THIRTEEN

Boxing the shadow? 'Neoliberals' and social quality after communism (commentary on Chapter 12)

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Under late communism, democratic-minded social policy experts in Eastern Europe were convinced that their normative task was twofold: on the one hand, to unmask the welfare discourse of the communist governments by pointing to the blatantly anti-social nature of their policies; and, on the other, to formulate welfare programmes in the framework of the recurrent market reforms. While in performing the first task they received unconditional support from the market reformers, the so-called reform economists, in tackling the second the two groups of reformers drifted into a conventional 'state versus market' debate. The debate put the social policy experts in a difficult position. The reform economists asked them to prove that their 'interventionist (social-protectionist)' claims were different from those made by the communist officials. The welfare reformers felt offended by this accusation and responded to it with a counter-attack by alluding to the '*laissez faire* fundamentalism' of the market reformers. It may well be that the conflict started the other way round. 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 reformers, which had partly been repressed by their internal solidarity against the communist hard-liners, 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, such as what kind of welfare services/expenditures could be reshaped, curtailed or deleted to reduce the overall budget deficit? Instead, it was elevated onto the level of social philosophy. Again, it would be futile to look for those responsible for this shift. Instead let me reconstruct the story from the perspective of the social reformers. On the eve of the Eastern European revolutions, most of them hoped that in the future they would not have to face incompetent, arrogant and pitiless state bureaucracies any more; the welfare programs could be reconstructed to become more just and efficient at the same time; and certain welfare schemes would be 'communalised' (managed by the civil society) rather than marketised and privatised, 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 an unexpectedly great number of economists in their countries who eagerly wanted to go on with their stabilisation programmes, which in the meantime were complemented by ambitious plans for marketisation and privatisation. Moreover, these economists (some of them communist turncoats) were supported by an influential choir of foreign advisors, Western policy-makers and leaders of international economic organisations who advocated a series of austerity measures. Occasionally, they applied a rather low quality neoliberal rhetoric to justify austerity. This mix of restrictive vigour, 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 Eastern Europe. As a first reaction they fell back on a routine language and continued demonising the former economic reformers (now 'transformers') as 'Chicago Boys', 'Wild-East Thatcherites', and so on, who represent the same kind of social indifference as before – now as agents (sometimes involuntary 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. 'You are responsible!', points the social policy expert at the economic transformer. 'Do you

long for the *ancien régime*?', so the response, and the dialogue of the deaf continues.

Accentuating the negative

Why is it worth telling the story of this parochial conflict? Because it demonstrates how a hasty identification of post-communist programmes for economic stabilisation with a neoliberal strategy, and these two with the current trend of reinterpreting the welfare state in advanced countries, makes many social reformers in Eastern Europe forget the crucial differences between the 'western' and 'eastern' ways of saying good-bye to their own welfare states. Zsuzsa Ferge belongs to those few social policy experts in the region who, before 1989, not only had the political courage to cooperate with radical reform economists in Hungary, but also – as a trained statistician – was ready to accept some of their ideas about the severe financial constraints of welfare reforms. I am afraid, she would confuse quite a few economists in Eastern Europe, including myself, who learnt a lot from her about the hypocritical world of communist welfare yesterday, if she joined the dialogue of the deaf today[1].

In her chapter Ferge puts the post-communist welfare reform in an international perspective by considering it a clear case of a paradigm shift from social democracy to neoliberalism. She describes rather convincingly how i) social services have been reduced, abolished or made more expensive; ii) formerly free welfare provisions have become market goods; iii) certain social transfers have lost their universal character; and iv) the quality standards of the services have been lowered. Mass poverty, general insecurity, workfare and social assistance rather than welfare are the logical consequences. The responsibility for all these shocking developments lies with the 'monetarists', 'the neoliberals', 'the representatives of the banking sector', the international organisations who believe that social spending should be the main target of the cutbacks. She claims that the arguments of these economists are even more aggressive and meet less resistance in the east than in the west, and their references to economic rationality are often simply disguising ideological commitment and lack of expertise.

Did anything good happen as well? Not really, suggests Ferge. The principles of equality and solidarity were buried with communism; marketisation and the emergence of the welfare mix may lead to social polarisation; political democracy is nice but the civil society is still very

weak. Could it happen in another way? 'Cutbacks on state spending are more than justified', she says, and – surprisingly – goes on attacking the neoliberals. No word is spent on any alternative (more humane yet at least as rational) strategy for economic transformation.

An alternative interpretation

This kind of reasoning can be challenged on three counts. One could contend that the so-called communist welfare state was even more inhumane. Also, one could stress the social benefits (not only the social costs) of democratization, marketisation and privatisation. Finally, one could shatter the main pillar of Ferge's argument by showing that she tends to create her own enemy, *the* neoliberal economist, and engages in shadow boxing.

The first challenge would be unfair to Ferge, as she knows more about inequality, corruption and waste in the social spheres of communism than all the authors in this book. Regarding the second, I believe that under the pressure of new poverty and deprivation in Eastern Europe, Ferge is inclined to underestimate the favourable welfare consequences of the new liberties granted by the 1989 revolutions. I am sorry if I sound apologetic in asking the following simple questions: is freedom of choice (of one's place of work, residence, welfare mix, etc.) not a social good? If one can travel abroad, watch western cable tv programs, read formerly censored books, etc., do these possibilities not increase welfare? The right to organise free trade unions, the possibility of co-determining social policies at the local level or the constitutional protection of ethnic minorities – should we label them as strictly political (and not socio-political) opportunities? Moving closer to daily welfare policies, the fact that one can choose one's own doctor, order medicine from abroad, defend one's personality rights as a patient, etc. – can all these new possibilities be nonchalantly put under the heading 'formal rights that usually cannot be exploited even by the few winners of the post-communist transformation'? How do we know that social benefits have been offset by social costs, social inclusion by exclusion? How do we know that the social quality of Eastern Europe has deteriorated during the last couple of years? Why should we disregard the future benefits of short and medium term costs (such as the partial marketisation of the pension schemes or health care)? Questions such as these might have concerned Zsuzsa Ferge to a greater extent, since she, on the one hand,

admits that one cannot yet tell the actual degree of harm caused by the 'neoliberals' and, on the other, repeatedly suggests that welfare decline is an accomplished fact.

As far as the third kind of challenge is concerned, I briefly refer to what I – as a devil's advocate – have elaborated elsewhere[2].

First of all, most of the allegedly neoliberal (monetarist) transformers in Eastern Europe are neither devoted and experienced neoliberals nor powerful enough to orchestrate such a breakthrough. Genuine neoliberals/libertarians in the west would feel ashamed of those collectivist and statist solutions which are applied in privatisation and stabilisation policies even in the most rapidly transforming countries of East-Central Europe. Following a brief period of proliferation of free-market illusions, the idea of *Soziale Marktwirtschaft* has been gaining ground in the economic profession all over the region[3]. Evolutionary economics, new institutionalism and Ordo liberalism are outcompeting neoliberal fundamentalism, and neo-Keynesian thought has re-emerged in Eastern Europe. Secondly, in their actual transformation scenarios the 'neoliberals' included only partial and provisional shock treatment programs to tame inflation and redress the various macroeconomic balances. By taking a whole series of restrictive-deflationary measures to cool down the economy, they risked that recession would deepen, unemployment soar, and social provisions diminish. However, they regarded the resulting unprecedented output decline as a lesser evil in terms not only of future economic growth but also of the social performance of the economy in the medium and long run. As a consequence, they were ready to take severe austerity measures to throw out a small part of the 'welfare burden' to prevent the ship from sinking. This was not meant to be a lasting rollback but a restructuring of social services to accelerate economic recovery. Thirdly, the allegedly neo-liberal paradigm of the transformation of welfare regimes has not been adopted by any government in East-Central Europe. If certain components of it have been adopted, the various blueprints of this strategy have already assumed a partial and provisional character. If their implementation has started, it soon stranded on the rocks of *Realpolitik*.

Now, why does the hasty identification of provisional austerity and neoliberal orthodoxy as well as of rhetoric and reality hamper the understanding of the differences between the 'eastern' and 'western' processes of reshaping the welfare state? Because we prevent ourselves from raising certain questions of *social quality* if we start out of a new

thesis of convergence. According to this thesis represented by Ferge, the general direction of the two processes are similar (almost identical), and it is only their initial level and pace that vary. The ex-communist countries have more state and less welfare but they have begun self-destruction more aggressively. If the neoliberal paradigm wins, the world will see a richer and a poorer (but qualitatively similar) version of the same post-welfare model. Mass unemployment and poverty have already been accepted in both types of society: the worst is still to come.

I would not like to pretend to be able to formulate an alternative social policy scenario for the countries of East-Central Europe. Nevertheless, there are quite a few good reasons to believe that welfare transformation under post-communism is an open-ended game, the outcome of which may be even the opposite of what Zsuzsa Ferge predicts. The new social regimes in the region will not necessarily become bad imitations of the west. Probably, there will hardly occur any imitation because of the great inertia of the western welfare states and the relative plasticity of the post-communist ones. While in the west the rollback of social services is severely impeded by huge welfare bureaucracies, powerful trade unions, certain welfare-related business groups and broad networks of the civil society, in East-Central Europe the institutional preconditions of welfare reform (weak/illegitimate governments and trade unions, newly emerging business and civil sectors, large shadow economies, and so on) make the prevailing social arrangements more alterable. In other words, the transforming countries may make virtue of necessity. To put it simply, weak governments do not provide enough welfare but they cannot resist social reforms either; illegitimate trade unions do not protect their members adequately but they cannot monopolise (expropriate) the reforms either; civil society – if it is underdeveloped – does not complement state-provided welfare significantly but it cannot disturb representative parliamentary procedures either; a strong informal sector does not contribute to welfare through taxation but it provides plenty of social services in families, networks of reciprocity, and so on.

Obviously, for those who consider the western welfare state of today or yesterday an unquestionable achievement, these virtues are not too promising. The new social regimes in East-Central Europe may turn out to be less statist than the West-European models, and as regards the individualisation of welfare, the region may even reach North-American standards. Similarly, for a long time to come the post-communist welfare mix will surely be less communitarian/civil society-based than the West-

European one, not to speak of North-America. However, the informal – primarily family-based – forms of welfare provision will probably remain indispensable in the transforming countries for many decades. Therefore, it would be misleading to call the emerging welfare regimes of post-communism plainly 'neoliberal'. These regimes are simply *different* and their designers are occasionally – due to the plasticity of institutions – more creative than their western colleagues (see the current attempts at marketisation of the pension and health care systems in some states of the region). Do these experiments promise a higher or lower social quality than the current western models? Zsuzsa Ferge seems to know the answer, but I would not dare to make any judgement today.

Conclusion

According to conventional wisdom, East-Central Europe will be allowed to join the European Union only in many years from now because of among other reasons its poor social performance in absolute terms. If the above – 'neoliberal' – experiments succeed, while the similar West-European reforms slow down or get stuck, will these experiments not constitute an obstacle as well? If Europe creates a 'social fortress', I am afraid that nobody in Brussels will be interested any more in whether or not the transforming countries have raised their social quality through these 'neoliberal' welfare reforms.

Notes

[1] Actually, she has been concerned with the idea of a sweeping crtitique of the 'neo-liberals' since the 1980s. In 1989 she published a book in Hungarian with the title *Is There a Fourth Road?* (see also in the volume edited by B. Deacon and J. Szalai on *Social Policy in the New Eastern Europe*, (Avebury, 1990)), in which she distanced herself not only from the communist and national-populist roads of development but also from the vision of free-market capitalism. This approach reappears in her more recent writings (cf. 'Social Policy Regimes and Social Structure', in: Z. Ferge, J. Kolberg (eds.), *Social Policy in a Changing Europe*, (Westview-Campus, 1992); 'Freedom and Security' in: J.M. Kovács (ed.), *Social Costs of Economic Transformation in Central Europe, International Review of Comparative Public Policy* (1996/7).

[2] See *for example*, J.M. Kovács, 'From Reformation to Transformation', *East European Politics and Societies*, (Winter, 1991); 'Engineers of the Transformation (Interventionist Temptations in Eastern European Economic Thought)', *Acta Oeconomica*, (1992/1-2); 'Which Institutionalism? Searching for Paradigms of Transformation in Eastern European Economic Thought', in: H-J. Wagener (ed.), *The Political Economy of the Transformation*, (Physica, 1993); 'Planning the Transformation?' in: J.M. Kovács (ed.), *Transition to Capitalism? The Communist Legacy in Eastern Europe*, (Transaction, 1994).

[3] Prominent economists have begun to take social policy arguments seriously and quit the dialogue of the deaf. The polemic between Jacek Kuron and Leszek Balcerowicz in Poland is a good example of that (see J. Kuron, 'Man muß Träumen. Soziale Gerechtigkeit als Soziale Bewegung', *Transit* (1993/6) and L. Balcerowicz, 'Social Security Through Economic Growth' in: J.M. Kovacs (ed.), *Social Costs of Economic Transformation in Central Europe, International Review of Comparative Public Policy* (1996/7). See *also* János Kornai's critique of Zsuzsa Ferge's paper on 'Freedom and Security' (J. Kornai, 'Bürger und Staat. Die Reform des Wohlfahrtsystems', *Transit* (1996/12); Z. Ferge, 'Freiheit und soziale Sicherheit', *ibid.*).