Also, public expenditure on welfare has not grown through decentralization:⁶ although the local administration units get relatively more funds now than before, but the sum total of local and central expenditures on social services was not increased.

What is emerging is a new (more exactly, old) paradigm, a kind of a “liberal” or “residual welfare state” as Gosta Esping-Andersen or Richard Titmuss described it.⁷ Communism left behind a “serviced heavy, transfer light” welfare system⁸, which is being transformed into one that provides significantly less services while not increasing the government transfers proportionally (or indeed also decreasing them). After world war II, the communists in East-Central Europe had inherited Bismarckian style social arrangements; while expanding and deepening them, they reinforced the statist-hierarchical components of these arrangements. When communism collapsed, the baby was thrown out with the bath water: instead of democratizing⁹ and partly liberalizing public welfare in moving toward the Scandinavian models or at least toward *Soziale Marktwirtschaft*, i.e., instead of keeping the “Western” features of the social system and throwing away “Eastern”-type pseudo-paternalism, the essentials of state-financed and state-provided welfare were made questionable.¹⁰ This is retrenchment¹¹, nothing else. Yet, the state cannot be replaced in some of its social policy functions (organizing redistribution on the national level, granting social rights, etc.) and the welfare sectors, if left alone, suffer from a series of market failures. The state is not to be venerated but used carefully.

Following 1989, most economic transformers named welfare the main culprit of the alleged public overspending. Obviously, expenditures also could have been cut back in other chapters of the state budget. Nevertheless, the post-communist governments exploited austerity to “educate” the citizens¹² (for short-term savings (e.g., consumption of medicines) and long-term calculating behavior (e.g., private pensions)) by forcing them to accept the amorphous and overlapping principles of individual responsibility, self-reliance and self-insurance. Originally, the cutbacks were said to be provisional but they got built into the new welfare mix. The education strategy was skillfully based on the fact that communism had immensely discredited the ideals of equality and solidarity as well as of state intervention in general. The local educators and their Western advisors were even more zealous and met less resistance in the ECE countries than in the West, and their references to austerity and economic rationality often disguised the vested interests of certain lobbies, sheer ideological commitment and/or lack of expertise. Moreover, because the subject of individual responsibility was loosely defined, the principle of self-reliance offered the new governments a legitimate opportunity to shift part of the social burdens (child care) onto the families. Here neoliberal arguments prepared the soil for conservative solutions which forced women to leave the workplace and return home.

Undoubtedly, the “communist welfare state” had safeguarded the principles of universal coverage and free services only on paper¹³. Yet, if the transformers violate them each and every day, and, in addition, they touch on both taboos with the pride of a doctrinaire, then nothing can stop the transition countries on their way leading to the slums of Rio de Janeiro. Health service is the horror example throughout the region. Although social security contributions have not been reduced, one should pay dearly for a bed in hospital. But in order to be operated in time, one should still bribe the doctor, like under the old regime, to jump the queue. If one really wants to heal, it is highly recommended to bring along toilet paper, food and medicine to the hospital, not to mention a well-trained relative who would replace the nurse. In the optimal case, the Soros Foundation will have equipped the hospital with high-tech machinery, there will be only a few well-to-do people (including foreigners) standing in line and, following the surgery, one will not get a bad cold lying near a broken window.

Besides abandoning universalism and the principle of free services, there was another symbolic gesture of utmost importance. The doctrine of statutory social/positive rights (such as the right to work) was practically renounced by avoiding any definition of the object, the extent and the institutional setting of public welfare responsibility in the new constitutions of the region. The authors of these basic laws did their best to formulate the state’s responsibility for social protection of the citizens in a way to exclude future accountability.¹⁴ Under

communism, these rights were not enforceable because democracy was suspended; today, paradoxically, it is democratic parliaments that hinder their concretization.

The social spheres that were evacuated by the state have not been refilled by private (non-profit or for-profit) initiative. The mushrooming of non-governmental welfare organizations in East-Central Europe must not mislead the observer. They are either low capacity/quality substitutes for public services or favor the rich; they serve tax evasion purposes and expropriate public money or charge exorbitant prices or – and that is the most likely case – die fast. Private health insurance and pension schemes, the two major “innovations” of the new, mandatorily-mixed welfare in the region, are probably less efficient than the system of publicly financed and state-managed social security and certainly more unjust and risky. The privately funded schemes privilege the already privileged. In the case of the pension system, for instance, the private/public combination favors those with middle and high incomes and secure jobs who have not retired yet.¹⁵ In other words, the principle of individual responsibility prefers the strong to the weak. Thereby, even partial privatization of financing health care and the pension system confuses most links of solidarity between generations and social strata and contribute to the growth of income inequalities and eventually to the disintegration of the fabric of the society. The emerging welfare mix is getting increasingly biased toward the middle class (the actual voters and taxpayers), particularly toward its upper echelons. This process is defended by means of the utopia of an unlimited downward expansion of the middle strata of society. At the same time, the rich are allowed/prompted to opt out from certain public welfare schemes, which makes them irresponsible for the functioning of the whole social system.

Welfare policy degenerates into poor relief with social assistance and workfare becoming the main instruments of social protection. The “truly needy”, the “deserving poor”, must undergo humiliating and expensive means-testing procedures and may long for the non-existent charity offered by the new elite. Meanwhile, whole groups (disabled, homeless, long-term unemployed, elderly with low pensions, large families, ethnic minorities, chronically ill, inhabitants of declining regions, etc.) fall through the ever growing holes of the safety net. New forms of social exclusion and deprivation (mass unemployment, child poverty, malnutrition, prostitution, etc.) are generously tolerated by the state; deep poverty has become legitimate again; and excessive polarization between an ever growing underclass and a thin layer of the new rich is even applauded. At any rate, the widespread use of the metaphor of “social safety net”¹⁶ reflects the cynical attitude of the transformers: one should not offer each citizen a protecting rope or a safety belt when performing acrobatic stunts in the circus of life; it is quite

enough for the society to prepare for the case if some of them (those who tried to perform but could not) fall down; the others, the “undeserving poor”, may fall through the net.¹⁷

As a result of the general social decay, in East-Central Europe most sociobiological indicators ranging from life expectancy at birth to the frequency of old and new diseases deteriorate sharply. On the average, people have less children, become sick more often and die younger, and while being alive, are poorer and enjoy less social safety. Owing to the neoliberal course of the transformation, the region has lost altogether hundreds of thousands of human lives.¹⁸ A good part of them might have been saved if the transformers had shown courage in real invention instead of merely copying ambiguous social arrangements such as the Chilean pension schemes. For instance, the fresh start in 1989 would have provided an excellent opportunity for the new social policy makers to introduce a basic income regulation in the ECE countries to prevent the escalation of poverty.¹⁹ However, they preferred the revitalization of old stigmas to enacting new citizenship rights for the needy.

What about the new challenges for the declining ECE social systems, which go beyond the standard tasks of transition to capitalism? The “communist welfare states” were more or less able to cope with the social consequences of global competition and communication (migration, drug trafficking and international crime in general) until they managed to close their borders with police forces and non-convertible currencies. These, of course, led to huge welfare losses in other fields. However, their successors do not even make attempts at taking the new challenges seriously. Today, welfare policy-makers of the region tend to delegate the new social troubles to the sphere of responsibility of the young and weak ngo sector. Moreover, instead of designing major public assistance programs for migrants and launching long-term prevention and rehabilitation initiatives for drug addicts, they build new fences at certain frontiers and increase punishment norms.²⁰

With some decentralization of public welfare administration and the development of Janus-faced non-governmental organizations, social citizenship under post-communism has reached its pinnacle in terms of democratic rights. Irrespective of their political colors and the will of their voters, governments in East-Central Europe tend to implement an aggressively neoliberal course of economic transformation. As a consequence, the only institutions which remained to represent the welfare interests of the citizens are the labor unions. However, they have never had strong (or – in the case of Poland – lost much of their) popular support, could not manage to stabilize their relations with the new social-liberal parties, and are incessantly blackmailed by the threat of unemployment

and exposed to the malevolence of the legislators. Hence the citizenry, fragmented as it is, has to passively assist the fundamental deterioration of its own welfare situation. Meanwhile, as substantiated by a series of opinion polls and deeper sociological surveys, the same citizenry would prefer Swedish-type (publicly guaranteed) safety to (privately owned) freedom if they were asked by their own parliamentary representatives.²¹

What has happened is indeed a leaping in the dark both figuratively and literally. The region has jumped into uncertainty and exposed itself to the “dark forces” – call them as you please: global capitalism, monetarist dictatorship or international economic organizations.²² Although the proponents of this “Great Leap Backward” are firmly convinced that, in jumping over Europe, North-America will be the ideal final destination, in the end they will inevitably arrive not in the Northern but the Southern part of that continent. The welfare regime of the US without the strength of its economy and the community ethos of its citizens leads nowhere else. In any event, in leaving behind communism and hoping to have the opportunity to join a “social Europe”, that is, a whole new civilization that combines safety with freedom on the highest possible level, it would be almost as frustrating to every person with social conscience as the Latin America option if he had to reconcile himself with the philosophy of the US-type quasi-welfare state.

Finally, those who in East-Central Europe insist on the concept of minimum state in welfare transformation run the risk that a coalition of nationalists and unreconstructed communists expropriate the idea of social protection. Thus, in trying to minimize “welfare waste”, the neoliberal transformers may generate the largest social costs by jeopardizing the new democracies.²³

Marking Time

This story is based on a deep frustration contrasting the disillusionment of the previous narrators. According to this response to the “what has happened” question, the really appalling development is that there is no development: East-Central Europe has not yet been able to leave behind the “communist welfare state”. The region is still marking time at the start line. It is far from heading toward Latin America but may eventually arrive there if it continues to insist on the utopia of providing welfare irrespective of the actual economic conditions of the post-communist transformation. It is not the alleged “neoliberal haughtiness” of economists but a sort of socio-political myopia that will cause social decay and political turmoil.

Let us suppose for a moment that a permanent and general decay of welfare has really occurred in the ECE countries both in terms of the performance and the style of the social system. Even if this assumption were correct, one ought to ask oneself, say the narrators of this story, whether the allegedly comprehensive deterioration

1) is a clear consequence of liberal transformative policies or has much deeper roots stretching into the *ancien régime*. If the latter is true, one is dealing with an optical illusion: at least part of the decay did not happen after 1989, it only became visible in the new democracies (poverty, unemployment, etc.). It may also be that in certain fields the transformation has even slowed down the deterioration of social performance in the region that had begun back under communism. And conversely, what decay is currently visible (due to the lobbying power of certain groups such as pensioners or medical doctors) is not necessarily the greatest hardship²⁴.

2) is characteristic of all ex-communist countries or primarily of the non-Central-European ones²⁵. If the latter is true, one ought to examine those circumstances (differences between pre-communist welfare traditions, the levels of communist welfare provision, and – above all – the strategies of post-communist economic and political transformation) that explain the relative softness of the “social crisis” in the ECE region. Otherwise, one cannot exclude that “neoliberal radicalism” may have contributed not only to the dismantling of old welfare arrangements but – through stabilizing the economy and restarting growth – also to the recovery of social transfers and services.²⁶

3) was really generated by “neoliberal zealots”, “obsessed monetarists” etc., or simply by ordinary economists who do have “social conscience” but can count as well. If the latter is true, their aim was not to suppress welfare spending for good but to adjust it realistically and temporarily to the overall performance of the economy, in other words, to cut back social expenditures now in order to raise them later on. Austerity was not a pretext for orchestrating a neoliberal conspiracy, so why would Latin-Americanization be inevitable? (By the way, is Chile not a Latin-American country?). True, adjustment is also tantamount to restructuring and streamlining but no one has claimed that East-Central Europe must jump over the West-European models of the welfare state.

4) is an accomplished fact that has been corroborated by reliable statistical analysis based on comparative longitudinal surveys made in the respective countries, or a strong working hypothesis, which builds on

fragmented statistics, expert estimates and a speculative blend of street-level observation, intuition, anecdotal evidence, opinion poll results and political discourse analysis. If the latter is true, one cannot tell whether or not the gloomy predictions will materialize. Moreover, these predictions may justify themselves: if politicians accept them in fear from social unrest and push up welfare expenditure, they may eventually destabilize the economy resulting in actual welfare cuts.

5) would be resolutely blocked by the citizens via more public spending or – provided they are aware of the real costs of social expenditures *they* have to cover in the form of taxes and social security contributions – the same citizens would opt for a “lower tax – higher private insurance” alternative. If the latter is true and the citizens could be liberated from the prison of fiscal illusions²⁷ concerning “free” social services and helped to recognize that the taxes are redistributed in a way that has not been in fact negotiated with them, then it will be difficult for many social-policy experts to refer incessantly to *the* people who yearn for a much greater protection by the state even if this results in some loss of their liberties. In any event, sociological surveys conducted in the region repeatedly show that the people are more inclined to individualist than collectivist values²⁸.

Those who tell the “marking time” story are often too self-confident to ask such polite questions. Like their antagonists, they have deep-seated (and not completely unfounded) reservations about the other. In contrast to the accusation of “social negligence”, they discover in the minds of their adversaries a large dose of nostalgia with regard to the actual welfare achievements of communism. Apparently, they say, the others have forgotten that the “communist welfare state” was not only authoritarian and hypocritical but also monolithic and wasteful. In other words, it not only escaped democratic control and broke its own promises but also banned pluralism, that is, competition within the welfare sectors, and used resources lavishly.

Now, this inherent inefficiency of the Soviet-type welfare state had to a large degree contributed to the economic decomposition of the communist system. Why carry along that burden to post-communism?²⁹ Why paralyze state budgets for many years to come? Why make false promises any longer? Why expect the early-born baby to be as strong as those who had the privilege to prepare for life for nine months? *Quid pro quo*: the trade-offs cannot be disregarded.³⁰ Welfare expenditure competes with other sorts of public spending and originates in taxation. Hence, any restructuring in favor of welfare in the state budget or any rise in social spending may retard economic growth, generate unemployment, force the citizens to enter the underground economy (in which, by

the way, they are unprotected), etc. – thereby reducing, in the last analysis, the tax base of future social provisions. In this way, we can easily hurt those whom we wanted to help initially. Why would a fiscal crisis be better than a social one?³¹ Why not accept short-term hardships in order to avoid medium-term social chaos? In any case, at a certain point one has to deactivate the time bombs left behind by communism: during its last phases, welfare entitlements were simultaneously extended and compromised by falling standards of provision; this gap generated high expectations, and currently the citizens demand the new governments to comply with the obligations made by the old ones.

Furthermore, in East-Central Europe public welfare spending traditionally implies the empowerment of extremely costly, unprofessional and corrupted state and corporative bureaucracies. Health care is perhaps the best example not only for horror stories about service delivery but also for invulnerable vested interests of such bureaucracies (cf. empty hospital beds, idle personnel, repeated diagnoses, etc.).³² Privatization of the welfare sectors (or their pluralization in general) is not dictated by ideological fanaticism. Like in the case of other public sector activities, the state administration inherited from communism must not be entrusted to carry out major welfare programs until it goes through the purgatory of market competition. Paradoxically, the welfare state should be rolled back in order to create efficient and clean public welfare again. Until then, it remains risky to offer the state administration the money of the taxpayers because it tends to expropriate and waste part of it and alter the rules of using the funds according to the changing exigencies of the political game.

Yet, if one casts a glance on comparative data, it comes as a surprise that a.) in the course of an unprecedentedly deep recession in the first half of the 1990s, the ECE countries managed to increase public social expenditures relative to GDP; b.) they have introduced a couple of new welfare provisions (unemployment, child care) and did not abolish any from among the major social transfers and services of the former regime; c.) while reducing social spending in certain fields (price subsidies, social housing), they succeeded in maintaining (health care) or raising it in others (pensions, social assistance); d.) thus, what happened during the second half of the 1990s was closer to a stagnation than to a dramatic fall of the share of welfare expenditures; e.) in the course of the past ten years, East-Central Europe has undoubtedly descended from the level of Scandinavian welfare states in terms of the ratio of social spending to the GDP but has not yet reached the level of the less advanced OECD countries, not to mention that of the comparable middle-income countries in Asia and Latin-America (in which – due mainly to differences between the pension systems – the ratio is at least twice as low as in the ECE region³³); – what else is this than



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**Approaching the EU and Reaching the US?
Transforming Welfare Regimes
in East-Central Europe**

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ADDENDUM

Please insert after p. 32

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marking time in the transformation of welfare regimes? There is, however, much – less circumstantial – evidence to support this thesis, say the narrators.

However, first a word of caution is needed.³⁴ In the beginning, welfare spending might rise because certain kinds of public expenditure that had been put under different headings under communism (e.g., enterprise level social services) became parts of the social budget (local welfare provision). Further, it may well be that in absolute terms social provisions dropped with the GDP (though by and large, the 1989 levels have been reached by now), and probably more people compete for almost the same pool of public transfers and services than before. Hence, the average standards of public welfare provision fell in certain fields (unemployment benefit, social assistance) – a reason for anxiety indeed. Nonetheless, even these falling standards are too high in relation to the economic potential of the ECE states. More importantly, the large drop in price subsidies of basic goods at the very outset of the transformation was offset by a surprising increase in public pensions and a less surprising rise of expenditure on social assistance. (*Nota bene*, medicine, rents, utilities, etc. have remained heavily subsidized until recently.)

Public spending on pensions, currently the largest item of social expenditure, grew primarily because the chances for claiming early retirement and qualifying for disability pensions have not been significantly constrained (cf. lax regulations, fraud and the aim of curtailing unemployment), and the new governments were eager to buy off the pensioners as voters³⁵ with lucrative indexation techniques, growing pension-to-wage ratios and a slow increase of the unusually low retirement age. Similarly, in terms of family allowances, the policy-makers could not help yielding to the nationalist/pro-natalist pressures also inherent in the communist tradition and did not scale back the main transfers in this field. (If they nonetheless tried to trim the provisions – cf. the austerity package in Hungary in 1995 – , they first bumped into social rights defended by the constitution, then into voters' preferences.³⁶) Also, enterprise-level social policy has not disappeared entirely: part of it was taken over by the new local authorities and private firms.

As regards social assistance, access to unemployment benefits has indeed been made more stringent as years passed, and the same applies to poor relief programs. Nevertheless, despite the fact that certain segments of the population suffer in many ways from economic transformation in general and the restructuring of welfare spending in particular, it would be too much to speak about overall impoverishment (let alone, pauperization) in the ECE region.³⁷ Here poverty is rather shallow: the typical poor person is situated just under the poverty line, fluctuates between the "poor" and the "not yet poor" position, and

with the help of an upswing of the economy (and the trickle-down effect) he may leave the bottom of society rapidly before getting stuck in the underclass. The indicators of social polarization in East-Central Europe are still well below those of the most egalitarian OECD countries.³⁸

So much about (to put it euphemistically) the path-dependent performance of the new welfare arrangements. Now let us see whether time also stands still in the world of regime change. As far as universal free coverage is concerned, the targeting of provisions is not sharp and precise, means-testing remained an exception to the rule and co-payment is still minimal as compared to the market price. If these techniques have been introduced at all, they were loosened up soon afterward. Accordingly, the pension system, health care and family allowances (not to mention education) continued to be biased toward the well-to-do. The process of denationalizing the welfare sectors has proven to be protracted, partial and uneven (health care in the Czech Republic, pension schemes in Hungary): private insurance is under heavy state regulation; the share of non-public delivery and financing remained small and did not attain a critical mass within welfare activity as a whole.³⁹

To sum up, welfare sectors in East-Central Europe belong to the few relics of command economy with all its dominant features such as overcentralization, waste, rationing, shortage, paternalism, rent seeking, corruption.⁴⁰ Private/civic initiative still plays a minor role and freedom of choice is severely constrained. Under the pretext of the solidarity principle, excessive redistribution takes place, which favors the middle strata at least as much as those in need. The whole social system is non-transparent, complicated, full of exemptions and irregular procedures. It relies on a simplistic tax-and-spend philosophy (it is still a giant pay-as-you-go system with limited savings), which continues to breed free-riding (tax evasion). This in turn results in repeated tax increases, the aim of which is to keep the welfare promises embodied in untouchable but unaffordably broad entitlements. Higher taxes lead to an upsurge of parasitism – a vicious circle that was already well known under late communism. As a consequence, self-reliant behavior cannot break through the routines of dependence culture; learned helplessness and “public protection from cradle to grave” type expectations prevail; the premature welfare state goes on debilitating its clients. It distributes alms instead of offering chances to work. Is this a residual welfare system? Those who constantly talk about the social costs of the transformation (and hardly mention its benefits)⁴¹ and panic about Americanization can sit back and relax: alarmism is needless. This is not yet a “market economy without adjectives”, to use the favorite term by Václav Klaus. As regards the social sectors, we are still flirting with a Third Road between communism and capitalism, which – unfortunately – can bring us to the Third World. Let us panic now.

Muddling Through

Let me continue with a personal note. Thus far, I did my best to reconstruct a dichotomy without the ulterior motive of comfortably situating myself at equal distance from the conflicting parties. Strangely enough, both of them are easy to support and reject as well. While occasionally my heart is close to the first narrative, my brain of an economist would rather agree with a moderate version of the second. The third story, which has virtually no past in the communist era, is understandably less coherent than the first two. Although it borrows from both of them it places itself outside their lasting controversy. It would be misleading to believe that this half-narrative differs from the others only in terms of a detached, deliberately non-normative interpretation of welfare history in the ECE countries over the last decade. The narrators of this "muddling through" story tend to scrutinize each and every small technical detail of the emerging welfare regimes pedantically. Thus, they have good chances to contribute to an image of social transformation in East-Central Europe, which is perhaps less spectacular but more realistic than the other two.

In essence, this pedantry rests on two pillars of evolutionary pragmatism:

*Institutional inertia and the value of incremental change.*⁴² In contrast to the intense messages of the above narratives ("stop changing!", "start changing!"), nothing dramatic has happened: neither too much nor too little. It is equally futile to fear and to expect revolutionary changes or Grand Transformations. What has taken place, however, is a great variety of "small transformations" of key importance.⁴³ A whole series of new organizations have been created for public management of welfare or for private/civic social provision both on central and local levels. Their interaction may result in strong institutional relations safeguarded by the rule of law as well as by new individual strategies and public awareness. At the same time, old institutions, no matter if they are embodied in organizations (ministries for social affairs, labor unions, hospitals) or in policies, routines, values, etc. (propensity for centralization, corruption, forced solidarity), may show immense resistance to reform. At any rate, gradualism would be desirable, even if it were not induced by institutional inertia, because of mounting uncertainty concerning the end-state of the transformation process: which model of the welfare states should East-Central Europe choose from the ever-changing Western menu? Welfare regimes are extremely complex institutions, experimentation is therefore no evil. One should be prepared for slow progress with stop-go cycles in the course of the trial and error procedure or sheer improvisation. Minor moves, symbolic/creeping changes can accelerate, add up and become irreversible but they can also burn out prematurely.⁴⁴

For instance, symbolic changes such as even a partial renunciation of sacrosanct principles of the old regime (e.g., universalism, decommodification, all-encompassing solidarity) may prove to be a first push in the reorganization of the dominant philosophy of welfare policy. If the rearrangements within the public welfare budget (e.g., between price subsidies and social assistance, or central and local social services) or the moderate structural shifts between public and private initiative point in the same direction, and if these partial changes are synergetic and attain a critical mass, they may become comprehensive and irreversible. In this case, one may start considering whether or not a new welfare model is coming into being. Of course, we do not have to cry wolf all the time but it is worth while keeping our eyes open. For example, one need not launch a sweeping privatization drive in health care or the pension system in order to ensure that the former monolithic regime cannot return in its classical form. With the establishment of private insurance companies, new interest networks emerge, legal procedures and individual routines (long-term saving) build up, the whole capital market is bound to be reorganized, in other words, institutional guarantees gain strength, if ..., if positive feedback mechanisms work. To make this happen one must not shy away from piecemeal engineering or crafting, provided that eventually they do not force an over-ambitious master plan on the society.

Hybrid solutions and the "good state". However, if the reform process does not happen to be self-generating for one reason or another, hybrid arrangements may appear on the welfare scene and stay there for a long time. Given the huge number of welfare subsystems in which reforms evolve with different pace, or even diametrically opposite changes take place⁴⁵, hybridization with a great variety of intermediary solutions is very likely. It may produce, in a quite spontaneous manner, fairly original (re)combinations of welfare regime types. It would be too simple to assume that the welfare mix is a three-person game between the state, the market and the third sector. There are many more actors involved depending on the social prehistory of the country and the actual diversity of configurations of public regulation, private initiative and voluntary activity. Also, these actors can compete or cooperate in financing as well as in delivering welfare provisions, etc. Therefore, instead of continuing the secular debate on "state versus market", i.e. on their eternal confrontation, we had better examine how these institutions mingle and merge (or conflict, if you wish) in various kinds of existing partnerships including also the non-profit sector. The devil is lurking in the details: the internal proportions of these intricate combinations should be identified and fine-tuned if necessary. Meanwhile, one should not refrain from endorsing state dominated welfare mixes, if the market fails and the government makes smart and limited intervention in the given field of social policy.⁴⁶

If we revisit the past decade of East-Central Europe from this perspective, we will not see either a landslide marketization/privatization process in the social sphere or a relatively intact welfare state of communism. As a matter of fact, the state remained the main redistributor of welfare. However, private social spending began to rise, and in delivering welfare services, the state initiated "joint ventures" (e.g., outsourcing) with NGOs and private firms. The first Grand Design type institutional reforms in regulating pensions and health care are also cooperative projects of financing, in which public administration bargains with private and corporative actors about mixed governance. Even the state was divided into two: since the early 1990s, central administrations have had to face largely independent local authorities and cooperate with them as smoothly as possible. Social spending ceased to be decided upon behind the scenes within the confines of the communist party-state: instead, currently in every country of East-Central Europe there is an open struggle, in and outside the Parliament, for every penny of expenditure; a struggle ranging from negotiations between the political parties to forge nationwide social deals, through tripartite agreements, to wildcat strikes.⁴⁷

As regards the emerging hybrids, public institutions of welfare often turn out to be superior to their non-governmental rivals in terms of efficiency or distributive justice or both.⁴⁸ This is especially the case if the state gets a little help from the non-state organizations.⁴⁹ It is well known that exclusively state-run social security is usually not flexible and rich enough to satisfy rapidly changing demand for protection, particularly, for high-quality protection whereas it obliges those who have these "extra" claims to be solidaristic with the "average" citizen. Private insurance may be a useful partner here. Yet, in health care or in unemployment protection, for example, the insurance market, if left alone, would "adversely select" and discriminate against exactly those (the poor, the sick, the unskilled) who badly need security. Also, moral hazard and third-party payment problems may arise and information is far from perfect. In these fields, the state is indispensable not only as a regulator and legal supervisor but also as a financing agent and a mass provider. Even universal schemes can be just and redistribution may be considered as a kind of insurance. Moreover, state spending on welfare can work as a classical stabilizer of the business cycle and – like in the case of the Asian tigers – a large part of social expenditure can be regarded as investment in future growth.

These two bundles of arguments are meant to support the final conclusion: East-Central European welfare regimes are muddling through to achieve some degree of normalcy measured by an average of Western standards. The destination is unclear, the transformers are uncertain, they are perhaps reactive rather than proactive but (potentially) important things are happening. Maybe

they only find second-best solutions. These are, however, much more viable and original than the allegedly first-best solutions implied by the first two narratives. Comprehensive social contracts have not been elaborated yet but there are a number of smaller or larger social deals in the making. This type of muddling through reminds the observer of groping rather than a steadfast pursuit of clear objectives. Actually, it is sometimes simply muddling along...

If I belonged to the group of the narrators of this story, I would suggest to modify part of the argumentation and add some new pillars to uphold the "muddling-through" hypothesis. First, I am afraid that their neutral position *vis à vis* the government needs more subtle evidence in the context of post-communism. Today, in East-Central Europe, even a market which often fails may prove to be more efficient and fair in welfare policy than most intervention made by a corrupt, non-professional, corporatist, etc. state. Again, health care serves as an example of a horrendous government failure probably with the exception of certain domains of primary health service.

Secondly, the advent of parliamentary democracy in the region *equally* contributed to status-quo-oriented and transformative policies. Following an initial grace period, the new governments could not afford (even if they had wanted) to disregard the preferences of large constituencies for maintaining the level and the institutional guarantees of social safety. The temptation for delaying painful decisions about social transformation was great; the short run costs of postponement competed with changing financial pressures;⁵⁰ the end result was a series of ad hoc compromises attacking *and* defending "acquired rights" and "moral claims to entitlements". At the same time, democracy and the rule of law promoted the establishment of new welfare institutions from labor unions to private kindergartens, and the introduction of new social policies from openly acknowledging poverty to granting free choice of medical doctor to the patients. Thus, both a neoliberal rush and a communist intransigence were relatively unlikely outcomes. This is to reinforce one of the pillars of the third story.

Unfortunately, however, it is easier to say that things are complicated than to state how complicated they really are. In fact, it is extremely hard to draw the balance of the contradictory developments primarily because it is almost impossible to measure what I would call "invisible welfare" provided by the new liberties. Interestingly enough, the analysts used to stress those social advantages, which stem from the collapse of the economy of shortage, from the new property rights and from the free entry to the market (end of queuing, consumer choice, entrepreneurial rights, etc.). After all, if one wants to counterbalance the pessimistic thesis of the vast psychological costs of the transformation (growing insecurity and loneliness, loss of human dignity in unemployment and poverty,

etc.),⁵¹ there is a long list of additional advantages to quote: free (or less limited) travel, choice of workplace, residence, welfare mix, savings behavior, association; access to foreign medicine, to alternative (natural) treatment, protection of personality rights as patients, the opening up of the welfare facilities of the nomenklatura, public discussion of future social strategies, etc. Is it more humane to keep someone idle in a loss-making public firm or make him unemployed, retrain and assist him in finding a new job? Which sort of anxiety hurts deeper: the fear of losing one's job for economic or political reasons? Ask someone who was saved by an emergency helicopter of an international charitable organization (a vehicle that had not been permitted to enter the airspace of the Warsaw Pact) whether his welfare did not increase thereby? I am convinced that these corollaries of new freedoms cannot be nonchalantly put under the heading of "formal opportunities that sometimes cannot be exploited even by the winners of the transformation".

Owing to its "invisible" components, there must have been a considerable rise in welfare (which might also appear in tangible items like income and wealth) in the first stages of the transition, not to mention the medium and long-term social consequences of new liberties such as the improvement of health conditions or old-age security. Obviously, these improvements may be dwarfed by the deterioration of other components of welfare. But how do we know it?⁵² Unless we are able to compare apples with pears, it requires a great dose of optimism to say that we are aware of the main patterns of the history of welfare regimes in the ECE region during the past ten years.

Thirdly, incommensurability is only one chapter in a large catalogue of problems related to statistical accounting, particularly in those fields in which the fiercest debates take place (size and character of poverty, social polarization, etc.).⁵³ Let me mention one example, that of the shadow economy, which goes beyond the problem of statistics.⁵⁴ Under and after communism, informal welfare activity in the extended family as well as reciprocal self-help relations between individuals and families and even semi-commercial transactions have included as diverse forms of in-kind or in-cash protection as day-care, care for the elderly, housing, health care, etc. Part of these activities were traditional and motivated by poverty and backwardness (home-made welfare). The other part was induced by the planned economy with all its friction and rigidity (shortages and the possibility of free riding by means of corruption). Meanwhile shortages partly evaporated, you are tempted to bribe those who have access to scarce goods less frequently, and free riding became increasingly geared by the purpose of tax evasion. If today we take into account every penny the citizens give the doctors as gratuity and every day the same citizens devote to repainting the village clinic or every working hour spent in the family for looking after the sick grandmother

or in the neighborhood for building a friend's house, we may arrive at 20 to 40 per cent of overall welfare spending, i.e., at figures representing the share of informal economy in the GDP in Poland and Hungary today. Or we may not, depending on the still non-existent statistical results. Has this unknown share of informal welfare grown or diminished over the past decade? If we intend to say something reliable about the performance of the social systems in East-Central Europe, we ought to know the answer. Similarly, in describing the welfare regimes in the region, even a 15 percent share of informal welfare is high enough to regard it as an important element of the welfare mix. Thus far, however, informal welfare is not less invisible than the social consequences of democratization. Yet, the relative strength of the informal social safety net could probably help us understand why the widely expected social explosion did not occur even in the less fortunate Eastern European countries.

Fourthly, in contrast to the other two narratives, which do not pay much attention to the country types, this one, which is really interested in intricacies of the social systems, ought to produce a classification scheme within the region⁵⁵. Still, what we see is the usual exercise in attenuating Esping-Andersen's general typology with no great erudition⁵⁶. According to this, the region departed from the communist version of a Bismarckian conservative corporatist regime, which included some features of the social-democratic regime type. During the last couple of years, many of these Swedish-style features have been replaced with those of a liberal welfare regime. Ironically, any reference is lacking in the literature to the "Latin rim" countries with their "rudimentary welfare states" as a possible destination.⁵⁷ No doubt about it, the reader may learn some interesting details about the corporatist role of Solidarity in social policy in Poland, the strength of social-democratic tradition in the Czech Republic or the large weight of informal welfare in Hungary. Nonetheless, a much deeper comparative analysis cannot be spared, I believe, if we consider seriously to respond to the "*quo vadis*" question in the not too distant future.

No Fatal Errors

If the third narrative is more or less correct, no fatal errors have been made in welfare policy yet. Paradoxically, this negative statement may improve the image of the EU candidate countries of the region in Brussels. The "communist welfare state" is being transformed *but* its relatively tightly knit safety net (including traditional protecting ropes) has not disappeared. At the same time, transformation is not excessive, the institutional experiments do not go much beyond their counterparts in Western Europe. The welfare regimes in the ECE countries have been instrumental in cushioning the blows of marketization and privatization, not to speak of the worst economic recession in this century. If

mass migration or social dumping is to be expected, it is not the social systems of the would-be accession countries that should be blamed primarily. Unintendedly, these systems did a lot to keep the migrants at home and make the exported goods more expensive. If we look around in Eastern Europe as a whole, these are not negligible accomplishments.

As one of the Hungarian social policy experts whom I asked about the chances of EU accession in his field said to me with a cynical smile on his face: "If they do not want to take us, they will have to find a smarter pretext than our proud misery". And he went on: "Ironically, in those fields of welfare in which Brussels is interested today, we are – willy-nilly – comparatively good, at least in formal terms and because the insiders cannot require much, due to the low level of social integration in the Union. Labor and social legislation, equal chances, social dialogue etc., are not too dangerous terrains. As far as safety and health at the workplace is concerned, we will be saved by the continuing decay of our greatest accident- and disease- producers, the large state-owned firms in coal mining, steel and chemical industries. During the past ten years, these firms have poured out hundred thousands of unemployed, impairing thereby the welfare reputation of the country. It is high time for us to see the sunny side of the collapse: less disabled persons, less pollution... Anyway, were the Greeks or the Portuguese 'more social' when they were chosen?"

To put it more seriously, the ECE region is currently facing four alternatives:

- 1) It will be enrolled in the EU in the near future without Brussels setting additional requirements in welfare policy to meet;
- 2) It will not be enrolled in the EU in the near future without Brussels setting additional requirements in welfare policy to meet;
- 3) It will be enrolled in the EU in the near future but as part of the prolonged entrance examination it has to fulfill additional requirements in welfare policy in the coming years;
- 4) It will not be enrolled in the EU in the near future but as part of the prolonged entrance examination it has to fulfill additional requirements in welfare policy in the coming years.

According to official statements made by the governments of the Czech Republic, Hungary and Poland recently, the year 2003 would be regarded by them as a date of near-term accession. Today, they do not seem to trust in the viability of the first alternative but they would certainly consider the second an acceptable solution if the date of accession did not come later than 2005. The same would apply to the third alternative if the additional requirements were not prohibitively

tough. Understandably, the fourth alternative would be seen in the region as a double tragedy because it would imply hard work without the promise of quick reward.

Currently, the region is preparing for one of the first two options. The local experts are pretty sure that the Union will not set new hurdles in the social sector either in terms of performance indicators or regime characteristics. To put it bluntly, they are convinced that no dramatic change would occur in the conditions of entrance if say, thousands of homeless people organized hunger-marches in Polish cities next Winter or in Hungary the entire social security system were privatized in the coming year. This prognosis is based on two pillars: a.) on the historical fact that indeed former entrants did not have to achieve predefined levels e.g., in poverty reduction or life expectancy on the one hand, and predefined proportions within their respective welfare mixes on the other; b.) on the assumption that, because of the diversity of welfare state types and their performances within the EU, Brussels lacks any ground of justification for introducing new requirements of convergence.

In closing, I would like to avoid evaluating that prognosis. That would be alien, I believe, to the general historical thrust of this chapter. However, given the above prognosis, it is quite another matter to understand what kinds of welfare reform initiatives are to be expected in the region in the near future.

In this field, the message sent by the Union to the candidate countries is twofold (or less euphemistically, inconsistent). On the rhetorical level, Brussels has not ceased to emphasize that Europe represents a unique social philosophy and quality on the globe, while on the pragmatic level, it has made it clear that the welfare status of the would-be members does *not* feature on the top of the list of enrollment criteria.⁵⁸ To be sure, this ambiguity mobilizes routine coping strategies on the part of governments in ex-communist countries. Paying lip-service to a (foreign) dominant ideology while trying to do what they wanted/had to do (at home) anyway – this is exactly what the governments in the region were trained for under Soviet rule. Their response is, therefore, preprogrammed: it is an amalgam of avoiding to make spectacular mistakes on the surface and of pursuing autonomous policies at their own will as far as in-depth reforms (or the lack of these reforms) are concerned. In other words, home-made “path dependent”, “muddling through” style steps are more likely to come than courageous new initiatives urged by the EU. If nevertheless something new were to occur due to internal pressures, it would be camouflaged or belittled carefully. To return to the above examples, government agencies will pay attention to keeping the homeless in their shabby shelters and make efforts to sell privatization abroad under the name of modernization or streamlining.

The ambiguity of the EU message reinforces these governments in their own belief that there are no Grand Questions of principle in European matters of welfare. Many of the most important facets of social life are soft and negotiable. You may be weaker in welfare policy if you are stricter in introducing the Schengen rules or more advanced in environment protection, not to speak of market liberalization.

Maybe, things turn out to be much more simple, and the ECE governments will not have any major policy moves to embellish in the near future. The current administrations in the region do not seem to be prepared to launch welfare reforms which might make their Western European partners anxious. Recently, the Czech government has practically been paralysed by the semi-formal grand coalition. True, its predecessor also hesitated to restructure the pension schemes, kept unemployment at an artificially low level and compromised health care privatization by neglecting to protect the project from potential market failures.⁵⁹ In Poland, following a partial marketization of the pension system in 1999, the government will probably not risk introducing another reform program of high sensitivity, in particular, today, in a period of the country's decreasing reputation in Brussels. Finally, in Hungary, marketization of health care has not yet reached the stage of a government proposal, while the already existing private pillar of the pension system has been weakened by the new administration. None of the governments in the region plan seriously to launch large-scale restructuring and/or privatization in the social sphere or in the state sector in general, which might lead to a – probably, only temporary – upsurge in unemployment, poverty, etc..

This may reassure the lucky half of Europe: migration pressures as well as social dumping are not going to increase during the next years. At the same time, sitting back would be risky. The current propensity of East-Central European governments to postpone economic and social reforms, in particular those, which are not being resolutely forced by the negotiators from Brussels (or are openly disliked by them), will backfire in all probability. Accelerating *certain* EU-consistent transformations means neglecting *certain* – probably, more vital – regime changes in welfare. The lack of these changes, some of which would go beyond the current European models of social policy, could in turn slow down economic growth generated by the accession itself.

Admittedly, muddling through in the ECE region is not the fastest way of convergence between East and West. Nonetheless, it implies a trial and error process that takes place without major interruptions, though the experiments are limited, time-consuming and partly misguided. This process represents an idea of gradual and fragmented convergence of social systems; a kind of convergence that is not rapid but relatively inexpensive and durable. As a consequence, it may

lead to a final dismantling of the “Social Curtain” in a couple of decades without a complete adjustment of the ECE welfare regimes to the Western European ones.

If, however, the interplay of reform compulsion and reform fatigue/aversion either slows down the transformation of welfare regimes in the region or – paradoxically – speeds them up to attain full convergence measured by current European standards, then the accession may result in a lasting persistence of the social border – now *within* Schengeland.

János Mátyás Kovács
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Endnotes

- ¹ Ferge et al (1996c), Kovács (1996), (1999).
- ² Kovács (1998).
- ³ With the exception of the SOCO Survey (Ferge et al (1996c)) and the book by Götting (1998), the papers by Deacon (1992a,b), Kramer (1997), Offe (1993), Nelson (1997) and Standing (1996) are only partially comprehensive and comparative.
- ⁴ Deacon (1992a,b) (1993), Ferge (1995) (1996a,c) (1997a,b), Nelson (1997), Standing (1994) (1995) (1996).
- ⁵ Götting (1998) pp. 240-247, Rein et al (1996).
- ⁶ Szalai (1996).
- ⁷ Esping-Andersen (1990), Titmuss (1974), Deacon (1992a), Ferge (1992) (1995) (1997b), Vecernik (1996), pp.196-97.
- ⁸ Standing (1996), p. 227.
- ⁹ Kuron (1993), Myles and Brym (1992).
- ¹⁰ Ferge (1992), p. 207., (1998)
- ¹¹ Pierson (1994).
- ¹² Deacon and Hulse (1997), Ferge (1997b), pp. 175-179, (1999), Standing (1996), pp. 230-231, 251.
- ¹³ Atkinson and Micklewright (1992).
- ¹⁴ Götting (1998), pp. 261-262.
- ¹⁵ Ferge (1999).
- ¹⁶ Krémer (1998), Standing (1996).
- ¹⁷ Ferge (1995) (1996c) (1997b), Nelson (1997), Vecernik (1996), pp 92-119.
- ¹⁸ Children...(1997), Cornia (1995), Cornia and Paniccia (1995), Poverty... (1995), Standing (1996) pp. 250, Szamuely (1997).
- ¹⁹ Atkinson (1992).
- ²⁰ Sik (1998).
- ²¹ Ferge (1996b) (1997a), Vecernik (1996) pp. 217-240.
- ²² Compare Deacon and Hulse (1997) with Thomas (1997).
- ²³ Ferge (1997a), Offe (1993), Szamuely (1997).
- ²⁴ Kramer (1997), p. 51.
- ²⁵ Ibid. pp. 48-49.
- ²⁶ Balcerowicz (1995), pp. 261-268, (1996).
- ²⁷ Csontos et al (1996).
- ²⁸ Kornai (1997), p.281.
- ²⁹ Kornai (1996a).
- ³⁰ Kramer (1997), pp. 56-59, Krumm et al (1994).
- ³¹ Balcerowicz (1995), Kornai (1996a,b), Sachs and Warner (1996).
- ³² Kornai (1998).
- ³³ Kornai (1987), pp. 290-294 Kramer (1997), pp. 72-77, Sachs (1995).
- ³⁴ Csaba and Semjén (1997) pp. 5-9, Götting (1998), pp. 264-68.
- ³⁵ Sachs (1995), World Bank (1994).
- ³⁶ Sajó (1996).
- ³⁷ World Bank (1995a,b) (1996).
- ³⁸ Boni (1996), Kramer (1997), pp. 97-102, Milanovic (1997), Vecernik (1996) pp 47-92.
- ³⁹ Hausner (1999), Potucek (1999), Vecernik (1996) pp. 191-217.
- ⁴⁰ Kornai (1997), p. 273., Rychard (1996a).
- ⁴¹ Balcerowicz (1995), pp. 261-268, Rychard (1996a,b).

⁴² Barr (1994), Csaba and Semjén (1997), Nelson (1997), Potucek (1999), Tóth (1994) (1998), Vecernik (1996).

⁴³ Barr (1994), pp.192-226, Preker and Feachmen (1994), Sipos (1994).

⁴⁴ Götting (1998), pp. 268-274.

⁴⁵ Götting (1998), pp. 21-26.

⁴⁶ Barr (1987), (1994), pp. 29-50, Csaba (1997) pp.110-113.

⁴⁷ Cichon and Samuel (1994).

⁴⁸ Barr (1994), Potucek (1999).

⁴⁹ Csaba (1997), Pete (1997).

⁵⁰ Esping-Andersen (1996), Gedeon (1995), pp. 437-439, 455-458, p.267, Greskovits (1993), Nelson (1997), p. 256.

⁵¹ Nelson (1997), p.251, Sachs (1995).

⁵² Kovács (1997) p. 186.

⁵³ Ferge et al (1996c), Kramer (1997) pp. 77-81, Torrey et al (1997).

⁵⁴ Götting (1998), pp. 258-260, 273.

⁵⁵ Deacon (1992a) and Götting (1998) are exceptions to the rule.

⁵⁶ Deacon (1992a) p.181.,(1993), Ferge (1992), Gedeon (1995), pp. 437-439, Marée and Gronewegen (1997), Tóth (1994), Vecernik (1996), pp.193-197.

⁵⁷ Leibfried (1992) pp.253-254.

⁵⁸ The accession countries have repeatedly been made understood that migration is *the* issue in the field of labor and social legislation and practices. It is superior to health policy, equal chances or social dialogue when it comes to the final decision about co-optation. (See Morawska's chapter in this volume.)

⁵⁹ Vecernik (1999).



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