

## A Cushion That Suffocates?

### Transforming the “Communist Welfare State”\* in East-Central Europe

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#### Starting from Scratch?

The communist welfare regime was a *non plus ultra* embodiment of the Bismarckian idea of social security based on the principles of employment, state corporativism and hierarchy as well as on the values of German conservatism in the late 19th century. Communism did its best to combine this statist-conservative model with Swedish style welfare universalism without copying the liberal and democratic characteristics of the latter. The so-called “communist welfare state” was an excessively interventionist, monolithic and egalitarian regime caring for (or neglecting) the citizen from cradle to grave and excluding by definition any competition by the private and voluntary sectors. Although both the quantitative and qualitative standards of public welfare provision under communism were below the level of advanced industrial states, the entitlements

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were generally broader. As compared to middle-income and developing countries of similar economic status, the communist states proved to be much more generous both in terms of welfare entitlements and most of the performance standards. Under Soviet rule, social policy was part and parcel of a tacit social contract. It was a price the *nomenklatura* had to pay to pacify the citizens who suffered from the double burden of economic irrationality (including welfare waste) and political oppression.

These are key sentences in most textbooks describing the political economy of communist welfare. The only conclusion one can draw from them is that the post-communist transformation of the social system – if it wants to deserve the names of “democratisation” and “liberalisation” – has to start from scratch and create a veritable welfare mix of public, for-profit and non-profit activities. However, this conclusion leads to a paradox of simultaneous democratisation and liberalisation in social policy. Accordingly, the new – democratic – governments in the former Eastern Bloc may slow down the liberalisation (i.e., marketisation and privatisation) of public welfare provision in order to avoid social unrest; and conversely, the acceleration of the dismantling, in a liberal spirit, of the “communist welfare state” can cause large-scale dissatisfaction with the democratic rule and legitimise old-new authoritarian/populist practices.

Fortunately, things are much more complicated than textbooks suggest. In my opinion, neither can the point of departure of the transformation process be adequately depicted with the help of the scratch metaphor nor is the “democratisation versus liberalisation” paradox so hopeless. In the real world of communism the principle of exclusively state-provided and state-financed welfare was permanently violated by informal markets (e.g., wage bargaining) and corruption (e.g., tipping in health care) as well as by family and neighbourhood-based – I would say, “home-made” – voluntary social work and housing activity. Hence, the ingredients of the future welfare mix were there in great numbers.

The egalitarian rhetoric of the communist leaders served to camouflage (and not to eliminate) the hierarchical differences in income, wealth and power, characteristic of oligarchical societies. Welfare provision in general and social assistance in particular were regarded as a special favour made by

the state administration in a paternalist and discretionary manner. Welfare programs were designed within the confines of the party-state, without any major consensus sought with the quasi-independent labour unions and semi-civic institutions such as the chambers of medical doctors or the associations of pensioners. The rules of the welfare game (e.g., the calculation of pensions) could be changed overnight depending on the actual budgetary constraints. Major social problems such as poverty, suicide or drug addiction were disregarded for ideological reasons; unemployment was real but hidden within the walls of the loss-making state-owned firms; social work was considered superfluous; and the human rights of the clients of the welfare system were ignored (e.g., stigmatisation of the disabled) or fiercely abused (e.g., using psychiatry for political exclusion). A huge and inordinately centralized welfare bureaucracy was built up, which left the local authorities almost without any means to satisfy individual demand. In sum, communist social policy was not too attractive, to say the least, even if it could deliver part of the promised goods and services.

As a consequence, the starting position in 1989 was far from scratch and fairly favourable for liberalisation. On the one hand, privatisation, marketisation, income differentiation, unemployment, etc. were not extraterrestrial phenomena for the average citizen of Eastern Europe. The majority of those who paid gratuity to the doctor, saw members of the *nomenklatura* expropriate social housing projects or became depressed from idleness at an industrial plant that worked for its own inventory, these people wished to make a *tabula rasa* by creating “normal”, that is, publicly controllable conditions, which stand the test of market competition between various forms of ownership. Following the ‘89 revolution, the phenomena of hidden markets gained visibility and a series of steps were taken to formalize the hitherto informal relationships of the Soviet-type welfare regime (e.g., opening private health clinics or paying unemployment benefit). Initially, one could justifiably hope that transparency and open rivalry would contribute to the general well-being of the population by reducing corruption and inequality based on the monopoly of power as well as by replacing rent-seeking with hard work and entrepreneurship, and paternalism with self-reliance.

On the other hand, the “communist welfare state” was oppressive and pseudo-humane to such an extent that many of the first liberalisation measures improved the welfare status of the citizens rather than provoking their democratic steadfastness and loyalty. In contrast to the widespread view that the new freedoms of the post-communist era have exclusively brought along social imbalance and insecurity caused by impersonal market forces, liberalisation did contribute to social welfare in many respects. In other words, “social costs” were mixed with a number of “social benefits”. This kind of (partly invisible) welfare provided by the revolution is usually highlighted by economists who 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, there is a long list of additional advantages to quote: free (or less limited) travel, choice of workplace, residence, welfare mix, savings behaviour, 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/her unemployed, retrain and assist him/her in finding a new job? Which sort of anxiety hurts deeper: the fear of losing one’s job for economic or for political reasons? Ask someone who was recently 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/her welfare did not increase thereby?

An important reason for the lack of widespread social revolt in Eastern Europe after 1989 lies in the fact that home-made and invisible welfare provided a buffer that allowed the new governments to make bold steps toward the dismantling of the “communist welfare state” and eased the democratisation-versus-liberalisation paradox. Nevertheless, the architects of social transformation knew that the grace period would end soon and they would need all their artistic skills to harmonize two contradictory objectives. Namely, they had to proceed rather slowly in the decomposition of the Soviet-type welfare arrangements in order to maintain social peace. However, they had to rush as well to avoid that the immense costs of keeping the inherited social system in

operation would prevent the governments from stabilizing the emerging markets in the new democracies. They needed a cushion that does not suffocate...

### In Search of a “Real” Story

This dilemma becomes 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 that goes beyond the Great Depression, amidst repeated privatisation and marketisation 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.

Currently, there is a growing consensus in the West about social trajectories in Eastern Europe. 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). According to quite a few Western scholars, the 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.

Conserving and transforming the “communist welfare state” while adjusting it to changing European norms are tasks, which are at least as difficult to perform as to monitor. In 1992, our *SOCO (Social Consequences of the Economic Transformation in East-Central Europe)* programme, a long-term comparative research project at the Vienna Institute for Human Sciences entered a battlefield with political mines lurking everywhere. By and large, the cast of the battle in the ex-communist countries 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. The unfolding controversy reminded the observer of a dialogue of the deaf,<sup>1</sup> in which mutual recrimination concerning social indifference of economists versus economic ignorance of sociologists frequently replaced reasonable arguments.

Today, one would suppose, the antagonists are less strained and determined. Economic recession is over in the region and 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. Nevertheless, it is still rather difficult to reconstruct the most recent history of welfare in the states of Eastern Europe. In the lack of comprehensive and comparative works<sup>2</sup> and a dominant discourse concerning even minor details of this history, I will focus on two competing narratives of welfare development: for the sake of brevity, they will be named the "*leaping in the dark*" and the "*marking time*" stories.<sup>3</sup>

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. Three countries of East-Central Europe (ECE) – 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. Ideally, it would be more elegant on my part to provide "objective" information on the social developments of the ECE region and let the reader assess whether he or she agrees with my interpretation of the story. Unfortunately, the scope of information accepted by the majority of the scientific and political communities is so narrow and the empirical findings of the experts are so divergent that no single story prevails which could be presented as "real" by this paper. As a consequence, instead of being supplied with a *pret-à-porter* description of the social history of the past ten years, the reader is invited to explore the Eastern European welfare scene through rival approaches and statistics – an exciting expedition by the way.

### *Leaping in the Dark*

According to this narrative, since 1989, public welfare provisions have been drastically reduced in East-Central Europe 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.).<sup>4</sup> With the privatisation 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.<sup>5</sup> 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,<sup>6</sup> 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 kind of a "liberal" or "residual" welfare state as Gosta Esping-Andersen or Richard Titmuss described it.<sup>7</sup> Communism left behind a "serviced heavy, transfer light" welfare system,<sup>8</sup> which is being transformed into one that provides significantly less services while not increasing the government transfers proportionally (or indeed also decreasing them). When communism collapsed, the baby was thrown out with the bath water: instead of democratising<sup>9</sup> 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.<sup>10</sup>

Economic transformers named welfare the main culprit of public overspending. Post-communist governments exploited austerity to "educate" the citizens<sup>11</sup> (for short-term savings (e.g., consumption of medicines) and long-term calculating behaviour (e.g., private pensions)) by forcing them to accept

the amorphous principle of self-reliance. 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 often disguised the vested interests of certain lobbies, sheer ideological commitment and/or lack of expertise. Moreover, the principle of self-reliance offered the new governments a legitimate opportunity to shift part of the social burdens (e.g., child care) onto the families. Here neoliberal arguments prepared the soil for conservative solutions which forced women to leave the workplace and return home.

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 favour 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.<sup>12</sup>

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.<sup>13</sup>

As a result of the general social decay, in East-Central Europe most socio-biological 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.<sup>14</sup> 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 (citizenship) income regulation in the ECE countries to prevent the escalation of poverty.<sup>15</sup> However, they preferred the revitalization of old stigmas to enacting new citizenship rights for the needy.

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.<sup>16</sup>

Furthermore, 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 will 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.<sup>17</sup>

#### *Marking Time*

This story is also based on a deep frustration, since, in the opinion of its narrators, 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 and its governments continue to insist on the utopia of providing welfare irrespective of the actual economic conditions of the post-communist transformation.

In order to liberate one’s mind of that utopia, one has to ask himself whether the allegedly comprehensive deterioration of welfare

- is a clear consequence of liberal transformative policies or has much deeper roots stretching into the *ancien régime*;<sup>18</sup>
- is characteristic of all ex-communist countries or primarily of the non-Central-European ones.<sup>19</sup>

- was really generated by “neoliberal zealots”, “obsessed monetarists”, or simply by ordinary economists who do have social conscience but can count as well.
- is an accomplished fact that has been corroborated by reliable statistical analysis, or a working hypothesis, which builds on fragmented statistics and a blend of street-level observation, opinion poll results and political discourse analysis.
- would be blocked by the citizens via public spending, or – if they were asked to choose – would they opt for a “lower tax – higher private insurance” alternative.<sup>20</sup>

The inherent inefficiency of the Soviet-type welfare state in the 1980s had to a large degree contributed to the economic decomposition of the communist system. Why carry along that burden to post-communism?<sup>21</sup> Why paralyse state budgets for many years to come? Why make false promises any longer? *Quid pro quo*:<sup>22</sup> welfare expenditure competes with other sorts of public spending and originates in taxation. Hence, any restructuring in favour of welfare in the state budget or any rise in social spending may retard economic growth, generate unemployment, force the citizens to enter the shadow 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?<sup>23</sup> 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 corrupt states and corporative bureaucracies.<sup>24</sup> Privatisation of the welfare sectors (or their pluralisation 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 pro-

grammes 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.

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 region);<sup>25</sup> – what else is this than marking time in the transformation of welfare regimes?<sup>26</sup>

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 voters<sup>27</sup> 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 bumped into social rights defended by the constitution).<sup>28</sup> 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, pauperisation) in the ECE region.<sup>29</sup> 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.<sup>30</sup>

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. The process of denationalising the welfare sectors has proven to be protracted, partial and uneven (health care in the Czech Republic, pension schemes in Hungary and, lately, in Poland); 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.<sup>31</sup>

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.<sup>32</sup> 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 favours 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 un-touchable 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 behaviour 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)<sup>33</sup> can sit back and relax: alarmism is needless.

### “Small Transformations”

Currently, a third story (I would call it the *muddling through* narrative) seems to emerge from the above conflict. Although it borrows from both antagonists, it places itself outside their lasting controversy by seeking detached, deliberately non-normative, less spectacular but more realistic interpretations of welfare history in the ECE countries over the last one or two decades.<sup>34</sup>

According to this narrative, no intense messages (“stop changing!”, “start changing”) are needed because 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.<sup>35</sup> 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, labour 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 or their combinations 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.<sup>36</sup>

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 privatisation drive of the 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.

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 place,<sup>37</sup> hybridisation 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. There are many more ac-

tors 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.<sup>38</sup>

If we revisit the past decade of East-Central Europe from this perspective, we will not see either a landslide marketisation/privatisation process in the social sphere or a relatively intact welfare state of communism. As a matter of fact, the state as main redistributor of welfare has not shrunk, first because of the inertia of the old system, then because of the recovery from recession. However, private social spending began to rise, and in delivering welfare services, the state initiated “joint ventures” (e.g., outsourcing) with ngo-s 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. Instead, in every country of East-Central Europe today 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.<sup>39</sup>

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.<sup>40</sup> This is especially the case if the state gets a little help from the non-state organizations.<sup>41</sup> 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.

In sum, 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.

### No Suffocation Yet

I am afraid that it is easier to say that things are complicated than to state how complicated they really are. For instance, it is almost impossible to measure what I called “invisible welfare” above. 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?<sup>42</sup>

Incommensurability is only one chapter in a large catalogue of problems related to statistical accounting, particularly in those fields in which the fiercest political debates take place (size and character of poverty, social polarization, etc.).<sup>43</sup> Let me mention one example, that of the shadow economy, which goes beyond the problem of statistics.<sup>44</sup> 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 daycare, 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 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 the teachers to repaint the classroom or every working hour spent in the family for looking after the sick grandmother or in the neighbourhood 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.<sup>45</sup> Yet, as already noted, the relative strength of the informal safety net could probably help us understand why the widely expected social explosion did not occur even in the less fortunate Eastern European countries.

If the third narrative is more or less correct, no fatal errors have been made in welfare policy yet. 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 marketisation and privatisation, not to speak of the worst economic recession in this century. During the past few years, the region has shown clear signs of a lasting economic upswing. At the same time, the transforming countries continue to carry the sizeable (oversized?) welfare cushion ...

### Welfare Reform – East and West

The narratives presented above attempt to capture welfare reform in East-Central Europe with the help of a somewhat self-centred historical analysis that uses rather broad terms of comparison with those European countries, which the region would like to join in the near future. Yet, one can hardly fix the European standards of social policy (not to mention the North-American or global ones) and examine to what degree the newcomers have approached them. Evidently, there has always been a variety of social policy models in Europe. Moreover, today the ECE experts do not find stable policies and institutional arrangements in the EU but rather another reform process, the “domestication” of the classical welfare states. True, the general trends are not dissimilar: partial retrenchment, decentralization, marketisation and privatisation of public welfare services as well as an upsurge of the voluntary sector are the main characteristic features of regulating welfare on both sides of the former Iron Curtain.<sup>46</sup>

Why has my Introduction thus far dealt exclusively with welfare discourses in East-Central Europe? In browsing the Table of Contents of this volume, one finds a number of prominent authors from the “West” (Helmut Anheier, Nicholas Barr, David Ellwood, Adalbert Evers, Anton Hemerijck, Michael Hill, Christoph Sachße, Alan Walker and Annette Zimmer) who write about their own countries. Nonetheless, there is no contradiction between the introductory remarks and the main body of the book. The “Westerners” share their views with the “Eastern” colleagues in two ways: either by giving an insight into current social policies in Europe and North-America or by commenting on the new developments of welfare reform in East-Central Europe. This structure reflects the logic of our research programme. *SOCO (Social Con-*

*quences of the Economic Transformation in East-Central Europe)* was launched at the beginning of the 1990s precisely with the dual aim of a.) revealing the indigenous patterns of post-communist social thought and channelling it into reform-making, while b.) filtering it through a dialogue between “Eastern” and “Western” experts. The Board of *SOCO* included many of the authors (Michał Boni, Zsuzsa Ferge, Antoinette Hetzler, Jane Lewis, Claus Offe) of the present book. Initially, the research questions were raised by the “Easterners” but after a while no one could determine who asked whom and who gave the answers. Certainly, the convenient *cliché* of “Western invention” versus “Eastern imitation” proved completely useless to describe research work in the programme.

I am not the right person and this is not the right place to celebrate the *SOCO* programme that ended in 2001/02.<sup>47</sup> Our book is neither the first selection of the research results,<sup>48</sup> nor is it the last. The East-West dialogue inherent in *SOCO* made it clear that the ECE region lacks a comprehensive history of post-communist welfare. Following some (fruitful) hesitation, we decided to produce the first version of that history. This volume demonstrates a degree of methodological uncertainty prevailing in the course of writing. The final product (Kalb & Kovács (2003)) that will be published soon takes a clear *institutional(ist)* approach. However, this book representing an indispensable intermediary product of institutional analysis still oscillates between institutional and policy research but already shows a strong interest in historical explanation.

The Chapters do not originate in an *ad hoc* conference project. The findings are based on a long-term cooperative venture of scholars in the framework of *SOCO*. Many of the authors met several times in Vienna during the 1990s; the first drafts were presented at IWM’s *Central European Forum on Social Policy* in Winter 1997; and the papers were rediscussed and revised between 1998 and 2000. Many of the papers served as preliminary studies to the institutional history volume.

We decided to publish these papers in order to share our excitement felt during the consecutive rounds of discussion; an excitement that originated in both the high scholarly quality of the studies and the lively exchange of ideas between the authors. In the past couple of years, some of the data quoted in

some of the chapters have undoubtedly lost the flavour of timeliness and have instead became historical facts. The same applies to certain reform measures taken at the beginning of the present decade. However, this objection holds only if one is under the spell of Grand Transformations and across-the-board change in social policy. What the *SOCO* programme has taught us is just the opposite. As the initial enthusiasm about a centrally managed, rapid dismantling of the “communist welfare state” faded, the lower level actors in social policy came to the fore and institutional friction was apparent. It became clear that many of the Grand Transformations in the welfare regimes of East-Central Europe failed exactly because they were too big (expensive, bureaucratic, etc.) and their designers did not calculate with the inertia of the welfare institutions themselves and the political process; underestimated the strength of new populist temptations or simply disregarded the short-term interests of the ordinary people whom they wanted to serve. If resistance, slowdown, stop-go cycles, etc. are fundamental features of welfare reform under post-communism, one or two years do not count for much. On the contrary, what one suspects to have become part of history may suddenly reemerge as a reform agenda for the future.<sup>49</sup>

As mentioned, this volume is policy-oriented to a considerable extent. It focuses on how the macro-policies of welfare reform appear at the lower levels of the social policy system, and, conversely, how civic/local initiatives affect the macro-reforms. Citizens of East-Central Europe, seeming as if they had wanted to illustrate our “small transformations” thesis, initiated a series of welfare reforms, in the past one or two decades from below in order to fill the gap left by the aborted, distorted or half-successful central programmes. The mushrooming of decentralized pension funds, private or non-profit hospitals, private or self-help kindergartens, non-profit elderly care centres, drug clinics, homeless shelters, etc. demonstrates this process of substitution. Rather than idealize these “grassroots reforms” which reflect a new mix of voluntarism, state regulation and market forces, our volume provides room to discuss the pros and cons of these reforms. *SOCO* accumulated a fair amount of knowledge about the new NGO sector, the privatisation and “communalisation” of welfare, the implementation of social policy at the level of local governments,

the invisible social assistance in the informal economy, the coping strategies of the families, etc.<sup>50</sup>

The authors of this book study these components in three fields of social policy: health care, the pension system and unemployment from a comparative perspective. The volume consists of three parts (which use three different fields of social policy as examples) with the following titles:

- I. Local Welfare Provision: the State, the Market and the Non-Profit Sector (The Example of Health Care)
- II. Between Governmental and Individual Responsibility: New Social Programs (The Example of the Pension System)
- III. The Role of Mediating Institutions: Social Policy “from Above” and “from Below” (The Example of Unemployment)

These issues are highly relevant for social policy reforms in both the “East” and the “West” even if the points of departure of the two reform processes differ considerably. Due to the urgency of change and the acute scarcity of public resources, the post-communist countries experiment with new – less interventionist – compositions of the welfare mix under much more severe economic constraints, but sometimes with a surprisingly large amount of space for political manoeuvre (cf. the weakness of trade unions). These experiments are frequently regarded as “neoliberal” or highly ideological even if they are made out of sheer necessity. Nonetheless, the lessons drawn from them may in turn be helpful for the welfare reformers in the “West”, too.

Nevertheless, none of us would think that the only light comes from the “East”. While providing a great many original results in abstract and empirical analysis, the authors of this book engage in sharp discussions on the virtues/vices of the third sector, the privatisation of the pension system or the roles of the trade unions. And nothing demonstrates the end of communism better than the fact that the frontlines between them usually intersect the Yalta divide.

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## Notes

- <sup>1</sup> Ferge (1997b), Kovacs (1997).
- <sup>2</sup> With the exception of the SOCO Survey (Ferge et al (1996c)) and the books by Götting (1998a), Müller (1999) and Talos (1998), the papers by Cook and Orenstein (1999), Deacon (1992a,b), Kramer (1997), Offe (1993), Nelson (1997) and Standing (1996) are only partially comprehensive and comparative.
- <sup>3</sup> For more details, see Kovacs (2002).
- <sup>4</sup> Deacon (1992a,b) (1993), Ferge (1995) (1996a,c) (1997a,b,c) (2000), Nelson (1997) (2001), Standing (1994) (1995) (1996).
- <sup>5</sup> Götting (1998a) pp. 240-247, Rein et al (1996).
- <sup>6</sup> Szalai (1996).
- <sup>7</sup> Esping-Andersen (1990), Evers and Olk (1995), Ploug and Kvist (1996), Titmuss (1974), Deacon (1992a), Ferge (1992) (1995) (1997b), Večerník (1996), pp. 196-97.
- <sup>8</sup> Standing (1996), p. 227.
- <sup>9</sup> Kuron (1993), Myles and Brym (1992).
- <sup>10</sup> Ferge (1992), p. 207., (1997c), (1998), (2000).
- <sup>11</sup> Deacon and Hulse (1997), Ferge (1997b), pp. 175-179, (1999), Standing (1996), pp. 230-231, 251.
- <sup>12</sup> Ferge (2001). See also Müller (1999), Müller et al (1999), Augusztinovits (1997), Simonovits (1999) (2000).
- <sup>13</sup> Ferge (1995) (1996c) (1997b), Nelson (1997), Večerník (1996), pp 92-119.
- <sup>14</sup> Children... (1997), Cornia (1995), Cornia and Paniccia (1995), Poverty... (1995), Standing (1996) pp. 250, Szamuely (1997).
- <sup>15</sup> Atkinson (1992).
- <sup>16</sup> Compare Deacon and Hulse (1997) with Thomas (1997).
- <sup>17</sup> Elster et al (1998), Ferge (1997a), Offe (1993), Szamuely (1997).
- <sup>18</sup> Kramer (1997) p. 51
- <sup>19</sup> Ibid. pp. 48-49, Balcerowicz (1995), pp. 261-268, (1996), Milanovic (1997).
- <sup>20</sup> Csontos et al (1996), Kornai (1997), p.281.
- <sup>21</sup> Kornai (1996a), (2001), Bokros and Dethier (1998).
- <sup>22</sup> Kramer (1997), pp. 56-59, Krumm et al (1994).
- <sup>23</sup> Balcerowicz (1995), Kornai (1996a,b), Sachs and Warner (1996), Bokros and Dethier (1998).
- <sup>24</sup> Kornai (1998) , Mihalyi (2000), Nelsson (2001), Orosz et al (1998), Orosz (2001).
- <sup>25</sup> Kornai (1987), pp. 290-294 Kramer (1997), pp. 72-77, Sachs (1995).
- <sup>26</sup> However, a word of caution is needed, say the narrators. 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 or surpassed 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. (Csaba and Semjén (1997) pp. 5-9, Götting (1998a), pp. 264-68.).
- <sup>27</sup> Sachs (1995), World Bank (1994).
- <sup>28</sup> Sajó (1996).
- <sup>29</sup> World Bank (1995a,b) (1996) (2000), Milanovic (1997).
- <sup>30</sup> Boni (1996), Kramer (1997), pp. 97-102, Milanovic (1997), Vecerník (1996) pp 47-92.
- <sup>31</sup> Góra and Rutkowski (2001), Potůček (1999), Večerník (1996) pp. 191-217.
- <sup>32</sup> Kornai (1997), p. 273., Mihalyi (2000), Rychard (1996a).
- <sup>33</sup> Balcerowicz (1995), pp. 261-268, Rychard (1996a,b).
- <sup>34</sup> Barr (1994a,b), Csaba and Semjén (1997), Müller (1999), Nelson (1997), Potůček (1999), Tóth (1994) (1998), Večerník (1996), Wagener (2001).
- <sup>35</sup> Barr (1994a,b), pp.192-226, Preker and Feachmen (1994), Sipos (1994).
- <sup>36</sup> Götting (1998a), pp. 268-274.
- <sup>37</sup> Götting (1998a), pp. 21-26.
- <sup>38</sup> Barr (1987), (1994b), pp. 29-50, Csaba (1997) pp.110-113.
- <sup>39</sup> Cichon and Samuel (1994).
- <sup>40</sup> Barr (1994b), Góra and Rutkowski (2000), Orosz (2001).
- <sup>41</sup> Csaba (1997), Pete (1997), Orszag and Stiglitz (2001).
- <sup>42</sup> Kovács (1997) p. 186.
- <sup>43</sup> Ferge et al (1996c), Kramer (1997) pp. 77-81, Torrey et al (1997).
- <sup>44</sup> Götting (1998a), pp. 258-260, 273.
- <sup>45</sup> Lewis (1999), Kornai (2000).
- <sup>46</sup> The title of my (2002) paper, "Approaching the EU And Reaching the US?" was chosen to illustrate those trends.
- <sup>47</sup> The reader can form his/her own opinion by studying part of the 101 SOCO project papers published on the IWM website ([www.iwm.at](http://www.iwm.at)).
- <sup>48</sup> See Addison (1996), Ferge et al (1996c) and Kovács (1996).
- <sup>49</sup> Just three examples to complement the argumentation in the volume: a.) in the new millennium, health care reforms described by Bútorá et al, Orosz and Potůček remained sluggish; b.) radical pension reforms in Hungary were slowed down between 1998 and 2002 (see Ferge's similar

claims); c.) Hausner's pension reform plan elaborated under the Socialist government in Poland was modified by the Solidarity government in 1997/98 but the last elections enabled him to return as a minister.

<sup>50</sup> The IWM comparative household survey on the social consequences of the economic transformation, which was conducted in five transforming countries of the region during 1995/96, resulted in a large database (see Ferge et al (1996c)).

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