SOCIAL POLICY IN CENTRAL AND EASTERN EUROPE.
THE EMERGENCE OF A NEW EUROPEAN MODEL OF SOLIDARITY?

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List of Abbreviations

- CAP: Common Agricultural Policy
- CEE: Central and Eastern Europe
- CEE Rs: Central and Eastern European respondents
- CEECs: Central and Eastern European countries
- DG: Directorate General (European Commission)
- EBRD: European Bank for Reconstruction and Development
- ECJ: European Court of Justice
- EU: European Union
- GATS: General Agreements on Trade in Services
- ICCs: International Consultancy Companies and
- ILO: International Labour Organization
- IMF: International Monetary Fund
- INGOs: International Non-Governmental Organizations
- ISPA: Instrument for Structural Policies for Pre-Accession
- ISSP: International Social Survey Programme
- LIS: Luxembourg Income Study
- MSL: Minimum Subsistence Level
- NDC: Notional Defined Contribution
- OECD: Organisation for Economic Cooperation and Development
- PAYG: Pay-As-You-Go
- PHARE: Poland and Hungary: Aid for the Restructuring of Economies
- SAPARD: Special Accession Programme for Agriculture and Rural Development
- TAIEX: Technical Assistance Information Exchange Office
<table>
<thead>
<tr>
<th>Code</th>
<th>Party Name</th>
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<tbody>
<tr>
<td>ANO</td>
<td>New Civic Alliance (Slovak Republic)</td>
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<td>AWSP</td>
<td>Solidarity Electoral Alliance of the Right (Poland)</td>
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<td>BSP</td>
<td>Bulgarian Socialist Party</td>
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<td>CDR</td>
<td>Democratic Convention of Romania</td>
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<td>CF</td>
<td>Civic Forum (Czechoslovakia)</td>
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<td>CSSD</td>
<td>Czech Social Democratic Party</td>
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<td>DESUS</td>
<td>Democratic Party of Retired People of Slovenia</td>
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<td>DPS</td>
<td>Democratic Party Saarmieks (Latvia)</td>
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<td>DPS</td>
<td>Movement for Rights and Freedom (Bulgaria)</td>
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<td>DS</td>
<td>Democratic Party (Slovak Republic)</td>
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<td>DU</td>
<td>Democratic Union (Slovak Republic)</td>
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<td>ER</td>
<td>Estonian Reform Party</td>
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<td>FIDESZ</td>
<td>Alliance of Young Democrats (Hungary)</td>
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<td>FKGP</td>
<td>Independent Smallholders Party (Hungary)</td>
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<td>HZDS</td>
<td>Movement for a Democratic Slovakia</td>
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<td>New Era (Latvia)</td>
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<td>K</td>
<td>Centre Party (Estonia)</td>
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<td>KDH</td>
<td>Christian Democratic Movement (Slovak Republic)</td>
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<td>KDNP</td>
<td>Christian Democratic People's Party (Hungary)</td>
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<td>KDU-CSL</td>
<td>Christian and Democratic Union – Czechoslovak People's Party (Czech Republic)</td>
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<td>LC</td>
<td>Latvia's Way</td>
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<td>LCS</td>
<td>Lithuanian Centre Union</td>
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<td>LDDP</td>
<td>Democratic Labour Party of Lithuania</td>
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<td>LDS</td>
<td>Liberal Democracy of Slovenia</td>
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<td>LKDP</td>
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<td>LNNK</td>
<td>Latvian National Independence Movement</td>
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<td>First Party (Latvia)</td>
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<td>Social Democratic Party (Lithuania)</td>
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<td>MDF</td>
<td>Hungarian Democratic Forum</td>
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<td>MSZP</td>
<td>Hungarian Socialist Party</td>
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<td>NDSV</td>
<td>National Movement of Simeon II (Bulgaria)</td>
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<td>NS</td>
<td>New Union (Lithuania)</td>
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<td>NS</td>
<td>People's Union (Bulgaria)</td>
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<tr>
<td>ODS</td>
<td>Civic Democratic Party (Czech Republic)</td>
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<td>PDSR</td>
<td>Social Democracy Party of Romania</td>
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<td>PRM</td>
<td>Party of Great Romania</td>
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<td>PSL</td>
<td>Polish People's Party</td>
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<td>RP</td>
<td>Union for the Republic -Res Publica- (Estonia)</td>
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<td>SDS</td>
<td>Social Democratic Party of Slovenia</td>
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ABSTRACT

The successful completion of political, institutional and social transformation, which accompanies the new democracies of East Central Europe, urgently requires the establishment and consolidation of new forms of social security, called to ensure the sustainability and durability of reforms. By explaining the path of extrication from state socialism, this study aims to: a) compare different social policy theories and to elaborate new ones; b) identify the patterns of the welfare state’s transformation in Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic and Slovenia, at the national and EU level; c) investigate the attitudes towards social inequality in the European region; and d) explore the impact of social transfers in seven Central and Eastern European countries (Czech Republic, Estonia, Hungary, Poland, Romania, Slovak Republic and Slovenia). This research also aims to highlight the factors responsible for institutional change and democratic consolidation and to identify the prospects for the successful implementation of future welfare state reforms. This investigation identifies the emergence of a peculiar Eastern European model of solidarity coming from the fusion of pre-communist (Bismarck social insurance), communist (universalism, corporatism and egalitarianism) and post-communist features (market-based schemes), and maintained together by a strong support for redistributive policies. Finally, this book examines the challenges that modern welfare states are facing, such as the acceptance of a new welfare consensus, globalization and the Europeanization of national social policies. It concludes by reflecting on how Eastern welfare states will fit in the future EU welfare regime.

Keywords: Central and Eastern Europe, comparative social policy, welfare states, transition economies, labour markets, pension, health care, family policies, social assistance, European Social Policy, European Social Model, democratization.
Introduction

A Brief Overview of East Central Europe

“Central and Eastern Europe seems easier to define by what is not, than by what it is. It is an area without clear geographical borders, stretching from the Baltic Sea southwards to the Adriatic and south-eastward to the Black Sea. In the north, it comprises part of the Great European Plain which extends to west across north Germany into the Low Countries and to the east deep into Russia. In the centre is the upland plateau of Bohemia-Moravia, and the Danube Basin spreading out between the Alps and the Carpathian Mountains. Further south still is the mountainous, often remote and inaccessible region of the Balkans, and to the south-east the land stretches away into the steppes of Ukraine. These are sometimes called the “Lands in Between”: in between Russia and Germany, Europe and Asia, East and West. This is frontier country, part of Europe, but on the edge of it and not fully integrated with it.” (Batt 1998, p. 1; Batt 2003).

As Judy Batt has correctly outlined, Central and Eastern Europe is easier to define by what it is not, than by what it is. This is, of course, not only a problem of geographical location. Although Central and Eastern Europe is a frontier region, it is also something more. It is a conglomerate of populations with different historical backgrounds, different religions and different languages. In the late nineteenth century, for instance, the Czechs, the Hungarians, the Slovaks and the Slovenes were ruled by the Austro-Hungarian monarchy; the Estonians, the Latvians, the Lithuanians were subjected to Tsarist Russia, while the Bulgarians were part of the Ottoman Empire. The situation becomes even more complicated if we consider the Poles and the Romanians, who were divided respectively between the Austro-Hungarian and the Tsarist monarchy and between the Austro-Hungarian and the Ottoman Empire (see Batt 1998, Table 1.1).

As far as the religious orientation is concerned, the Poles, the Slovaks, the Lithuanians and the Slovenes are mainly Catholic; the Czechs and the Hungarians are Catholic, but have also significant Protestant minorities; the Latvians and Estonians are for the majority Protestants, while the Bulgarians are for the most part Orthodox. Also the languages differ significantly. Bulgarian, Czech, Latvian, Lithuanian, Romanian, Polish, Slovak and Slovene languages are part of the Indo-European group, while Estonian and Hungarian are not. More specifically, Bulgarian, Czech, Polish, Slovak and Slovene are Slavonic languages. Latvian and Lithuanian are part of the Baltic group. Romanian is latin-based, while Estonian and Hungarian are closely related to Finnish (see Batt 1998, Table 1.2 and Table 1.3; Batt 2003, Table 1.1 and 1.2).
In studying Central and Eastern European politics, one cannot be surprised, to discover how foreign influences have shaped the history of this region. The change of territorial borders is perhaps the most emblematic example and reveals how the national identities and aspirations of these populations have systematically been subjected to political decisions made by foreign, more influential nations. As Rupnik (1994, pp.98-9) cites:

“Eastern and Central and European borders are relatively new and they do not coincide with ethnolinguistic dividing lines. Less than a quarter of them predate the nineteenth century, about a quarter had been established around the time of World War I (1910-1922), and about one-third emerged in the aftermath of World War II. […] No less important, however, is the fact that the overwhelming majority of these borders had been established at post-war international conferences rather than by bilateral agreements (only 18 per cent) and thus were often perceived as having being imposed by the Great Powers”

Freedom and stability for these nations seems to have been arrived at only after the fall of the Berlin Wall, but their consolidation is still an open question. In fact, if, on the one hand, it is possible to prove that most of territorial disputes have immediately been regulated after the collapse of communism (leaving in most cases, however, the situation almost unchanged, such as the territorial issue of Transylvania between Hungary and Romania, the borders between Poland and Germany or the question of the property claims of the Sudeten Germans in the Czech Republic), then numerous other problems still remain unanswered. For example, the improvement of the countries’ economic performance or the consolidation of democratic institutions are still unsolved issues.

Unquestionably, these remain all crucial questions that regard not only the Eastern European region, but also the European continent as a whole. Several times, indeed, Eastern and Western politicians have called attention to the unrepeatable necessity to enlarge the European Community in the fastest possible way. Numerous variations of the same concept have been provided. Close to the undiplomatic dream to create a bigger and stronger Europe, capable of dealing with the two main superpowers from a position of parity, the inclusion of these countries has often been addressed as a new and historic opportunity: a train, which simply could not be missed. Others have recalled the notion of a “return to the past”, in which Europe had the possibility to start again in the ruins of World War II, leaving behind forty years of the Iron Curtain. According to this point of view, the last wave of the EU enlargement represented, in reality, nothing new for Europe, but simply a “return to normality”. As a consequence of the complex strategic goals
of the international community, all issues that go far beyond the objectives of this book, East Central Europe has been seen as the perfect political laboratory in which new equilibria could be tested, while the study of the factors responsible for the democratic consolidation of this region has become of crucial importance in predicting the destiny of these countries, and in understanding the future patterns of European political development.

**The Political Transition of 1990s**

As it is well known, on 9 November 1989 the Berlin Wall collapsed and with it the world order in place since the end of World War II. This date is, however, only a formal one. It is a day to celebrate, to remind the world that what we currently know as true is in fact new, and that it once had a different, probably less human face. In reality, the collapse of communism might equally be traced back to the 23 October 1956 (day of riots against the Soviet occupation in the streets of Budapest), to the 17 August 1962 (day of Peter Fecter’s death, the first East German shot while trying to climb the Berlin Wall), to the 21 August 1968 (day of the military intervention of Warsaw Pact forces during the Prague Spring), to the 27 June 1989 (day in which the Hungarian Foreign Minister, Gyula Horn, and his Austrian colleague, Alois Mock, cut the barbed wire in Sipron representing the symbolic opening of the borders between Austria and Hungary\(^1\)), or to the 16 October 1989 (day of the biggest anti-communist demonstration in Leipzig during the visit of Gorbachev to celebrate the birth of the GDR). Whatever date one decides to take as example for the beginning of the end of the communist order, this date will also coincide with a new wave of democratization in Europe, which is now supposed to bring peace and stability in the region, or, if such aim sounds too unrealistic, at least, to facilitate this process.

Despite the existence of a common belief, which looks at the 1989 events as something that arrived completely unexpected, for Central and Eastern Europeans, regime change did not suddenly occurred from one day to the other, but it was the natural result of the continuous internal tensions that the communist system was producing in each of the associate states. Interestingly, Central and Eastern European countries (CEECs) did not react to the dissolution of communism in the same way, but the transformation took numerous roads, resulting in a variety of political transitions (Szabowski and Derlien 1993; Lewis 1997). Regime change has been negotiated in Poland, the result of evolution in Hungary, followed by police violence in Bulgaria and Romania, caused by the implosion or collapse of the old system in Czechoslovakia (Lewis 1997) and Slovenia, or the consequence of Russian internal reforms in the Baltic States. In this context, an indepth analysis of the voting behaviour of these populations clearly shows how volatile the political transition has been in this region.

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\(^1\) In reality, however, the borders with Austria were only opened on 11 September 1989 to GDR citizens seeking political asylum in West Germany.
The Electoral Behaviour

In Poland, the Solidarity trade union, declared as outlaw by the communist regime in 1982, was finally admitted to negotiations with the Jaruzelski\(^2\) government after a series of strikes in the spring/summer of 1988. At the end of the so-called Round Table talks (April 1989), the two parties came to an agreement on the modalities for the first semi-free elections that had to be held on 4 and 18 June 1989. According to the new electoral rules, 65 per cent of the seats in the Sejm (Polish Parliament) were assigned to the communists in advance, while the remaining 35 per cent would be freely distributed between the ruling party and the opponents, on the basis of the votes received. In the Senate, recently re-established in 1989, the 100 seats available were not subjected to any restriction. This first round of elections saw the appointment of Jaruzelski as President, while Tadeusz Mazowiecki\(^3\) was designated as Prime Minister. In 1989, the Sejm approved the Balcerowicz\(^4\) plan, a neo-liberal set of economic reforms, which became the key feature of the Polish road toward market economy. The final end of the communist supremacy in Poland was signed on two subsequent dates. The first was in 1990 and coincided with the resignation of Jaruzelski and the appointment of Lech Walesa\(^5\) as President. The second was in 1991 with the first fully democratic parliamentary elections. While the inconsistency of having a communist President elected under non-democratic rules was soon resolved by the resignation of Jaruzelski, the defeat of the ex-communist party (the new called Democratic Left Alliance -SLD-) followed a more tortuous road. In fact, while in the parliamentary elections of 1991 the Democratic Left Alliance lost most of its power, receiving only 9 per cent of votes, the highly fragmented composition of anti-communist groups resulted in fatal voting in the following elections of 1993. In 1993 a new centre-left government formed by the Democratic Left Alliance (20 per cent of votes) and the agrarian Polish People’s Party (PSL, 15 per cent) unexpectedly won the majority of votes, and subsequently seats in parliament. This probably represented the first reaction of citizens to the high social costs caused by the economic transition (Lewis 1997). In 1997, the electoral support changed again, this time in favour of non-

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\(^2\) General Jaruzelski was a high rank official of the Polish Politburo since 1970s and the first secretary of the Communist Party since October 1981. He has been charged by Polish courts for responsibility in the shooting of demonstrators by the secret police in 1970s.

\(^3\) Tadeusz Mazowiecki was one of the most influential members of Solidarity (“Solidarnosch”) and personal advisor of Lech Walesa.

\(^4\) Leszek Balcerowicz was Minister of Finance of Poland from 1989-1991 and from 1997-2000. He has been one of the strongest supporters of shock therapy.

\(^5\) Lech Walesa was one of the founders, and the leader, of “Solidarity”, the first free non-communist trade union. He has often put in jail by the regime.
communists. A new Solidarity-led government formed by the Solidarity Electoral Alliance of the Right (AWSP) (33 per cent of votes) and the Union for Freedom (UW with 13 per cent of the votes) was reinstalled and the economic reforms initiated in the first round of elections, but temporarily blocked by the left coalition, were completed. As the voting behaviour in 1993 demonstrated, the Polish governments that pursued drastic economic reforms had also to pay, in some way, the costs of transition. In the next elections of 2001, a centre-left coalition of three parties, the Democratic Left Alliance, the Labour Union (UP) (together with 41 per cent of votes) and the Polish People's Party (9 per cent), obtained the majority of seats in the parliament (258 seats) against a fragmented and disorganized centre-right union (Jasiewicz 1998; Auswärtiges Amt 2003: Poland; Millard 2003; Elections around the World 2003: Poland; Parties and Elections in Europe 2003: Poland).

In Hungary, similar negotiations to those conducted in Poland, but primarily sponsored by reform-minded members of the communist party, took place with groups of the united opposition in the Hungarian Democratic Forum (MDF) and other social movements (trade unions) in the Round Table of 1988. After several months of consultations, the communist nomenklatura agreed on the possibility to introduce the first totally free elections, which could be held, thanks to the positive result of the national referendum of November 1989, in the spring of the following year (1990). The electoral support for the opposition was, however, not as expected, primarily due to the fragmented nature of the centre-right union. Despite this electoral impasse, a conservative coalition of three new parties, the Hungarian Democratic Forum (with 25 per cent of votes and 164 seats), the Independent Smallholders Party (FKGP) with 12 per cent of votes and 44 seats, and the Christian Democratic People’s Party (KDNP) with 6 per cent of votes and 21 seats, formed a new government under József Antall (as Prime Minister of the new Republic of Hungary). The second free elections of 1994 witnessed, similarly to the Polish case, a return of the ex-communists (the MSZP under Prime Minister Gyula Horn gained 33 per cent of votes and 209 seats). The coalition was formed thanks to the partnership with the Union of Free Democrats (SZDSZ), which obtained 20 per cent of votes that corresponded to the necessary 70 seats needed to create a majority.

In the third parliamentary elections of 1998, the ex-communists were not re-elected, but a new government formed by a centre-right

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6 József Antall was the first Prime Minister of Hungary after its independence from the Soviet Union. He is known for his statement that he was not merely the premier of Hungary, but of 15 million Hungarians with reference to the Hungarian minorities living abroad.

7 The former name of the Republic of Hungary in force until October 1989 was the Socialist People’s Republic of Hungary.

8 Gyula Horn was one of the founders of the Hungarian Socialist Party after the fall of the Berlin Wall. He was also a member of the Hungarian communist party since 1954.
alliance of three main parties, the Alliance of Young Democrats (FIDESZ) with 30 per cent of votes and 148 seats, the Independent Party of Smallholders with 13 per cent of votes and 48 seats, and the Hungarian Democratic Forum with only 3 per cent of votes and 17 seats, took office. The new elected Prime Minister Viktor Orbán declared that neo-liberal reforms, which too often were blocked by protesters, would be finally introduced to the country. Despite the fact that most of these reforms were not implemented as announced (especially in the years close to the new electoral campaign), this did not prevent the centre-right government from being defeated in the elections of 2002 by a coalition formed by the Hungarian Socialist Party of Péter Medgyessy (elected Prime Minister) and the Union of Free Democrats. These forces set an increase in public sector expenditures as a key policy priority (Jasiewicz 1998; Auswärtiges Amt 2003: Hungary; Elections around the World 2003: Hungary; Parties and Elections in Europe 2003: Hungary; Pittaway 2003).

In Czechoslovakia, political transformation was not initiated by the country's political institutions, as happened in Hungary and Poland, but rather it was the consequence of the requests coming from the civil society (groups often formed by veterans of the Prague Spring), which engaged in a series of violent demonstrations (the so-called velvet revolution) in November 1989. In December of the same year, the Federal Assembly, under Dubček, elected Václav Havel as President of the new democratic Czechoslovakia. After having successfully convinced the ruling communist party to renounce power, the two main social movements, the Civic Forum (CF), under the leadership of Václav Havel, of the Czech Republic and the Public against Violence (VPN), of Vladimír Mečiar, for Slovakia, went to the first free elections. Both groups won the majority of votes in June 1990 against the communist nomenklatura. This finally signed the end of the communist monopoly.

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9 At the time, Viktor Orbán was a thirty-five year old lawyer trained in prestigious universities (such as Eötvös Loránd University of Budapest and the University of Oxford) and known for his strong belief on the potentials of market-oriented reforms.
10 Péter Medgyessy was a technocrat under the former communist regime. He has been accused of being a counterespionage agent in the late 1970s.
11 Remarkably, the ex-communists alone received an unexpected 42 per cent of votes against a total of 41 per cent of the Alliance of Young Democrats of Orbán and the Hungarian Democratic Forum.
12 Alexander Dubček was the first secretary of the Czechoslovak Communist Party and withdrew from his functions in 1969 because of his active involvement during the Prague Spring.
13 Václav Havel was a political dissident, writer and founding member of the first anti-communist group, Charter 77.
14 Vladimír Mečiar was a member of the communist party since the 1960s, expelled because of a pro-reform speech given to the national congress during the Prague Spring. Mečiar has often been accused of pursuing political power through authoritarian means.
which for too many years had stopped the democratic aspirations of the citizens initiated in the riots of the Prague Spring of 1968. The following elections in 1992 saw a new electoral composition and, more precisely, the victory for the Civic Democratic Party (ODS) of Václav Klaus\textsuperscript{15}, with 30 per cent of votes, and for the new Movement for a Democratic Slovakia (HZDS) led by Vladimir Mečiar, who obtained a remarkable 37 per cent. On 25 November of the same year, the Federal Parliament adopted the Law on the dissolution of the Czech and Slovak republics as unified entities. This decision was the result of the strong socio-economic differences that existed between the two parts of the country and also the result of divergences in the policy orientation required to stop the asymmetries in the economic development\textsuperscript{16}. On 1 January 1993, the ex-Czechoslovakia was finally divided into the Czech Republic with the capital in Prague and the Slovak Republic with its capital in Bratislava.

In the new Czech Republic, Václav Klaus and Václav Havel became respectively the new Prime Minister and the new President. Václav Klaus formed his second cabinet in 1996, but the second Klaus government did not last the expected period. Despite his certainties on the successful completion of neo-liberal reforms, the increasing protests of citizens, exasperated by the deterioration of the economic situation, forced Klaus to resign on 30 November 1997. In the new polls of 1998, a new centre-left administration under Miloš Zeman\textsuperscript{17} of the Czech Social Democratic Party (32 per cent of votes), indirectly supported by the Civic Democratic Party of Václav Klaus (28 per cent), came into power. They immediately set about remodelling the ways in which the Czech economic reforms had to be conducted. Finally, the fifth Czech parliamentary polls took place in 2002, where a centre-left alliance formed by the Czech Social Democratic Party (30 per cent of votes) and Coalition\textsuperscript{18} (14 per cent) won the majority of votes. The government restarted discussions on the privatization of the social security system, but significant reforms were only to some extent implemented.

\textsuperscript{15} Václav Klaus studied economics in the Czech Republic, Italy and in the United States, held various positions in the State Bank of Czechoslovakia from 1971 to 1986 and, after the fall of the Berlin Wall, became Governor of the World Bank for Reconstruction and Development. He is known for his radical orientation toward economic reform. In his speeches, he has often affirmed to pursue the aim of the transition toward a market economy without adjectives, in particular without the adjective "social".

\textsuperscript{16} The Slovaks often accused the Czechs of pursuing a discriminatory economic policy, which tended to privilege the Czech Republic at the expenses of the less developed Slovakia (Williams 2003).

\textsuperscript{17} Miloš Zeman was a former member of the Czechoslovak communist party expelled during the Prague Spring. He is one of the founders of the Czech Social Democratic Party.

\textsuperscript{18} Coalition was formed by the Christian and Democratic Union, Czechoslovak People's Party (KDU-CSL) and the Freedom Union - Democratic Union (US-DEU)
In the new Slovak Republic, Vladimir Mečiar became the first Prime Minister, while Michal Kováč was appointed as the new President. Due to strong internal tensions (caused by the authoritarian style of leadership of Mečiar), Slovakia went to elections in 1994. The anticipated ballot, however, did not result in a drastic change in the parliamentary composition and Mečiar re-emerged as the strongest leader (with approximately 35 per cent of votes). In 1998, the fourth elections of the Slovak National Council marked a drastic reduction in the support for Mečiar and his Movement for a Democratic Slovakia (from 35 to 27 per cent). This allowed the Slovak Democratic Coalition (26 per cent) to rule the country until the natural end of the mandate. Finally, the fifth Slovak parliamentary polls took place in 2002, where a conservative liberal alliance of the Slovak Democratic and Christian Union (15 per cent of votes), the Party of the Hungarian Coalition (11 per cent), the Christian Democratic Movement (8 per cent) and the New Civic Alliance (8 per cent) formed a new government. These parties intensively discussed the privatization of the social security system, implementing significant reforms especially in the pension sector (Jasiewicz 1998; Auswärtiges Amt 2003: Czech and Slovak Republic; Elections around the World 2003: Czech and Slovak Republic; Parties and Elections in Europe 2003: Czech and Slovak Republic; Williams 2003).

In Romania, political transition took a different road in which a widespread use of police violence and intimidation of citizens became the key features of a senseless and desperate strategy that aimed to block the democratic aspirations of the opposition groups and the civil society. The violent anti-communist demonstrations of 16 December 1989 in the west of the country and in the streets of Bucharest, were bloodily suppressed by the police (who shot on the crowd and injured several thousand protesters), and were concluded few days later, on 25 December, when a special military tribunal sentenced Ceausescu to death for mass murder and several other crimes. The death sentence for the Head of State and his wife was broadcasted by national and international televisions, becoming another dramatic image of the fall of

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19 Michal Kováč was a lecturer of economics expelled from the Communist Party of Czechoslovakia in 1970. He then worked as a scientific researcher at Institute for Financing and Credit of Bratislava.
20 The new government was formed thanks to a coalition with the Slovak National Party (5 per cent of votes) and the populist left-wing Union of Slovak Workers (7 per cent of votes).
21 The Slovak Democratic Coalition was formed by the Christian Democratic Movement (KDH), the Democratic Union (DU), the Democratic Party (DS), the Social Democratic Party of Slovakia (SDSS) and the Green Party of Slovakia (SZS).
22 Nicolae Ceausescu succeeded Gheorghiu Dej, the former head of the Romanian Communist Party, in 1965. Since the beginning of his office, he was accused of a monopolistic and authoritarian management of power, involving the replacement of party officials with his protégés or family members.
communism. Unexpectedly, such impressive events, which were supposed to open a new wave of democracy in the country, did not automatically coincide with the beginning of political stability. Fragile communist governments were indeed followed by equally delicate non-communist coalitions. After the death of Ceauşescu, the power passed to the National Salvation Front of Ion Iliescu\textsuperscript{23}, who was immediately elected as President, while Petre Roman\textsuperscript{24} was designated as new Prime Minister. In June 1990, a new series of violent demonstrations focused the attention of the international community again on Romania. In this case, the widespread use of force, once again, was one of the key characteristics of the repressive strategy of Romanian authorities. In order to give a more democratic image of the repression, the violence of security agents was, this time, accompanied by the joint efforts of coal-miners, called to re-establish order in a country close to civil war. New elections soon arrived in 1992, giving victory to the successor of the National Salvation Front, the Social Democracy Party of Romania (PDSR), and Ion Iliescu, with 28 per cent of votes. Iliescu was re-elected as President, while Nicolae Vacaroiu, an ex-bureaucrat, was chosen as the new Prime Minister. In the third parliamentary elections of 1996, a centre-right coalition, named the Democratic Convention of Romania (CDR), won the majority of seats with 30 per cent of votes, and this time succeeded to govern until the natural end of the mandate. Unexpectedly, in November 2000, the party of Iliescu came to power again with a remarkable 37 per cent of electoral support. The government was formed by a left-wing coalition (with the Democratic Social Pole of Romania\textsuperscript{25}), which saw extreme left and social democratic parties joined together to fight the new emergent ultra-nationalism of Vadim Tudor and his xenophobic Party of Great Romania\textsuperscript{26} (Auswärtiges Amt 2003: Romania; Elections around the World 2003: Romania; Gallagher 2003; Parties and Elections in Europe 2003: Romania).

\textsuperscript{23} Ion Iliescu was a high ranking official of the Romanian communist party, who was gradually excluded from the political life for his opposition to the common communist ideology, for his critiques of the policies of Ceausescu and his criticism of the involvement of the Warsaw troops in Prague.

\textsuperscript{24} Petre Roman was an engineer with no prior political past, but co-founder of National Salvation Front.

\textsuperscript{25} The Democratic Social Pole of Romania was formed by the authoritarian/extreme left-wing Democratic Social Party of Romania, the Romanian Social Democratic Party (social-democratic) and the Humanist Party of Romania (social democratic). The coalition succeeded in governing thanks to the support of deputies of minority parties, such as the Democratic Alliance of Hungarians in Romania (UDMR), which obtained 6.8 per cent of votes and 27 seats.

\textsuperscript{26} The PRM was the largest opposition group in the Romanian parliament with 19 per cent of votes and 84 seats.
In Bulgaria, the democratization process began with the overthrown of Todor Zhivkov\textsuperscript{27} on November 1989. The ex communist leader was replaced by a less exposed party member Andrei Lukanov\textsuperscript{28} of the new-called Bulgarian Socialist Party (BSP), who was immediately appointed as new Prime Minister. In the elections of 1990, the former communist party obtained an extremely positive result (47 per cent of votes and 211 seats), which was unexpected if compared to the performance of other communist successors in CEE. This was, however, not sufficient to reach the majority in the Grand National Assembly, which was obtained by a coalition with 40 minor parties. Among these political forces, the Union of Democratic Forces (SDS) ended up being the biggest opposition group with 36 per cent of votes and 144 seats. In the following parliamentary elections of 1991, the Union of Democratic Forces was reconfirmed as the biggest opposition group (34 per cent of votes and 110 seats), successfully reducing its gap from the ex-communists of the Bulgarian Socialist Party (33 per cent of votes and 106 seats). In November 1994, the parliament was dissolved and the country went to elections. This time, a coalition led by the ex-communists won the majority in the parliament, obtaining 43 per cent of votes against a meagre 24 per cent from the SDS. Zhan Videnov\textsuperscript{29} was then elected as new Prime Minister, but the severe economic crisis of 1996, which forced the International Monetary Fund (IMF) to grant loans to Bulgaria in exchange for painful austerity measures and the establishment of a currency board, turned out to be the worst electoral enemy of the socialist party. In the new elections of 1997, the ex-communists saw a drastic reduction in their electoral support to 22 per cent (a fall of 21 per cent if compared to the previous election). This gave the Union of Democratic Forces, together with the People’s Union (NS), the possibility to form a new government coalition (52 per cent of votes, corresponding to 137 seats). Although this clear electoral preference might have been an indicator of future political stability, the most recent elections of 2001 have been, once again, the theatre of a drastic change of government, this time in favour of the personalist National Movement of Simeon II (NDSV). The former King, in exile since the end of World War II, was unexpectedly elected as Prime Minister with 43 per cent of votes, and formed a new coalition government with the centre-liberal Movement for Rights and Freedom (which had 7 per

\footnotesize{27 Todor Zhivkov was the first secretary of the Bulgarian Communist Party’s Central Committee. He maintained this office from 1954 to 1989, when the communist block collapsed.

28 Andrei Lukanov was a former member of the communist party of Bulgaria who served as deputy minister from 1986 to 1990 and as Primed Minister after the end of communist monopoly. He was arrested in 1992 for misappropriation of State funds. He was assassinated in his house in Sofia on 2 October 1996.

29 Zhan Videnov was a former member of the Bulgarian communist party. His political escalation in the party ranks began, however, only after 1989.}
The Baltic States (Estonia, Latvia and Lithuania), on the other side of the political transition, remained for a much longer time under direct control of the Soviet Union, gained electoral autonomy only with the reformulation of Article 6 of the Russian Constitution of 1990, which introduced the possibility of competitive elections. Opposition parties, which already existed as illegal entities in these communist regimes, were then allowed to legally enter the Baltic political arena. In the elections of 1990, non-communist governments were soon installed in all three states and declarations of independence from the Mother Russia immediately followed. As could be expected, the requests of the Baltic republics were not heard by Russian political leaders, who denied them their independence until 1991, when political referendums clearly showed the impossibility of refusing the citizens’ aspirations for self-determination (Birch 1998).

In Estonia, the first parliamentary elections of 1990 witnessed a clear victory for non-communist parties led by the Centre Party (K), which obtained 41 per cent of votes, corresponding to 43 seats over a total of 105. In the elections of 1992, the electoral support for this opposition group drastically diminished to a meagre 12 per cent. This did not coincide, however, with a return to the past. In fact, a new centrist-conservative coalition was formed thanks to the good results of the Fatherland Union (IL) (22 per cent). In the elections of 1995, the support shifted in favour of the less liberal-oriented Coalition Party and Rural Union, which gained a majority in the parliament (32 per cent), in comparison to the Centre Party (14 per cent) and the radical-liberals of the new Estonian Reform Party (ER) (17 per cent). In the elections of 1999, the Centre Party recovered the support lost in the past elections gaining 23 per cent of votes. The Fatherland Union and the Estonian Reform Party both received 16 per cent of votes; whilst the People's Party Moderates (M) gained 15 per cent. Finally, in the last polls of 2002, the support for centre-liberal ideas did not change and the Centre Party was reconfirmed as the most important political party (25 per cent of the vote), followed by the conservative Union for the Republic -Res Publica- (RP) (24 per cent), and the Estonian Reform Party (18 per cent) (Auswärtiges Amt 2003: Estonia; Elections around the World 2003: Estonia; Parties and Elections in Europe 2003: Estonia).

In Latvia, there were elections in 1990, 1993, 1995, 1998 and 2002. The Latvian People’s Front (LTF) was the first political formation to break the communist monopoly by winning the elections in March 1990 with 68 per cent of votes, against the 21 per cent of the Latvian Socialist Party (LSP). In 1993, electoral consensus was consolidated on liberal and centrist ideals, which were promoted by the Latvia’s Way (LC) (32

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30 The Coalition Party and Rural Union was a partnership of four main forces: the Coalition Party, Country People’s Party, Farmer’s Assembly, and Pensioners’ and Families’ League.
per cent), the Latvian National Independence Movement (LNNK) (13 per cent), the centrist of the People’s Harmony Party (TSP) (12 per cent) and the Latvian Peasants Union (LZS) (11 per cent). In 1995, political consensus did not shift from centrist and liberal parties, but this time it included an extreme right wing movement. The four main centre-right forces in these Estonian elections were the national conservative Fatherland and Freedom (12 per cent of votes), the Latvia’s Way (15 per cent), the centre-liberal Democratic Party Saimnieks (15 per cent) and the extreme-right Peoples' Movement (15 per cent). In 1998, the conservative reformist People’s Party (21 per cent), the Latvia’s Way (18 per cent) and the Fatherland and Freedom (15 per cent) won the majority of seats in the parliament, but the elections in 2002 saw the formation of a new centrist coalition under the guide of the New Era (24 per cent of votes)\(^{31}\). Other parties that gained a large percentage included the progressive centrist People’s Harmony Party (19 per cent) and the conservative reformist People’s Party (17 per cent) (Auswärtiges Amt 2003: Latvia; Elections around the World 2003: Latvia; Parties and Elections in Europe 2003: Latvia).

In the first free Lithuanian parliamentary elections, of 24 February 1990, the Saju dis (a new political movement formed by the scission of the ex-communists) won the majority of seats, and in March 1990 the Parliament declared the country’s independence from the Soviet Union. In the second elections of 1992, the former communist party (the newly called Democratic Labour Party of Lithuania, the LDDP) obtained the majority of seats (43 per cent of votes). In the following elections of 1996, however, three main centre-right movements\(^{32}\) formed a new government, which succeeded in ruling the country until the natural end of the mandate in October 2000. In the 2000 elections, consensus was centred again on centre-liberals ideas promoted by the “New Union” (NS). This early wave of political stability lasted, however, only until July 2001, when a new government was formed when the social-democratic and social-liberal parties joined together\(^{33}\). This allowed Algirdas Brazauskas of the Social Democratic Party (LSDP) to become the new Prime President of Lithuania (Auswärtiges Amt 2003: Lithuania; Elections around the World 2003: Lithuania; Parties and Elections in Europe 2003: Lithuania).

Finally, the first free elections in Slovenia, held in April 1990, brought about the formation of the first non-communist government. The Parliament proclaimed independence from the ex-Yugoslav Republic in 1991 after a referendum in which 88 per cent of Slovenes expressed

\(^{31}\) The new government was formed by the New Era (24 per cent), Latvia’s First Party (10 per cent), Green and Farmers Union (9 per cent) and Fatherland and Freedom (5 per cent).

\(^{32}\) These were: the Fatherland Union (TS) (30 per cent), the Lithuanian Christian Democratic Party (LKDP) (10 per cent) and the Lithuanian Centre Union (LCS) (8 per cent).

\(^{33}\) The new government coalition was formed by the LSDP, NS and others.
their clear intention to form a new and separate state. The second elections in 1992 saw, to some extent, a return of the ex-communists with the victory of a centre-left coalition. This coalition was formed by the Liberal Democracy of Slovenia (LDS) (with 23 per cent of the vote), the Slovenian Christian Democrats (14 per cent), the United List of Social Democrats (9 per cent) and the Social Democratic Party of Slovenia (3 per cent). In the third elections of 1996, the role of the left parties was drastically reduced and a more centre-oriented government, formed by the liberal democrats of the LDS (27 per cent of votes and 25 seats), the Slovenian People's Party (10 per cent of votes and 9 seats) and the Democratic Party of Retired People of Slovenia (4 per cent and 5 seats) was installed. This coalition succeeded in ruling the country until the new polls of 2000, when, due to the negative performance of the Slovenian People’s Party and the Slovene Christian Democrats (together only managing to get less than 10 per cent of votes), a new centre-left coalition formed by the Liberal Democracy of Slovenia (36 per cent of votes), the United List of Social Democrats (12 per cent), the new-united Slovenian People’s Party and the Democratic Party of Retired People of Slovenia (5 per cent) took office. This new parliamentary coalition made the maintenance of a comprehensive welfare state a citizen right, which could not easily be amended (Auswärtiges Amt 2003: Slovenia; Elections around the World 2003: Slovenia; Parties and Elections in Europe 2003: Slovenia).

This very brief overview of the electoral transition of East Central Europe shows not only how volatile the political transformation has been in these countries, but also how dramatic regime change has been for the populations involved. Economic factors, new institutional arrangements and political consensus around democratic ideas have all played a crucial role in dictating the patterns of regime change and the roads that the transition toward democracy had to follow. Although the prospects for future electoral stability are still difficult to elucidate, these clearly remain linked to the improvement of the economic performance of these new market economies.

A New Wave of Democratization
Inside the academic world, much ink has been spilled in the debate on the causes responsible for democratization, but the results of numerous discussions involving very famous scholars are still controversial. The most classical approach to democratization is the one introduced by modernization theory, according to which the level of socio-economic development remains a key factor to predict the growth of a stable democracy. For Dahl (1989), high levels of income per capita, urbanization and literacy are all crucial indicators of democratic development. Other authors, by contrast, have viewed democratization in less restrictive terms. Lewis (1997) has highlighted that modernization and democratization have become two close terms, which are not easily distinguishable and that can be subjected to numerous critics. By overemphasising the role played by socio-economic influences, modernization theory has neglected, for instance, numerous other
aspects, such as the elite strategies and leadership choices in place to foster or to block the birth of democratic institutions (Lewis 1997).

As Huntington (1991) has correctly emphasized, no single factor can be sufficient to explain the development of democracy in a determined country. Democratization seems to be more the result of a combination of causes and, of course, of events. Economic improvements as discussed by Lipset (1960; 1993) or the positive development in five key arenas (Civil Society, Political Society, Rule of Law, State Apparatus and Economic Society) introduced by Linz and Stepan (1996) are by no means the only influential elements. This thesis has also been supported by Gastil (1985), who defined the democratization process as a “struggle for ideas”, and by Diamond et al. (1989) and Pinkney (1993), who emphasized the importance of a multi-causal explanation (Cerami 2000). For these authors, historical and cultural backgrounds of a nation are all crucial for the successful transition toward democracy. Nevertheless, it is evident, as Arat (1991, p.152) has affirmed, that “as long as social and economic inequalities persist, developing countries that go to a process of democratization today are doomed to return to some form of authoritarianism”.

This last aspect, more than any other single factor, has raised the question of the sustainability of economic reforms in the region. As it is well known, immediately after the fall of the Berlin Wall, Central and Eastern European governments have embarked in a painful, but necessary restructuring of their economies. This process has taken different forms: from the drastic “shock therapy” or “bing-bang” strategy of more ambitious Polish decision-makers to the “gradualist” or “step-by-step” approach of more cautious Hungarian officials. Whatever decision has been taken, citizens have paid high social costs. As Przeworski (1991, p.136) has pointed out:

“Rationalizing the allocation of resources requires new markets, deregulating prices, attenuating monopolies, and lowering protection. Making the state solvent entails reducing public expenditures, increasing revenues, and, at times, selling public assets. [...] Even if governments that launch such reforms often hate to admit it, a temporary economic deterioration is inevitable. Inflation must flare up when prices are deregulated. Unemployment of capital and labor must increase when competition is intensified. Allocative efficiency must temporarily decline when the entire economic structure is being transformed. Structural transformations of economic systems are costly.”

Despite the unquestionable necessity of taking painful decisions, it is now clear that the social costs of economic transformation have been underestimated and the price that Eastern Europeans have paid (and still continue to pay) to “democratize” their countries might have been substantially lower. The assumption following the 1990s events, to a large extent, consisted of the idea that these countries in transition
might have been democratized primarily through “westernization”. This concept has clearly been too simplistic and should have been weighed more carefully. As it has been explained above, democratization is far less a clear-cut process with more uncertain outcomes than those predicted by political analysts. The myth of democratization as simply a matter of alignment toward western standards proposed by many influential experts\textsuperscript{34} has also suffered from numerous endemic weaknesses. In particular, it has continued to neglect the historical and cultural heritage, considering countries in transition nothing more than a tabula rasa in which western societies could simply write on it their understanding of modernization.

The Consolidation of Democratic Institutions

Even more complicated is the definition of democratic consolidation, since it starts when the democratization process is concluded, but it is unpredictable in its end. The temporal factor becomes, in this context, crucial, although it is not the only important factor. It is, in fact, necessary to explain not only the time required for a democracy to be consolidated, but also what factors may influence the stabilization of democratic institutions (Merkel 1996; Rüb 1996). The patterns of regime change have usually been divided into three main phases, according to the classical distinction of O’Donnell and Schmitter (1986), which includes: 1) liberalization of authoritarian regimes; 2) democratization; and 3) consolidation of democracy. As can be imagined, the first phase involves the cessation of the prior totalitarian system. The second implies the construction of the most important institutions of the political regime. Finally, the third consists of the consolidation of democratic institutions and begins when the other two phases are concluded (see also Rüb 1996; Merkel and Lauth 1998).

Clearly, the last step of transition is by far the most complex process to analyse. In fact, for Merkel (1996), the consolidation of democratic institutions can only be explained in the light of a multi-level model, which takes into consideration the successful expansion of four main elements: 1) institutional consolidation; 2) representative consolidation; 3) behaviour consolidation; and 4) consolidation of the civic culture. Institutional consolidation is seen as the stabilization of central political and constitutional organisms (such as parliament, government, political system and so on), which exist to define the rules of the game, and to ensure social and political inclusion (in the sense that no huge differences among social groups emerge). Representative consolidation refers to the territorial arena and includes the actors called to represent particular political interests, such as political parties and trade unions. The degree of democratic stabilization in this level permits to the citizens to have a real access to the basic freedoms mentioned by Linz\textsuperscript{35} (1975) and thus should be better represented in the new

\textsuperscript{34} See the debate over Modernization Theory in Zapf et al. (2001).

\textsuperscript{35} Linz (1975) addresses a political system as democratic when it guarantees the possibility to formulate individual political preferences
democracy. Behaviour consolidation, by contrast, concerns the absence of a strong support for actors, which might seriously endanger the consolidation of democratic institutions. Examples of these “de-consolidating” forces can be found in deviant military personnel, radical parties, clandestine groups, populist and charismatic leaders and so on. Finally, the forth and last level of democratic stabilization entails the existence of a consolidated civic culture, which, for numerous authors, represents the socio-political foundation of democracy (Almond and Verba 1963, 1980; Merkel and Lauth 1998; Putnam 1993, 2000). Civic traditions and culture can thus help to improve a sense of social cohesion, which turns to be essential for the long-term sustainability of democratic institutions.

As O’Donnel and Schmitter (1986) have correctly emphasized, the process of regime change inevitably implies a significant degree of uncertainty in the sense that transformation requires something that is still unknown to move towards. In this unpredictable process of transformation, new political actors are called to reduce uncertainty by providing a new form of legitimacy. Unquestionably, this new form of legitimacy depends on numerous factors and not on any single one. What cannot be denied, however, is that a new and more equal division of rights and resources may be vital for the successful conclusion of the consolidation of democratic institutions. As Offe (1994) and Rüb (1996) have highlighted, new democratic rules must be institutionalized and shared by the community according to the principles agreed in advance with the citizens (the so-often quoted “social contract”). In this context, social security systems remain the most crucial forces, helping to confer a moral legitimacy to the transformation towards a capitalist-based society and facilitating the creation of a new consensus around the new democratic rules (Offe 1994; Rüb 1996).

**Main Objectives of this Study**

As mentioned, the dissolution of the Iron Curtain has opened the door to a new wave of democratization and modernization in Europe. The reasons for its breakdown, however, remain only in part explored. For Ettrich (2003), the causes leading to the collapse of communism should be seen in the light of a multidimensional approach, in which numerous factors are all crucial to explain the dissolution of communist rules. Ettrich (2003) affirms that the unexpected destructive results of Gorbachev’s glasnost, the dissolution of the Soviet Empire, the economic defeat in the competition with the West, the lack of political legitimacy and the formation of movements of opposition (civil society), the oil crisis of the 1970s, the absence of a coherent strategy of economic and technological development and the internal differentiation of communist political elite were all co-actors in the dissolution of state-socialism. Fehér et al. (1983) have also emphasized the existence of self-destructive mechanisms inside the communist state apparatus, through the access of basic freedoms, such as association, information and communication.
which were created by the “informalization” of political and social activities and by the incapacity of the communist elites to reproduce the power resources in force in the early period of communism. In other words, the state-socialist system also played a significant role in its own collapse.

This study does not deal with the death or re-birth of old institutions, but rather with the emergence of new ones. By explaining the path of extrication from state socialism, the book aims to: a) compare different social policy theories and to elaborate new ones; b) identify the patterns of the welfare state’s transformation in Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic and Slovenia, at the national and EU level; c) investigate the attitudes towards social inequality in the European region; and d) explore the impact of social transfers in seven Central and Eastern European countries (Czech Republic, Estonia, Hungary, Poland, Romania, Slovak Republic and Slovenia). Finally, this research aims to highlight the factors responsible for institutional change and democratic consolidation and to identify the prospects for the successful implementation of future welfare state reforms.

There are well known practical, theoretical and political problems associated with any attempt to achieve and maintain significant and permanent reforms in the region. These are connected with the difficulties of the transition towards market-based economies, in a way that does not produce distorted effects in household incomes. Poverty and its associated disadvantages remain an intractable and long-term problem in these societies. Thus far, it has not been successfully overcome through successive social policies, which have been in place since 1989.

A way to escape social inequality, as it has been argued, might be to empower welfare institutions. This, however, should be conducted in a manner that avoids excessive increase in welfare expenditures, which would contradict the recommendations of the EU and other international organizations. The risk for CEECs is that most social policies become distorted or undermined by political interests, external pressures or bureaucratic inefficiency. With regard to the reform of the welfare state, CEE governments plan to develop EU recommendations into coherent national strategies, in which not only the central administrations will be involved, but also local authorities, private organizations and volunteers will also take part. Subsequently, it appears that privatization, means-tested welfare provisions and decentralization of tasks are the new trends (Kapstein and Milanovic 2001). The necessity of reform is beyond question and will involve less generous benefits, reduction of eligibility criteria and a shift from universal to means-tested benefits. In more practical terms, such reforms will, very likely, mean the transition toward a “residual” welfare state (Standing 1996).

With the first introduction of market-oriented reforms, numerous observers have affirmed that post-communist countries will finally converge to the model present in the West and that no clear differentiation will soon be possible. As a consequence of globalization,
Burawoy (2001) has argued, that a new form of global capitalism is emerging. Other scholars, in sharp contrast, have pointed out that, due to national historical backgrounds, the study of capitalism means in reality the study of “comparative capitalisms” (Stark 1996; Stark and Bruszt 1998, 2001; Eyal et al. 2001, 2003; see also Albert 1993; Esping-Andersen 1990; Rhodes and van Apeldoorn 1997; Streeck 1997; Hall et al. 2001). Researchers should therefore focus their attention not on a single capitalist model, but on a variety of capitalisms. If this pattern is real, then comparative social policy should attempt to answer the question of whether the post-communist capitalism (or capitalisms) will: a) reproduce the welfare state already in place in Western Europe; b) result in a common peculiar Eastern welfare state; or c) create so many welfare states as many economies in transition. In other words, it has to be asked whether we are witnessing the emergence of a new European model(s) of solidarity and, if yes, whether this model is in accordance to EU standards.

The Research Design
This study has followed the classical stages of any research design in social sciences: examination of previous theoretical frameworks, formulation of hypothesis, operationalization of concepts, selection of the areas of study, collection of data, analysis of the empirical material and explanation of findings.

The starting point of the investigation has been the search for a suitable theoretical domain. Here, the most debated theories on welfare state dynamics have been explored. The aim was not only to compare different social policy theories in order to see which one was the most appropriate, but also to see whether there was the need of some addition or revision. As a result, three other theoretical frameworks have been taken into account: path dependency theory, new-institutionalism and neoclassical sociology. These are all sociological approaches that primarily focus on institution building but have become crucial in the explanation of Central and Eastern European welfare states. In this region welfare structures face not only processes of natural development and mutation, as it could happen in the West, but also processes of institutional creation. The most appropriate theory able to elucidate these processes has been identified in a synthetic approach, which considers historical legacies, institutional settings and social interactions of individuals as determinant factors for the development/creation of new welfare institutions.

The second step consisted of the formulation of a clear hypothesis, which could test the theoretical domain recently proposed and which could also highlight the logical consequences of the theory adopted. More concretely, the principal hypothesis has followed this logic. Since there is now a significant agreement on the fact that different capitalist models may result in the formation of different welfare regimes, and that the development and creation of a determined welfare regime is strictly connected to the historical, institutional and cultural legacies of the countries in which welfare institutions grow (see chapter one), a
common socio-political background should lead to the emergence of a common, unique welfare regime. In case of this study, the assumption is that forty years of communism may have produced a system of values and institutions, which is likely to survive the homogenising pressures of more recent transformation, resulting in the materialization of a common post-communist welfare state.

The third stage has involved the operationalization of concepts. Here, it has been necessary not only to define, in the clearest possible way, the hypothesis mentioned above, but also to find the necessary measures to test it. The basic concept has been found in the convergence/divergence principle, which examines the factors of divergence from western European welfare states, but also the factors of convergence within the Central and Eastern European region\textsuperscript{36}. Consequently, this conceptualization has been turned into variables and indicators with the aim of allowing more precise empirical observations. In particular, it is crucial in identifying a common set of characteristics which unites these welfare states in transition\textsuperscript{37} and which makes them a particular “model”. These have been identified in the persistence of common features origined in the communist or pre-communist past.

The fourth step has involved the identification of the areas of study. Here, it is essential to test the convergence/divergence principle in three main domains. First, the convergence/divergence principle has been tested on the western model of welfare. Instead of simply focusing on how a determined scheme may be “transferred” from one region to the other, it is considered more important to examine whether a social security system proposed from outside can successfully be introduced by design in the region without defensive or adaptive strategies. This would inexorably change the nature of the model suggested in advance. In this case, the western model \textit{per se} has not been taken into account (assuming it exists), but instead the ways in which it changed in order to adapt to the new environment are taken into consideration. Second, the convergence/divergence principle has been tested on countries within the Eastern European region. In particular, it crucially attempts to identify the persistence of special path-dependent features in five main welfare state sectors (pension, health care, protection against unemployment, social assistance and family support). These five areas are the core of each welfare state and represent the place in which cohesive, and disgregative, factors are easily identifiable. Finally, the convergence/divergence principle has been investigated in the attitudes of European citizens toward social inequality. The aim of this is to discover whether clear-cut differences within Europe and among social groups persist in the support for a determined model for welfare.

In the final stages of the research, the data is collected, analysed and the main findings summarized. In particular, this has involved the

\textsuperscript{36} I owe a huge debt to Frank Ettrich for valuable discussions on this topic.

\textsuperscript{37} For the definition of “welfare states in transition”, see Esping-Andersen (1996).
study of official reports prepared by the European Commission and other research institutions on the transformation of Central and Eastern European social security systems, but it has also included discussions and interviews with policy makers of the region. In addition, close to the analysis of the ISSP dataset on the attitudes toward social inequality, an indepth examination has been conducted on the Luxembourg Income Study datasets. Here, the aim was to improve understanding of the impact of social transfers in seven Central and Eastern European countries to suggest future possible reforms.

Organization of the Book

In order to facilitate the reader, the book has been constructed on three different levels. Part I focuses on the most debated theories and classifications about the establishment and development of welfare structures in Europe. More specifically, while chapter one introduces to the study of comparative welfare states, chapter two provides a brief overview of path dependency theory and the most discussed approaches to institution building. This chapter also offers a comprehensive description of the role played by international organizations in the creation of post-communist social policies. The main objective here is to supply a more comprehensive conceptual framework able to explain the transformation of Central and Eastern European welfare states.

Part II investigates the most recent developments in Central and Eastern European social policy. Chapter three, four, five, six and seven look at the changes occurring in five main welfare state sectors: pension, health care, protection against unemployment, social assistance and family support. By providing the most up-to-date information on the current structures and reforms implemented, these chapters aim to present a clearer picture of Central and Eastern European welfare reforms.

Part III analyses two household surveys. Chapter eight examines the attitudes towards social inequality among European citizens, by using the dataset Social Inequality III provided by the International Social Survey Programme (ISSP). This chapter tries to quantify the support for a more re-distributive policy-making. Chapter nine investigates the change in income inequality and the impact of social transfers in seven Central and Eastern European countries. This chapter is based on a set of 16 household income surveys made available by the Luxembourg Income Study (LIS). Its main aim is to monitor and to analyse possible repercussions of reforms on the population. Finally, this book examines the challenges that modern welfare states are facing, such as the acceptance of a new welfare consensus, globalization and the Europeanization of national social policies. It concludes by reflecting on how Eastern welfare states will fit in the future EU welfare regime.
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Part I
Introduction
As an introduction into welfare state dynamics, this chapter looks at the development of the welfare state in Europe and gives an overall assessment of the most debated theories and classifications used in comparative social policy. Heidenheimer et al. (1990, p.3) defined comparative public policy as: “the study of how, why, and to what effect different governments pursue different courses of action or inaction”. In very few words, this implies identifying and explaining similarities and differences across regions, countries and localities using a determined theoretical framework, which can help to identify the problems that need to be addressed. This also involves the explanation of constellation of policies, the way in which they developed across the years and the manner in which they differed across space and over time (Carmel 1999). One of the most difficult parts in comparative social policy is, thus, the necessity to look beyond ones own social system, cultural background and personal opinions about how a society should be.

Comparative social policy is, however, of little help if the study is not associated with a necessary criticism or excluded from its historical and global context. For these reasons, this chapter does not only deal with the birth of Western European social policies, as numerous monographs do, but it provides an analysis of the origins of Eastern welfare states. Going more into details, while Section one focuses on the class based origins of modern social policies summarising the most discussed explanatory models, Section two pays attention to the system of social security during communism. In particular, it provides a brief overview of the central planned economy, of its repercussions on social stratification as well as on social policies. Finally, Section three examines well-known classifications of the welfare state.

1.1 The Class-Based Origins of Modern Social Policies
The birth of modern social policy in Europe is undoubtedly paradoxical. The first attempt to create some form of institutionalized solidarity is commonly attributed to Bismarck with the establishment of the first pension and sickness insurance system in 1889\(^\text{38}\). According to the law, urban workers were covered by insurance from old age and misfortune at work. Moreover, they were implicitly recognized as a risk community, sharing common interests in light of a new social contract. In this process of transformation, social insurance was the cornerstone.

Although this act certainly helped to place workers into a risk category, it is widely argued that Bismarck’s interest in social insurance

\(^{38}\) Gesetz zur Krankenversicherung of 1883; Gesetz zur Unfallversicherung of 1884; Gesetz zur Invaliditäts- und Altersversicherung für Arbeiter of 1889.
was far from the egalitarian vision of “class solidarity” and was probably moved by reactionary intentions. The state made concessions to the industrial working class in the form of social policy with the aim of avoiding a possible victory for the Social Democrats, who might have pursued more ambitious plans (Baldwin 1990, pp. 3-6). In this context, Bismarck’s main concern was in gaining a consensus for the government rather than to establish new forms of social solidarity.

According to the Bonapartist and Marxist approaches, social policy was the price paid by the German elites to preserve their own privileges; the urban workers were just the passive objects of these reforms, occupying a minimal if not marginal role. Also, a “rational choice” explanation, which considers humans as being rationally calculating individuals, would support the thesis of an interest of the German middle classes in maximising their well-being by improving the living conditions of the urban working class. As Baldwin (1990, p.6) suggests: “pensions for empowerment”.

Whether industrial workers were really the passive actors of the Bismarckian reforms is not easy to confirm, but what is certain is that no other category (for example, farmers) was considered to have benefited from the then-new social insurance. Furthermore, the earnings-related system of benefits based on contributions also helped to define the German model of the 19th century as largely absent of social solidarity. This was probably the first case of the clientelistic welfare state, which mainly focused on political goals rather than on the real essence of social solidarity.

The first challenge to the Bismarckian vision of social policy came quite early. In 1891, Denmark introduced a new law on pensions: an all-inclusive, non-contributory, tax-financed system, which became the main feature of the Nordic model (Baldwin 1990). In 1913, Sweden imitated the Danish government’s move with a similar law on retirement, which guaranteed a minimum provision to all citizens, regardless of class, status or income. Who in this case comprised the main actors of Scandinavian social policy at the time? As Baldwin explains, the biggest role was played by the newly emergent Scandinavian middle-class: the farmers. Through a universal, non-contributory and tax-financed system, the agricultural based middle class aimed to increase their privileges while, at the same time, avoiding the risk of paying more for financing their welfare state. An increase of productivity might have been very costly in a contributory system and this was obviously their main concern. This approach to social insurance, which was an extension of the concerns held by farmers, who were for the first time united as an interest group, also met the liberal and conservative belief of the inapplicability of the contributory system in a state where most of the people were still too poor to pay for their own benefits. An all-embracing, egalitarian and tax-financed approach was, therefore, the best way to put together different interests and needs (Baldwin 1990).

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Even in this case, the beginning of social policy was linked to a clientelistic vision of the welfare state.

The law on old-age pensions came in Great Britain on the 1 August 1908 following the Danish vision of social solidarity. As Ferrera (1993, p. 9; translated from Italian) describes:

“For the first time, the elderly with low incomes could go to the post-office and claim their rights expressed in five pence a week. Not all the old people, who were entitled to get the pension, claimed their right, incredulous of what was seen, in the best case, as the magnanimity of Her Majesty. For many other months, the elderly brought to the office workers bunch of flowers and baskets of fruits in exchange for their benefits”.

In 1911 the National Insurance Act moved the system towards the Bismarckian model and again with the advent of Beveridge\footnote{Sir William Beveridge is famous for his report, presented to the British Parliament in November 1942, on the ways to reduce poverty in Britain. At the core of the report lies a system of social security in which all people of working age pay a national weekly contribution. The new system of social protection will then grant benefits in case of sickness, unemployment, retirement or widowed to all citizens. In brief, the main aim of Beveridge’s Report was to provide a minimum living standard to all British families through a comprehensive and “socially-just” welfare state (Source: Wikipedia: The Free Encyclopedia, William Beveridge, URL: http://en.wikipedia.org/wiki/William_Beveridge. Last log-in: January 2004).} towards “Scandinavian Universalism”. These early perplexities were not easily resolved. But during this period, Great Britain created a system that pursued egalitarianism as a moral choice. As Titmuss\footnote{See Titmuss (1950, 1963) quoted in Baldwin (1990, p.25).} would later affirm, this was probably the result of a sense of social cohesion created by the amenities of World War II. During this phase, British social policy was characterized by flat-rate benefits. Baldwin (1990, p.100), again, identifies two main reasons in explaining this peculiarity: first, because British policy did not share Bismarck’s interests, aiming to aid the poorest, and not only to secure working class standards; second, because flat-rate or uniform benefits were suggested by considerations of administrative practicability.

In the eastern half of Europe, reforms of the system grew even more radical. On 17 October 1917, the Bolshevik Revolution sought to ensure the liberation of the Proletariat from the Tsarist oppression. The acquisition of social rights was linked to the expropriation of property at the expenses of the Tsar and the noble upper classes. For many historians and Marxist philosophers, the Russian workers were, for the first time, united in defending their interests.
Whether the Russian working class was really the main actor of the October Revolution is difficult to prove. As Lane (1971) explains with an accurate analysis of Bolshevik party membership, only a handful of the delegates at the party’s founding congress were from the working class. This, however, should not lead to a misunderstanding of the class-based origins of socialist welfare states. There is in fact no doubt that future developments in communist social policies were strongly characterized and dictated by a peculiar understanding of class solidarity based on Marxist principles, which emphasized social equality among individuals as a main moral and political value.

1.2 Theories of Welfare State Dynamics
Over the last few decades, a revival of academic interest on this subject has characterized the study of the welfare state. Many authors have tried to provide a theoretical framework explaining the peculiarities of national welfare systems. Despite all efforts, an all-embracing conceptual apparatus is still not available. The reason for this is probably found in the explicative method, which has mainly focused on determined aspects, to the neglect or exclusion of other aspects. What follows is an attempt at consolidating these different approaches into a more unified viewpoint.

According to the classification made by Pierson (1998, pp.15-97), the welfare state can be described as:

- the product of the needs generated by the development of industrial societies\(^{43}\);
- the consequence of political mobilization to attain full citizenship\(^{44}\);
- the outcome of both, industrial and political mobilization in the context of Keynesian reforms\(^{45}\);
- the result of a struggle between political powers of social democracy and the economic powers of capital\(^{46}\).

This is undoubtedly a remarkable and innovative approach: a new “Weltanschauung”, or in other words, a new way to see the emergence and existence of welfare institutions as the outcome of human actions delimited by the specific socio-economic and political context. In particular, the welfare state has been seen as a necessity of modern societies to adjust to recent industrial developments, providing the necessary support to economic changes and, at the same time, as an


important tool for improving social cohesion. For more than one century, welfare institutions were supposed to help the achievement of, what Goodin et al. (1999, p.22) described as, six moral values:

- promoting economic efficiency;
- reducing poverty;
- promoting social equality;
- promoting social integration and avoiding social exclusion;
- promoting social stability;
- and promoting autonomy.

From this point of view, concepts such as nationhood and citizenship have been built within the borders of the welfare state, whilst the realization of social rights has been a fundamental prerequisite of a fully mature democracy. For modern societies, citizenship has been synonymous of “belonging to a specific nation-state”, but this has also meant “being the owner of determined rights”. Welfare institutions were therefore the best way to translate the theoretical assumptions of modern constitutions (for example, right to work, to education, to health and, more generally, to a normal life) into practical material evidences (ensuring job, income, health services and so on)⁴⁷.

In contrast to this positive attitude, many other theorists have described the welfare state as:

- an unprincipled intrusion to a functioning liberal market economy⁴⁸;
- a form of developed capitalist state aiming at securing the long-term circumstances for the accumulation of capital⁴⁹;
- a system embodying the essentially contradictory nature of developed capitalism and chronically subjected to the logic of fiscal and administrative crises⁵⁰;
- an organism now undermined by the process of globalization and characterized by an unsustainable development⁵¹.

The limits of the welfare state have been strongly emphasized and defined as strictly connected to its same essence, that is to say a

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⁴⁷ For the classical argument re-proposed by Esping-Andersen that “social citizenship constitutes the core idea of the welfare state” (Esping-Andersen 1990, p.21), see Marshall (1963, 1970, 1981).
system born in a specific industrialized context and characterized by the same contradictions of the environment in which it was growing. Thus, developed capitalism and its contradictions have been translated into welfare contradictions. In addition, it has been broadly argued that welfare regimes also acted as a system of social stratification (Esping-Andersen 1990) widening class, race and gender divisions\(^{52}\).

A good understanding, and comparison, of the welfare state has been a crucial issue for many scholars, who defined it a “unique” system only comprehensible in a comparative and historical context\(^{53}\). The continuity in the establishment and development of welfare structures seems, indeed, to be common to most, if not to all, European countries. Baldwin (1990), for instance, emphasizes the link between the Bismarckian understanding of institutionalized solidarity in the post-war establishment of the German system of social insurance. The same has been affirmed for the Scandinavian countries and their universal coverage due to the social democratic forces present in the respective governments as well as for Great Britain and its understanding of social solidarity developed by Sir William Beveridge in his well-known Report (see note 4 of this chapter). Italy with its populist/corporatist tradition, which finds its basis in the pre-fascist and fascist period, would not be an exception to this trend. Even in this case, the concession of welfare rights has continued to depend on the achievement of specific national political goals. The Italian monarchy introduced in 1898 the first insurance against old-age, sickness and work accidents for factory workers with the aim to prevent the spread of socialist ideals. Mussolini made a strumentalistic use of populist and agrarian-oriented social policies with the main objective to find a consensus around the new fascist regime. Finally, the post World War II governments led by the Christian Democrats persevered in this direction by granting special privileges to determined professional groups, particularly the notables of the main cities in the South of the country, with the aim to enlarge their electoral support (for more information on Italian history and social policy, see Colarizi 1994; Ferrera 1993). Nevertheless, it is crucial to remember that despite national differences and peculiarities, common trajectories in the building of common values can be drawn. Words such as “social equality” or “social solidarity” have crossed national borders, achieving a multi-national meaning. Moreover, traditional, cultural and political formations may have differed from country to country, but the aspirations of modern societies to pursue social equality in the coin of a minimum living standard for their citizens has not been substantially different, at least in the written constitutions.

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2. Social Policy under Communism
2.1 The Soviet Economy

In order to understand communist social policy, a brief introduction to the Soviet economy is required. One reason for this is that despite possible criticisms, the central planned economy provided material subsistence for many hundred million people. For Ettrich (2003), the central problem of state-socialism was not its economic inability to ensure decent living standard to its citizens, rather it was its inability to establish a democratic society. This undermined in the long-run the political legitimacy of the system itself.

As far as the state-socialist economic structure is concerned, Kornai (1992) describes three main prototypes as belonging to three different evolutionary periods: 1) the revolutionary transitional system; 2) the classical system or classical socialism; 3) the reform system or reform socialism. In the first transitional period, the main objective of the leading class was to establish the transition from the tsarist capitalism to socialism in the fastest way possible. This period involved the expropriation of property, the collectivization of resources, and a rapid industrialization. This was followed by massive efforts for improving the educational standard of a large mass of illiterate citizens with the aim of establishing class-consciousness based on Marxist principles, which did not exist beforehand (Lane 1971). This kind of “shock therapy” was implemented through fast and, in most cases, undemocratic policies.

Once that the revolutionary period finished (nothing is “revolutionary” forever) and the Soviet “enlargement” into Eastern Europe became a reality, the Soviet system focused, from the establishment of a socialist society, to the consolidation of the system. The bureaucracy took control over all the spheres of the state-socialist life. Economic plan management and implementation, appointment and dismissal of leaders, management of production, allocation of products and labour, regulation of economic relations became all a “matter of state”. The entire banking system became state-owned. The state budget was also responsible for spending on the administration, for state investments, for subsidization of firms and consumer prices, and also for free public services. This was possible through the state’s main revenues, which were: a) the revenue generated by state-owned firms; b) tax payments by cooperatives; c) turn-over taxes (included in the price of every goods); d) and loans raised by the budget. As regards employment and wages, the state controlled: e) management of production; f) supervision of the workplace to which workers had been assigned compulsorily; g) representation of political and trade union power; h) local representation of the administrative organizations of the state; i) and, very importantly, the local representation of the income distribution authorities (Kornai 1992, pp. 121-138). This last aspect is of particular interest in understanding socialist social policy. Indeed, the major control over the income distribution authorities gave local bureaucrats a great deal of power in the allocation of benefits creating circles of loyalty
to the state apparatus. As one might expect, the entire social life became state-managed.

The third period (reform socialism) was characterized by the first attempt to challenge and bring into discussion the soviet System and its lack of democracy. On 23 October 1956 began the protest against the Soviet occupation in Hungary that culminated a week later with the bloody suppression in the streets of Budapest. This rebellion was moved by claims for reforms in the economy as well as in the political and social sphere. A similar protest exploded in Prague during the Spring of 1968 (the so-called Prague Spring), but, once again, the democratic aspirations of Eastern citizens were followed by a bloody suppression by Soviet military forces. In 1968, however, the New Economic Mechanism (NEM) opened the doors in Hungary to a “quasi-private” economy. For the first time, employees could change their job if they wished to do so. The concept of “private property” came timidly into light and the state monopoly began to diminish. This was the beginning of two different economies: the first one where the state was still the main player retaining special rights, and a “second economy” where citizens could also play an important role in the positive development of their economic situation. In the case of Hungary, these two different systems operated side by side, becoming the expression of a particular style of communism, defined as “Goulash Communism”. The existence of this second, parallel economic system led numerous scholars to affirm that state socialist societies were never pure in their communist essence, but rather they had a “hybrid character” (Szélényi 1988; Hankiss 1991; Ettrich 2003). Hankiss (1991), for instance, emphasized that the “second economy” was responsible for the creation of a “second society” inside the communist order, undermining in the long-run the same legitimacy of the dominant communist rules.

2.2 Social Stratification under Communism

The standard view on communist social stratification describes state-socialism as the most successful attempt to create a classless society. Did things really go in this way? Did state-socialism achieve its main aim to create a non-antagonist society, gradually withering differences away? To some extent, this did not happen at all and the communist system produced, voluntarily or not, new forms of social differentiation.

According to Slomczynsky (1994), social status can be measured on the basis of the relationship between education, occupation and income. In this context, the criteria of class differentiation in a central planned economy could be identified as: a) control over the utilization of the means of production; b) immediate control over labour; c) the mental component of performed work (non-manual versus manual workers); d) production and non-production of work; e) and, ownership of the means of production. On the basis of this conceptualization, while in the first period of communism there were three main classes –the working class, the intelligentsia and the peasantry. In the late 1960s these classes became internally more differentiated resulting in the late stage of state-socialism in managers, first-line supervisors, experts and professionals,
office workers, state-factory workers, service workers, petty bourgeoisie, farmers and private enterprise workers (Slomczynski and Mach 1997).

If we accept, as Davis and Moore (1994, p.39) suggest, “that the main functional necessity explaining the universal presence of stratification is precisely the requirement faced by any society of placing and motivating individual in the social structure”, then state-socialism might be described as a non-antagonist and anti-meritocratic system. In the 1960s, for example, the wage differences in Czechoslovakia were reduced to the point that engineers and high skilled workers earned only 5 per cent more than unskilled workers (Lenski 1994). Social mobility also decreased significantly during communism (Kivinen 1994). This produced the undesired effect to limit work performance in absence of incentives, to produce stagnation or even regression of modernization (Machonin 1997). In other words, the systemic problems of Marxist societies were the results of their own inadequate arrangements in promoting a classless society (Davis and Moore 1994; Lenski 1994; Tumin 1994).

As regards social inequality, defined by Lane (1971, p.13) as “the uneven distribution of goods and values among the population in the sense that one group may have more income or education than other”, the reasons for social inequality in USSR and in the states modelled on her has been perpetuated, firstly, by property relations, secondly, by the system of political power, thirdly, by the division of labour and, fourthly, by the human nuclear family (Lane 1971). Data on communist social stratification have shown that the life chances and the possibility to go onto higher education were significantly higher among children of fathers in managerial or professional positions rather than of unskilled workers (Ferge 1997). Thus, as Ferge (1997, p.48) emphasizes, “the chain of social reproduction was not fully interrupted even by a system, which ideologically deadly set against it”.

2.3 Communist Social Policy
As far as the social security system is concerned, as Simpura (1994, p.150) emphasized, social policy became an empty concept due to the fact that all the policies during communism were “social” by definition. In particular, the state provided: a) free health care; b) employment (the system worked on full-employment); c) housing; d) public pensions; e) and a “safety net” for those incapable to take active part in the socialist working life. Put in these terms, communist social policy might seem the paradise of egalitarianism and the best expression of social solidarity. In reality, it was characterized by lacks and inefficiencies. This led some authors (see Ettrich 1999; Ferge et al. 2002) to affirm that the problem of state socialism was not merely the existence of an excessive welfare state, but rather the absence of an efficient welfare state.

With regard to the housing sector, there was a structural lack of apartments and living conditions were fixed at a very low level. In Central and Eastern Europe things went a little better due to a lesser structural lack of housing stock. The housing sector was also less state-
managed and cooperatives, as well as private owners, were allowed to play a significant role in the “quasi-private” economy. The state also provided credits for private single-family houses. With respect to wages, “full-employment” was the basis of the communist social contract. Unfortunately, the security of job was connected to a real obligation (being parasites of the society could directly lead to jail). Retirement was regulated by contributions (which was relatively irrelevant due to the fact that wage differences were very low) and settled among 50 per cent to 100 per cent of a base usually calculated on the average of the best five years within the final 10 years of work. Again, the level of benefits was very low. This situation was aggravated by the non-indexation of pensions to living standard or average wages (Connor 1997). As Connor (1997, p.34) correctly emphasized: “a poor working life was followed by a poor retirement”. The state also acted on the subsidization of prices, thus preferring shortages, instead of an increase in the price of food. This policy-making resulted in food scarcity in the shops and discontent among the citizens, who tended to compare their situation of economic deprivation to what they saw on western TV shows. Health services were available free of charge, but underdeveloped and inefficient. There were high mortality and morbidity rates (Deacon 2000). The presence of a high number of doctors per capita (much higher in comparison to western standards) was not followed by an adequate structural situation. In general, a lack of funds for hospitals was the norm.

Communist social policy, however, was not only characterized by lacks, but also by some excess in social protection. In GDR and Hungary, the existence of three years childcare grants did not automatically help socialist working-mothers from the hardness of work. In particular, this excessive protection facilitated the establishment of high welfare dependency and very low incentives to go back to work (high replacement rates54). The resulting distorted effects in the labour market could still work under a system based on full-employment. But, once the Berlin Wall collapsed and unemployment came out, this situation became unsustainable for the state budget, also preventing employers from employing women wanting to start a family.

54 „High replacement rates”: “people receiving pretty much the same from social benefits when not working as they would have done from working”. Description by Goodin et al. (1999, p.80).
3. Welfare State Classifications

The first theorist to attempt to explore and to categorize different welfare systems was Richard Titmuss (1974), born in a working-class family, he later became a professor at the London School of Economics. In his well-known classification, Titmuss affirms the existence of three different typologies. In the “Residual Model”, welfare institutions come into play when the market and the family, seen as basis of modern societies, have terminated their function to promote social equality. Examples of this include the USA or Great Britain. In the “Industrial Achievement Performance” cluster, welfare institutions work together with the market. Within this cluster, social benefits are understood in terms of work performance according to a determined class status. Examples of this kind of system include Germany, France and Italy. In the “Institutional Redistributive” model, welfare institutions are fully integrated with the wider society according to a universal basis. Examples of this universal basis include the Scandinavian countries, where social rights and access to welfare benefits are conditional upon citizenship (Hantrais 1995).

In 1990, Esping-Andersen wrote what probably has been the most quoted and discussed book in the history of social policy. In his The Three Worlds of Welfare Capitalism, Esping-Andersen describes the welfare state as a principle institution in the construction of different systems of post-war capitalism. In addition, he affirms the existence of three welfare regimes on the basis of an index of “Decommodification” and “Stratification”. According to the author, the “Liberal Welfare Regime” is characterized by means-tested benefits, modest social insurance, social rights and entitlements rules are conditional upon demonstrable and object needs, and are usually associated to social stigma. The “liberal regime” is also dominated by a liberal work ethic and the market remains the main provider of welfare services. Examples of this include the United States, Canada, Australia and Great Britain. For these countries, the “sanctity of the market” is understood as a main moral value. In the second model, described as “Conservative-Corporatist Regime”, the preservation of status differentials is the chief characteristic. Rights and welfare entitlements are, therefore, the output of class, status and financial contributions. Examples of this include France, Germany and Italy. For this group of countries, the Church and the Family remain crucial actors in subsidising the deficits of the welfare state. In the third model, defined as “Social Democratic Welfare Regime”, welfare institutions do not play a subsidiary role, waiting until the market or the family capacity to promote social equality is exhausted, but they are strongly committed to the preservation of social rights defined upon citizenship, rather than upon class status. The best examples are the Scandinavian countries (Carmel 1999).

55 Ability of a worker (employee) to survive outside the labour market. Description by Carmel (1999).
56 Extent to which occupational/class status in market place is produced or reproduce by the state. Description by Carmel (1999).
During the last fifteen years, the three-fold classifications of Titmuss and Esping-Andersen have been subjected to numerous attacks. Titmuss’ typology has been strongly condemned because of its inapplicability. Often, it has been shown that most welfare states embrace elements of all three models (see Pierson 1998). Esping-Andersen’s distinction has also attracted its own critiques. Rieger (1998) criticized the conceptualization, arguing that the conceptual apparatus did not fulfill Weberian standards of sociological accuracy. Obinger and Wagschal (1998), on the other hand, called into question the research method itself, affirming a procedural weakness and a possible manipulation of the data, which might show a four-fold, rather than a three-fold, cluster (see also Castles and Mitchell 1993).

Other observers have also pointed out that Esping-Andersen neglected several important peculiarities of the welfare state. Lewis’ analysis (1992), for instance, focused on the relations between paid and unpaid work in the establishment of current welfare regimes. As a result, the author affirmed the existence of three different typologies built on the idea of a “male-breadwinner” model. “Strong Male-Breadwinner” countries (for example, Ireland and Great Britain) are based on women’s part-time labour market participation, lack of childcare services and maternity rights. The presence of inequality between husbands and wives with regard to social security is also a main characteristic. These countries are, therefore, described as strongly based on the dividing line between public and private responsibility (obviously at the expenses of women). France is an example of the second classification, defined as “Modified Male-Breadwinner”. Characteristics of these welfare systems are full-time jobs for women, who can also benefit from a relatively comprehensive social security system. Nonetheless, the role of wives-mothers and paid workers place women in a condition of inferiority in relation to the full-covered and working male. The third example, called “Weak Male-Breadwinner” or “Dual-Breadwinner”, is the case of Sweden. Characteristics are women in paid employment by the introduction of separate taxation and parental leaves, and by increasing of childcare provision (Lewis 1992).

Also the Italian political scientist Maurizio Ferrera (1993) stressed the importance of the labour market attachment in the establishment of welfare institutions. In his book *Modelli di Solidarieta’* [Models of Solidarity], Ferrera suggested a four-fold model plus two underdeveloped welfare systems. These welfare states are described according to the axis “occupational” versus “universal”. On the side of the work-related welfare states, France, Belgium, Germany and Austria are defined as “pure occupational”, while Switzerland, Italy, Netherlands

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57 For a response, see Esping-Andersen (1999)
58 For the feminist critique to Esping-Andersen see also Lewis and Ostner (1995); Orloff (1993, 2002); Sainsbury (1994, 1996).
59 In the essence, this two-fold classification is similar to the “Bismarck vs. Beveridge” typology provided by Palier and Bonoli (1995) and Bonoli (1997).
and Ireland are addressed as “mixed occupational”. According to Ferrera, this last group of countries is characterized by hybrid occupational structures in which a corporatist pension system is placed side by side to universal health care services. On the other side of the spectrum and precisely in that comprising the universal welfare systems, New Zealand, Canada and Great Britain are categorized as “mixed universal”, while Finland, Denmark, Norway and Sweden are seen as “pure universal”. While the first group of nations seem to have slowly abandoned Beveridge-oriented social policies, the persistence of highly egalitarian values still characterizes the Scandinavian countries. Finally, due to the lack in the development of a coherent system of social protection, the United States is described as “underdeveloped occupational”, while Australia is seen as an “underdeveloped universal” welfare state.

In 1996, Ferrera put aside this first classification affirming the existence of a “Southern Model” of welfare, covering the Mediterranean part of Europe (Italy, Greece, Spain and Portugal). Peculiarities of this model are identified as (Ferrera 1996, p.17):

“a) a highly fragmented and “corporatist” income maintenance system, displaying a market internal polarisation: peaks of generosity (for example, as regards pensions) accompanied by macroscopic gaps of protection; b) the departure from corporatist traditions in the field of health care, and the establishment (at least partially) of National Health services based on universalistic principles; c) a low degree of state penetration of the welfare and highly collusive mix between public and non public actors and institutions; d) the persistence of clientelism and the formation – in some cases- of fairly elaborated “patronage machines” for the selective distribution of cash subsidies”.

Pre-empting these possible classifications, Deacon made the first attempt to categorize the peculiarities of Central and Eastern European welfare states in 1992. In the last paragraph of the book The New Eastern Europe (Deacon 1992), the author suggested the emergence of a possible future “post-communist conservative corporatist” model related to Bulgaria, Poland and Romania. In his conceptualization, Czechoslovakia would have been a good example of social democratic welfare state, while Hungary and Slovenia examples of future liberal capitalist regimes. In the following years, however, this three-fold classification has not been supported by the necessary empirical evidence and seems to have been abandoned by the author who focused in later works on globalization and social policy (see Deacon et al. 1997).

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60 For the “Latin Rim” model of social policy see also Leibfried (1992) and Ferrera (1998).
61 For a comprehensive synthesis of welfare classifications see also Arts and Gelissen (2002).
Conclusion
This chapter has provided a brief introduction to the most debated theories regarding the development of the welfare state in Europe. Paraphrasing Pierson (1998), it can be argued that the welfare state was the product of industrialized societies (both capitalist and state-socialist), in terms of a struggle between political, economic and class-based powers. It was a form of capitalist and state-socialist development, embodying the essentially contradictory nature of developed capitalism as well as the essentially contradictory nature of state-socialism. While on the one hand, it has secured the long-term circumstances for the continued accumulation of capital and power in both societies, being constituted through and divided by gender, race and class status, on the other, it has also fostered the development of a fully mature conception of citizenship. Its path-dependent development has been associated to and caused by the environment in which welfare institutions were growing. This has included: political configurations, political culture of the civil society, and historical background of the nation. As a result of these forces, different national settings have produced a variety of welfare structures, which Esping-Andersen and numerous other authors (see above) have tried to summarize and to categorize, neglecting, however, to develop a logical social policy framework. This lack of development will be examined in more detail in the following chapter.

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62 For a comprehensive list of authors see chapter 1, §1.2.
Chapter 2
Path Dependency, Social Policy Vacuum, Institutions and Innovation: Toward a Neoclassical Social Policy

Introduction
In the previous chapter, the factors responsible for the establishment of a determined model of welfare have been highlighted. In particular, it has called attention to the power relations between political and social actors. Moreover, the study of the culture and the history of a nation has been identified as a necessary step for the understanding of future welfare state developments. The relationship among social, political and historical forces remains, however, mostly unexplored. For this reason, the following section operates at two distinct levels (theoretical and practical) and has two main objectives. At the theoretical level, it offers a synthesis of three recent conceptual frameworks (which will be important for this research) developed to clarify the aspects behind an institutional transformation: path dependency theory, new-institutionalism and neoclassical sociology. The intention is to provide a new paradigm in which the outcomes of any social policy re-organization can be better studied. At the practical level, it tries to identify and to describe the role of the actors that shaped the social policy change in Eastern Europe since the fall of the Berlin Wall. The aim here is to provide a better picture of the relations between external influences and internal constraints in national decision-making.

1.1 Path-dependency Theory
The notion of path-dependent transformation has only recently come to the attention of social and political scientists. The path dependency theory grew in the field of technological development, economics and, only at the end, reached political and post-communist studies (Beyer and Wielgohs 2001, p. 357). In its simplest sense, path dependent development means that the transformation in the technological, economic or political field highly depends on the environment in which conditions for change have been created. The classic statement of this theory is that small events produced in the past are likely to cause long-last consequences (Bianco et al. 1997; Pierson 2000b).

With regard to post-communist studies, the leading proponents of path dependency theory rejected the approach suggested by Karl and Schmitter (1991) who argued that the dissolution of the communist order resulted in a “political” or “institutional” vacuum in which new values could be easily implemented (Beyer and Wielgohs 2001). In Karl and Schmitter’s view once an important rupture with the past has begun new rules encourage some interests to enter the partisan political arena and discourage others (Karl and Schmitter 1991). In the case of Central and Eastern European societies, these new rules corresponded to neoliberal values. According to path dependent theorists, however, neoliberal principles recently introduced in post-communist societies have still to face the violent and long-lasting impact of historical legacies. Crawford and Lijphart (1997), for instance, pointed out that the social,
cultural and institutional structures created under the Leninist regimes and Soviet domination in Eastern Europe represent not only a long shadow on the present, but shape the environment in which the battle for new institutions will take place, ultimately undermining the liberalization process itself. For Offe (1996, p.217), “state socialist institutions have, as a rule, generated a state of mind, a set of expectations and assumptions that now often turn out to be inimical to the growth of democratic capitalist and civil institutions”. Views such as these portray communist legacies in largely negative terms. The communist heritage is seen as responsible for blocking the process of modernization of Central and Eastern European societies, and, perhaps, even in facilitating the return to some form of authoritarianism (Jowitt 1992).

A substantially less brutal conception of path dependency theory rejected the idea of “political” or “institutional” vacuum as well as the notion that communist legacies might have produced negative effects in the process of transformation. Advocates of this view affirmed that even during the first years of transition there was still place for path-dependent, but innovative decisions (Hausner et al. 1995; Stark 1992, 1995; Stark and Bruszt 1998, 2001). For Stark (1992), the variety of privatization strategies in Central and Eastern Europe indicated that politicians could still implement different policies in accordance to the country’s cultural and historical heritage. In his words (Stark 1992, p.20), “it is in the ruins of communism that these societies will find the materials with which to build a new order” and not out of it. Moreover, it is “not by design” that capitalism can be introduced in these societies, but the “path of extrication” from state-socialism will be the result of mutations, reconfigurations and “recombinations” of pre-existent features (Stark 1995; Stark and Bruszt 1998, 2001). In brief, path dependence means for these authors neither restoration of the previous structure nor incapacity to build new institutions.

Nonetheless, according to the most influential economists of this theory, the freedom of choice for innovative decisions tends to be confined (locked-in) in the early transitional period. In other words, once that a change has been made, all other possible solutions are automatically locked out from the early path of transformation (Arthur 1989; David 1985). The reasons why this happens are explained by the fact that each change imposes significant net costs and, as a consequence, the actors involved in such change may find transformation unattractive in comparison to the status quo (David 1985; North 1990; Pierson 1993, 2000b). For Ackermann (2001), however, even though actors do not take the best possible decision (“pareto optimal”), this is more the result of the logical implications of any path dependent process, rather than the explicit evidence of “evolution’s failure”.

In sharp contrast to the assumption that future changes will unlikely happen once that a path of transformation has been introduced, Beyer and Wielgohs (2001) argued that later changes in the political constellation were not irrelevant for the further course of privatization in
East Central Europe. In the hands of these authors, path dependency theory would be abandoned, being at the moment “not more than a metaphorical formula that history matters and that there is continuity also in the process of social change” (Beyer and Wielgohs 2001, p. 387). According to their point of view, the process of transformation in Eastern Europe is still an on-going process, which does not allow stable observable outcomes. Thus, path dependency theory might be helpful only once that the “mode” of transition has been concluded.

Is path dependency theory, as expressed so far, sufficient to explain the “path of extrication” from state-socialist welfare states? Or, again, fifteen years after the dissolution of communism, some modification is required? To defend the importance of path dependency theory, this book will demonstrate that contemporary Eastern European welfare states were not introduced by design or by dictation, but have been built on communist and pre-communist ruins. As Stark has insisted, the communist and pre-communist heritage did not block, but created opportunities for great innovation. Interestingly, innovative decisions did not remain confined to the early transitional period, but were possible also in later stages of development. This last statement proves by no means the inconsistency of path dependency theory, but simply, as Di Palma (1990, p.129) has emphasized, that “rules are adaptable to changes”. Indeed, each path dependent change cannot be simply explained in terms of stable transformation over time, but needs to be reconsidered in developmental terms. For this reason, I am tempted to use the expression “developmental path dependence” to define the multi-linear approach to transformation of post-communist societies, which is certainly characterized by legacies, but it is also highly innovative and in continuous reconstruction.

Finally, this kind of definition allows us to introduce the concept of “path creation” coined by Garud and Karnøe (2001) and extensively discussed by Lessenich (2003). According to this new version, path dependency must be reconciled with an actor-centred theory (Crouch and Farrel 2002), which includes the action of “institutional entrepreneurs” (Beckert 1999). In particular, as Lessenich (2003) describes, social and institutional actors can succeed to create a new path (path creation) by “playing with the old one”, or, in other words, “using embeddedness to disembed” (Lessenich 2003, p.8; see also Beckert 1999; Garud and Karnøe 2001; Crouch and Farrel 2002; Crouch 2003). It is thus evident that, through such a mechanism of institutional creation, path dependence, deviation from the early transitional logic and innovation do not exclude each other, but are part of the same process.
1.2 New Institutionalism and Neoclassical Sociology

But how do we explain the relationships among the numerous actors involved in the process of transformation of Central and Eastern European societies? In fact, one of the main concerns of social observers of all epochs has always been the identification of actors able to shape the directions of change. The institutionalist, and later new-institutionalist, approach in sociology has correctly focused on four important factors to improve understanding of the development of modern societies: history, institutions, environment and social interactions. According to the (new)-institutionalists, any analysis of societal change should consider the complex mediation among the historical background, institutional settings and social interactions of individuals and organizations. More precisely, it is argued that not only history matters, but also institutions and the social environment in which they are embedded.

The concept of “embeddedness” was formally introduced by Polanyi et al. in 1957, but it can be traced back to the work of Max Weber on the Protestant Ethic and the Spirit of Capitalism ([1904-1905] 1958) and in Economy and Society ([1922] 1968). In the Protestant Ethic and the Spirit of Capitalism, Max Weber affirmed that different religious settings influenced the construction of different, peculiar forms of capitalism. What the author envisaged was the existence of a variety of rationalities coming into light from different socio-cultural contexts. The idea of “context-bounded rationality” was developed more clearly in the book Economy and Society. According to the author, the analysis of different organizational structures should be carried out within the context of the specific institutional framework of a given society in a given historical period, in which conventions, social norms, religious and cultural beliefs grow up and reproduce themselves (Nee 1998).

The historical and comparative analysis of different forms of market organizations, pioneered by Weber, was later developed by Karl Polanyi in the Great Transformation ([1944] 1957). In his most famous and debated book, Polanyi attacked those theorists who portrayed the market as a self-regulating, self-sufficient organism, able to reproduce itself without intervention from outside. For the author, a pure form of an unregulated market simply never existed. Rather, the institutional approach proposed by the author identified the State as a crucial institution in limiting the satanic effects of uncontrolled market forces.

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63 For more information on new-institutionalism in sociology, see Brinton and Nee (1998).
64 In Economy and Society, Weber ([1922] 1968) also identifies a fourfold typology of action: a) instrumentally rational (zweckrational) according to which individuals rationally choose means and action; b) value rational (wertrational) according to which action is determined by individual’s moral values or cultural beliefs; c) affective (affektuell) in which action is chosen on the basis of an emotional decision; d) traditional (traditional) in which action is determined by the “habitus” of everyday life.
In a subsequent publication, Polanyi et al. (1957) expressed more clearly the relationships among market development, institutions and social interaction. For these authors, economic outcomes depend not only on institutional settings, but also on how economic actions are embedded in social structures (Porter and Sensenbrenner 1998). Thus, as Nee (1998) has emphasized, the concept of “embeddedness” expressed by Polanyi et al. was not very dissimilar from the idea of “context-bounded rationality” introduced by Weber half-century before.

Granovetter (1985) and North (1981, 1990) provide a more recent contribution to this debate. According to Granovetter’s institutional approach, social networks of interpersonal relationships highly influence economic behaviour and, thus, contribute to different outcomes, shaping directions of change. In particular, as North (1981, 1990) has pointed out, institutions are crucial to shape economic performance by: a) determining the structure of incentives; b) reducing uncertainty in human interactions; and c) helping to solve the problem of coordination (see also Ingram and Nee 1998). In a more recent publication, North (1998) clarifies this early argument. According to North (1998, pp. 248-9),

“institutions are the humanly devised constraints that structure human interaction. They are made of formal constraints (for example, rules, laws, constitutions), informal constraints (for example, norms of behavior, conventions, self-imposed codes of conduct), and their enforcement characteristics. Together, they define the incentive structure of societies and, specifically, economics […] It is the interaction between institutions and organizations that shapes the institutional evolution of an economy. If institutions are the rules of the game, organizations and their entrepreneurs are the players. Organizations are made up of groups of individuals bound together by some common purpose to achieve certain objectives. Organizations include political bodies (political parties, the Senate, a city council, regulatory bodies), economic bodies (firms, trade unions, family farms, cooperatives), social bodies (churches, clubs, athletic associations) and educational bodies (schools, universities, vocational training centers”).

Moreover, North explains that ideas, ideologies, myths, dogmas and prejudices must not be separated by the historical context in which they are embedded (timing matters!) and that the study of societal change is, in effect, the study of a learning process in which individuals’ mental models do play a crucial role. Again, for North (1998, p. 251):

“Learning entails developing a structure by which to interpret the varied signals received by the senses. […] A common cultural heritage provides a means of reducing the divergence in the mental
models that people in a society have and constitutes the means for the intergenerational transfer of unifying perceptions. [...] Belief structures get transformed into societal and economic structures by institutions – both formal rules and informal norms of behavior. The relationship between mental models and institutions is an intimate one. Mental models are the internal representations that individual cognitive systems create to interpret the environment, institutions are the external (to the mind) mechanisms individuals create to structure and order the environment”.

According to the cognitive/institutional approach proposed by North, history, institutions and culture – understood in terms of collective learning – are key elements to understand the path-dependent evolution of modern societies. Similarly, Homans ([1961] 1974) emphasizes that norms (both formal and informal) are forms of social capital, which highly influence individuals and group performance (Nee 1998). In particular, formal and informal norms shape individuals’ activities by means of sanctions associated to a determined “deviant” social behaviour. In the course of their life, individuals learn to distinguish what is socially acceptable for the rest of the community from what it is not. The result of this learning process, which is the product of social interaction, leads to the acquisition of new and important tools, which will guide individuals in the realization of long-term benefits by constraining their short-term private gains (see Homans [1961] 1974; Nee 1998). 

So, according to what pattern do history, institutions, norms and cultural beliefs shape societal change? Similarly, for Talcott Parsons (1990), the institutional framework is an organized system of cultural beliefs and norms common to most individuals who are part of a determined society. This organized system of cultural beliefs develops according to an evolutionary mutation characterized by a continuous process of upgrading previous (sub)structures. As a result of the “adaptive upgrading” of past characteristics, differentiation and integration are synthesized in a new, more complex organism (Parsons 1966). Although Parsons understands evolution merely as a continuous process of upgrading with relation to the strongest characteristics that survive, comparing Israel and the Ancient Greece, the author remembers that “the fact the Kingdom of David and Salomon and the Polis of Athens were eliminated did not destroy their future cultural contribution” (Parsons 1966, p.110). In other words, even if some element may disappear from the scene as a result of “successful adaptive upgrading”, this does not imply that other characteristics, such as cultural influences, did not continue to play an important role in future developments. Not very far from Parsons’ theory of societal change, is the evolutionary approach of Luhmann (1991). Even in this case, the author understands evolution as a causal process, a form of differentiation and integration of systems, in which functions of variation, selection and stabilization are combined through different mechanisms.
For Luhmann, the analysis of evolutionary processes cannot be discerned by the historical and social context in which functional mechanisms take place. According to the author, indeed, “every economic action is social action” (Luhmann 1988, p.8).

In a similar vein, neoclassical sociologists (Eyal et al. 2001, 2003) have moved the debate on new-institutionalism a step forward. Taking East Central Europe as a laboratory to test new sociological theories, Eyal et al. (2001, 2003) have argued that neither sociological theories of network and embeddedness, nor a rational choice explanation\textsuperscript{65}, can be exhaustive in understanding the path of state-socialist transformation. The main reason for this lies in the fact that these theories have assumed the existence of a single unifying form of capitalism (see, for instance, Burawoy 2001). By contrast, for these authors, social positions, points of view, identities and alliances of national and international actors as well as habitus of individuals and existence of peculiar institutions are decisive to the development of new forms of capitalism in CEE (Eyal et al. 2001, 2003). As a consequence, recalling Max Weber, neoclassical sociologists affirm that a variety of rationalities coming from different socio-cultural contexts will result in a variety of capitalism(s) in which the Eastern European might form a unique model. The authors, however, do not exclude that, in the long-term, post-socialist societies will converge to the neo-liberal capitalism, but this speculation seems to be more part of futurology rather than of social sciences, which must focus on observable empirical evidences.

1.3 Actors and Strategies in the Making of Post-Communist Social Policy

When addressing the implications of changes in Central and Eastern European welfare states, the reasons behind the decision to carry out a determined reform must be defined. It must be made clear why national governments opted for a specific policy orientation, as well as the extent to which other non-domestic actors influenced this decision. In other words, it is essential to define the level of freedom in national decision-making. In fact, it is now widely accepted that international organizations considerably influenced the path of transformation of Central and Eastern European welfare states, substantially limiting governments’

\textsuperscript{65} According to rational choice theorists, “action” can be simply explained by the individual’s personal and economic expectations. As a result, every action is essentially instrumental and made on the basis of the specific material benefits that the individual may receive. For Boudon (1998), however, action can also be made on the basis of non-instrumental reasons. As Boudon (1998, p. 825) affirms, “in some circumstances actors do X not because they expect any desirable consequence, but because they are convinced that X is good, since it is grounded on strong reasons. […] I vote because I think I should vote. I think I should vote because I have strong reasons to believe in democracy”.

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autonomy in carrying out the necessary reforms (Deacon et al. 1997; Kapstein and Milanovic 2001). According to Deacon et al. (1997), the International Monetary Fund (IMF), the World Bank, the Organisation for Economic Co-operation and Development (OECD) and, more recently, the European Union (EU) and the International Labour Organization (ILO) were among the first international institutions, which used their power to shape post-communist social policies. From the date of the article’s and book’s publication onwards (Deacon and Hulse 1997; Deacon et al. 1997), the list of possible “intruders” in national decision-making is exponentially increased, including the WHO, WTO, private insurance companies (such as the German Allianz AG), and international non-state actors (such as international consultancies and international NGOs). Needless to say, market fundamentalism was the way chosen by most of these actors. The day after the end of the Cold War, the main idea leading the path of extrication from state-socialism was, indeed, the one theorized by the US social analyst and political commentator Francis Fukujama (Blazyca 2003). In his book, The End of History and the Last Man (1992), Fukujama celebrated the liberal democracy and the economic performance of capitalism as the final forms of human government. Regardless of academic accuracy, this vision of modernization had a huge impact not only on the New American Right, but also on less neo-liberal-oriented political fractions of the old continent.

Once that political and economic rules were defined, all spheres of transformation of Central and Eastern European societies had to follow accordingly. Bismarck social insurance was obviously the favourite way for three main reasons. First, because this kind of welfare arrangement was already in place in the pre-Soviet period, and, in many cases, parts of its structure survived also to the most drastic Soviet re-organization (see for example Poland and Hungary). Second, because the Bismarck orientation allowed the fast privatization of important state sectors (such as pension and health care system). Finally, because the communist welfare state had a mix character: corporatist and universal at the same time. The state-socialist system of social protection was work-related with respect to coverage, but basically all citizens were employed by the state. As a result, there was no contradiction between these two principles: the command economy artificially resolved the problem.

1.3.1 The European Union and the Enlargement

After many years of negotiations, the enlargement of the European Union has finally become a reality. The benefits of enlarging the European Union have been frequently emphasized and identified as being political, economic and cultural. For the thirteen countries that expressed their interest to join the EU, the accession was not free of charge. These candidates needed to fulfil the economic and political conditions known as the "Copenhagen Criteria". These criteria implied a) be a stable democracy, respecting human rights, the rule of law, and the protection of minorities; b) have a functioning market economy; c)
adopt the common rules, standards and policies that make up the body of EU law (source: DG Enlargement web site).

In more practical terms, the candidate countries were (and some applicants still are) engaged in negotiations, which involved the completion of 31 Chapters. These chapters were the observable expression of the so-called “acquis communitaire”, which was the set of laws and rules defined by the Treaty of Rome, Maastricht and Amsterdam (the EU’s funding treaties). The four most important chapters were:

- Chapter 1: Free Movement of Goods;
- Chapter 2: Free Movement of Persons;
- Chapter 3: Freedom to Provide Services;
- Chapter 4: Free Movement of Capital.

These chapters corresponded to the four basic freedoms of the European Union (Peterson and Bomberg 1999, p. 62). Chapter 13 dealt with employment and social policy. The Employment and Social Policy Chapter covered health and safety issues, labour law, equality of treatment between women and men, social dialogue, employment and social protection. According to the EU legislation, “in these areas there were no legal obligations to implement precise policy-measures, but a very important general obligation to co-ordinate the respective policies in order to develop a homogenous social framework in line with the principle and rules of the EU treaties” (source: DG Enlargement web site). The most important financial assistance programmes to assist these countries in adopting EU laws were PHARE (institution building), SAPARD (agricultural and rural development support), and ISPA (environment and transport investment support). In addition, the candidate countries had access to TAIEX (Technical Assistance Information Exchange Office) which concerned “twinning” (training) of civil servants.

Unquestionably, the prospect of enlargement played a crucial role in influencing government’s decisions to modernize their respective democracies. Nonetheless, many authors have emphasized the incapacity of the European Union to promote a clear vision of social policy (Deacon et al. 1997; De la Porte and Deacon 2002). De la Porte and Deacon (2002) noted, for instance, that social policy was not a priority in the Enlargement process. PHARE aid spent on the

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modernization of the social security system corresponded, indeed, to a very small part of the total budget, approximately 3.6 per cent during the period 1990 to 1998 (see also Lendvai 2004). This amount also decreased to 3.2 per cent in the following years (see PHARE Annual Report 1998, 1999, 2000). Ferge (2002) arrived to a similar conclusion, observing that the European Union was in reality developing different social policy agendas: one for the member states promoting solidarity values as part of the so-called “European Social Model”\(^{68}\); and one for the candidate countries, favouring privatization of pensions and health care. Interestingly, Ferge (2002) noted that this last agenda was rather close to that of the monetarist supranational agencies\(^{69}\).

Critiques focused not only on the work of EU institutions\(^ {70}\), but also the PHARE programme itself. The European Court of Auditors often expressed its disappointment for the “disruption caused to the candidate countries by introducing too many changes [in the organization of the programme] at the same time, some of which had not been sufficiently worked out in advance” (European Commission 2000a, p 7). Special attention was also requested for further improvements in project design and management (Eureval-C3E and PLS RAMBØLL Management 2003), with only about 56 per cent of the projects rated as satisfactory at the end of 2000. With respect to the “Twinning” of civil servants, the EU Court of Auditors repeatedly stated that the European Commission should still “demonstrate that it was achieving adequate value for

\(^{68}\) The EU frequently points out in its official papers that Western Europe spends more money in social protection than other countries and, thus, this is, according to EU officials, the clearest evidence of the emergence of a “European Social Model” (see De la Porte and Deacon 2002), which should involve „high levels of social protection for all citizens” or, at least, an extensive basic social security. For some observers, however, this European Social Model simply doesn’t exist, but it is more a political slogan (Wincott 2003), or “a good term to use in the presentation of project proposals” to be submitted for EU financing (Interview 1).

\(^{69}\) In this account, the crucial role played by the European Bank for Reconstruction and Development (EBRD) in the privatization process of East Central Europe is worthy of note. The main policy strategy of the EBRD was, in fact, “to combine its particular strengths with those of other international financial institutions and of the European Union to achieve common objectives” (EBRD 2003). The EBRD’s Transition Reports, for example, ranked countries on the basis of the successful implementation of reforms from a planned to a market economy, with the highest mark corresponding, of course, to successful privatization strategies (EBRD 1999).

\(^{70}\) For Grabbe (2003), the EU accession process has primarily been conducted on the basis of the model implemented in previous waves of enlargements. This has inexorably involved a systematic misunderstanding of the needs of the new accession countries. According to the author, the structure of economic and regulatory policies imposed by the EU has often been inappropriate for countries facing a painful economic restructuring.
money” (read cost/benefits) (see European Commission 2000a, p 7). Finally, the absence of a coherent social policy strategy in ‘projects’ implementation was frequently highlighted in numerous independent evaluation reports. The majority of these documents affirmed that “there was in general no specific PHARE strategy determining the activities, including what should be funded - and what should not be funded […] (GOPA 1998, pp. 4-5; see also Gaude and Vinard 2000)”. The main conclusion was that “PHARE was, in general, a policy-taker” and that “in order to enhance EC leverage over outputs and results, PHARE should have moved from an inputs-driven approach to a conditionality driven approach with direct payments in function of effectively adopted and implemented acquis” (Euroservices Developments Belgium 1999, p.12; Office of International Policy Services and HUKS 1999).

1.3.2 World Bank

The World Bank has often been recognized as the most influential international organization in the making of post-communist social policy (see Orenstein 1998; Müller 1999, 2002, 2004). The policy directives of the World Bank have been extremely successful during the entire period of reforms. This has involved not only the achievement of economic objectives (for example, financial viability), as it would be expected from a credit institution, but also the achievement of political aims.

The World Bank’s main strategic goal in East Central Europe has been to promote the transition to a market-based economy, by: 1) supporting macroeconomic stabilization mainly through the request of carrying out austerity measures (often in conjunction with the IMF); 2) promoting the expansion of private sector activity; and 3) addressing poverty establishing a financially sustainable, neo-liberal oriented welfare state. This has involved: a) policy advice (and workshops) b) loans, and c) technical assistance.

As far as the social security system is concerned, the World Bank’s main areas of interest are:

- Pension (three-pillar scheme)
- Health Care (health insurance)
- Residual Social Safety Net (residual unemployment insurance and targeted social assistance in order to avoid welfare dependence)

Lending did not always materialize as planned, but strongly depended on the successful implementation of the proposed reforms. In the Bulgarian case, for instance, lending volumes fell to 65 per cent of proposed levels because reforms were not implemented as discussed (World Bank – OED- Bulgaria 2002, p.3). Also in the case of Poland, which began negotiations with the Bank three years before the fall of the Berlin Wall, no lending was granted because the conditionality of the

71 See World Bank (1994).
agreement with the requests of the IMF was not met. As the World Bank Evaluation Department describes (World Bank - OED - Poland 1997, p.27):

“After initially opposing lending to Poland, some of the Bank’s major shareholders reversed their position in the months leading up to the appointment of the Solidarity-led government in 1989 and began to urge the Bank to accelerate project preparation. In six weeks at the end of 1989 the Bank shifted its proposed strategy in response to calls from shareholders to clearly demonstrate the Bank’s full endorsement of the reform program and exploit opportunities for assistance.”

The reasons why the World Bank created a US$2.6 billion program in such a short period of time have been explained by the same officials that recreated the program (World Bank - OED – Poland 1997, p.29):

- “the World Bank was under great pressure from shareholders to support the reform program in Poland and to lend”;
- “the Bank was able to influence policy and encourage macroeconomic discipline and tough but necessary reforms through loan conditions”

Without going into a detailed identification of all World Bank’s shareholders\(^{72}\), it is worth noting that according to the World Bank’s Articles of Agreement the Executive Directors of France, Germany, Japan, United Kingdom and United States have the largest number of shares and, consequently, the biggest power in decision-making. In many cases, these countries are now actively involved with their private insurance companies in the privatization of the social security system in Central and Eastern Europe. This obviously raises the question of whether the policy directives of the World Bank were only trying to achieve democratic stabilization through the message “loans in exchange for reforms” or whether national economic interests of shareholders were not part of the influences behind the reform package.

In conclusion, the aims and objectives of the World Bank have been clearly in line with a global and all-embracing understanding of the reform process, which has been carried out through the following main strategies:

**a) Policy Advice ⇒ Lending ⇒ Technical Assistance Strategy**

\(^{72}\) The World Bank is a group of four banks (IBRD, IFC, IDA, MIGA) governed by its 184 member countries through the Board of Governors and the Board of Executive Directors. These bodies make all major policy decisions for the organization. See World Bank web site: http://www.worldbank.org. Last log-in: January 2004.
Policy Advice: The World Bank often financed workshops on the reform of the pension system or health care financing. These workshops were a good starting point to promote the three-pillar scheme of pension insurance or the health insurance model of financing. These workshops were also very useful in involving national experts and clarifying the World Bank’s expectations (examples can be found in Bulgaria, Hungary, Poland, Slovenia, and so on).

Lending: once that political agreement on the proposed reforms was found, discussions about the possibility for granting loans started and, if carried out according to the time-table, loans were granted as planned.

Technical Assistance: once that loans were granted and reforms began, the World Bank sent a few, influential experts to monitor the implementation of projects. The World Bank emphasizes, for instance, in a recent Evaluation Report on Technical Assistance in Bulgaria the positive results achieved by “intensive, high quality technical assistance, through two permanent advisers, that were available to the NSSI [Bulgarian National Social Security Institute] for one week in every month” (World Bank - OED - Bulgaria 2002, p.9).

b) Multi-disciplinary Strategy

The multi-disciplinary strategy was carried out involving numerous sectors in the process of reforms (for example, financial, telecommunications, and social protection). This was associated to the strategy of conditionality for granting loans (lending granted in one sector, for instance, the railway sector, was conditional upon reforms in another sector, for instance, the pension sector). The “conditionality strategy” had a huge impact on the overall process of reform. To clarify, the EU granted a total of 10 931 million Euros in financial assistance during the period 1990-2002, but approximately only 3 per cent was spent for social policy reforms (for example, pension sector). In the EU case, the total impact of aid in the social policy sector was thus equal to the 3 per cent effectively spent in this field. Although the World Bank’s commitments for Central and Eastern Europe reached a similar sum of 13 316 million USD\(^{73}\) during the same period with only about 3 per cent of total amount (414 million USD) spent for social protection issues. Due to a domino effect, the strategy of conditionality produced a final impact on social policy reforms, not of 3 per cent as in the case of EU assistance, but equal to 100 per cent.

c) Strategy of global context

While the strategy of the EU backed projects that could be immediately identified by their clear planning, implementation and timetabling, (Interview no. 1, Interview no. 2, Interview no. 7) in this research, the strategy of the World Bank involved specific and broad projects, but in strategic sectors, which influenced further reforms of the social security system. The reorganization of the National Social Security Institute (NSSI) in Bulgaria is again an emblematic example. As

\(^{73}\) Exchange rate 1 USD is close to 1 Euro. Date: October 2002.
a member of the Bank’s staff affirmed “[although] the project did not include a policy component but it aimed simply to strengthen capacity of the NSSI in administration and policy analysis, [...] without waiting for agreement on policy changes [...], the NSSI developed policies that were technically sound and publicly acceptable, allowing quick passage through parliament of legislation to support the introduction of second and third pillars in the pension system” (Interviews with Bank staff and others in Bulgaria, quoted in World Bank -OED- Bulgaria 2002, p. 9).

d) Strategy of Direct Involvement. Both the EU and the World Bank involved local partners in the implementation of projects. Nonetheless, the extent of local involvement and the impact varied considerably. The World Bank organized workshops, financed conferences, granted loans and, at the end of this bargaining process, controlled the implementation through constant technical advice. The EU had a similar approach, but two main problems emerged. The first problem was with respect to the level of expertise of the specialists in charge for technical advice, which was frequently rated, to use a euphemism, as dubious (Interview no. 2 and Interview no. 10; see also De la Porte and Deacon 2002). The second problem was with regard to the dispersion of PHARE funds to western consultancies, which resulted in lower financial aid at disposal for CEECs.

1.3.3 International Monetary Fund (IMF) Amongst the most important international financial institutions, the International Monetary Fund (IMF) was certainly the one, which promoted more firmly liberalization, privatization and macro-economic stabilization as a main conditionality for granting access to loans. Legal and institutional reforms were the main political science tools for assessing the feasibility and sustainability of planned transformation. The Article IV of the IMF’s Articles of Agreement, concerning general

74 Interview no. 2: “There is a lack of reliable EU civil servants (experts). For example, we currently have a guy in this Ministry (EU junior expert), who has no idea about his job. We have to give him an office and we have also to teach him what he has to do. At the end, we’re providing him with technical assistance and not the other way around. I understand that this is useful for his career, but this is not supposed to be our job”.

75 Interview no. 10: “It would be undemocratic to say that the EU “experts” are too expensive. The problem is that they’re not always serious. We don’t need experts, who treat us as unskilled civil servants. When you talk with “experts” (from the EU or from Western countries), you have almost always the feeling that they know better what is good for you. They know better what should be done. What is particularly annoying is the fact that they still think that you have to be trained from the basics. Every time a new expert comes, he/she always starts from the very beginning (ABC). We don’t really need this kind of experts. What we really need is "advanced training".  

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obligations for members, provides the basis to the IMF to influence national decision-making. The introductory section 1 states:

“Recognizing that the essential purpose of the international monetary system is to provide a framework that facilitates the exchange of goods, services, and capital among countries, and that sustains sound economic growth, and that a principal objective is the continuing development of the orderly underlying conditions that are necessary for financial and economic stability, each member undertakes to collaborate with the Fund and other members to assure orderly exchange arrangements and to promote a stable system of exchange rates. In particular, each member shall endeavor to direct its economic and financial policies toward the objective of fostering orderly economic growth with reasonable price stability, with due regard to its circumstances […]”.

Section 3. (Surveillance over Exchange Arrangements) supplies the tool for the implementation of IMF’s objectives:

“The Fund shall oversee the international monetary system in order to ensure its effective operation, and shall oversee the compliance of each member with its obligations under Section 1 of this Article (Section 3.a)[…]. In order to fulfill its functions under (a) above, the Fund shall exercise firm surveillance over the exchange rate policies of members, and shall adopt specific principles for the guidance of all members with respect to those policies. Each member shall provide the Fund with the information necessary for such surveillance, and, when requested by the Fund, shall consult with it on the member’s exchange rate policies (Section 3.b.). This involves official IMF staff missions to the member countries, who aimed at monitoring the exact implementation of planned reforms”.

In a period in which “No Global” demonstrations take place on a regular basis in all the most important European and non-European cities, every critique on the work of international organizations seems to be superfluous. It is difficult to quote all the voices that call for a “globalization with a human face” (see for instance UNDP 1999; Deacon 1999, 2003; ILO 2004; World Commission on the Social Dimension of Globalization 2004), but the most interesting and probably painful critique came from inside the World Bank itself. The Bank’s ex-chief economist and winner of the Nobel Prize for economics in 2001, Joseph Stiglitz, condemned, throughout his book on Globalization and its Discontents (2002), the political economic approach of the IMF, arguing that the “IMF structural adjustment policies –the policies designed to help a country adjust to crises as well as to more persistent imbalances-led to hunger and riots in many countries; and even when results were not so dire, even when they managed to eke out some growth for a
while, often the benefits went disproportionately to the better-off, with those at the bottom sometimes facing even greater poverty" (Stiglitz 2002, p.XIV). For Stiglitz, the IMF excessively focused on austerity measures, trying to contain external debt by making unfair pressures on national economies. According to the author, governments of developing countries were often so afraid they might lose IMF funding, and with it funding from others, that they even avoided to express their doubts on very questionable policy guidelines (Stiglitz 1997, 2002). Stiglitz concluded that the IMF was playing the role of a political institution and that its political aims only rarely corresponded to the needs of developing countries. The IMF was also accused of making mistakes in “sequencing” the order in which institutions and reforms were implemented. In other words, wild liberalization was often initiated before a well-functioning market mechanism and safety nets able to amortize its high social costs were put in place. The results of this policy-making were thousand of new and unprotected unemployed.

1.3.4 Organisation for Economic Cooperation and Development (OECD)

Debate about the nature of the OECD strategy for East Central Europe has often emphasized the fact that the institution’s priorities corresponded to the political and economic interests of its most influential member states (Deacon et al. 1997). The OECD policy advice and recommendations are disseminated through the Country Economic Surveys, which aim to let member and non-member countries know what the Organization expects from the respective governments. Regardless of differences among nations, “market fundamentalism” is the main policy priority of the Country Surveillance Reports, which should take place through: a) the reduction of social security expenditures; b) the privatization of all remaining state-owned enterprises (as quickly as possible); c) the three-pillar system of pension insurance; and d) residual safety net concerning all other sectors of social protection.

In the light of the OECD “market fundamentalism”, observers have argued that the emphasis on free trade in the international agreements between advanced countries can be seen as the equivalent of the conditionality imposed by the IMF and World Bank (Grinspun and Kreklewich 1994). This especially applies when it takes the form of “moral suasion” (McBride and Russel 2001). An example of “moral suasion” is observable in all OECD policy recommendations. In the case of Bulgaria (OECD: Bulgaria 1999), for instance, the OECD welcomed the government’s announcement to adhere to the budgetary balance in the area of social policy, as proposed by the Currency Board76, arguing that “a difficult and painful process of restructuring must precede sustainable growth” (OECD: Bulgaria 1999, p.11). For the Baltic States, included in a special session of the Economic Review (OECD:

76 The Currency Board was instituted by the IMF in order to control monetary policies.
Baltic States 2000), the recent increase in labour market flexibility was not evaluated as a sufficient measure to speed the economic growth, but social policies in general needed better targeting. For the authors of the report “in the long-run minimum pensions and means-tested social assistance benefits should be gradually increased up to the level of an objective defined poverty line. But this can only be done in line with economic progress so as not to prejudice economic potential” (OECD: Baltic States 2000, p. 17). As far as the **Czech Republic** is concerned, the OECD (OECD: Czech Republic 2001) suggested that a less generous benefit indexation system and the expansion of private pension schemes were necessary to improve the sustainability of the social insurance fund. In an economic survey two years later (OECD: Czech Republic 2003), the introduction of a second private tier, the adoption of more privately sponsored health care and the decrease in labour protection were seen as the most urgent reforms. Regardless of the possible repercussions on the population, radical rather than palliative changes should have been the main characteristics of such reforms. Following the same pattern, the OECD openly suggested to the Hungarian authorities to reconsider the most recent reforms aimed to lower the role of private-tiers in the new pension scheme (OECD: Hungary 2002, 2004). According to OECD experts, the long-term sustainability of reforms should not be put in danger by reasons connected to the transitional deficit of the three-pillar scheme. In the case of **Poland**, on the other hand, little regret was expressed on the current reforms of the pension system. The main focus was rather on labour market policies. Despite the possible danger of mass lay-offs, the OECD (OECD: Poland 2002, pp.5-17) strongly recommended that “high unemployment should not be a reason to retain state controls over the enterprise sector”. Privatization of state-owned enterprises, decrease of the tax wage and reduction of labour costs were also the right measures to implement, “as quickly as possible”. Similar suggestion “to remove all possible barriers for new business” was given to **Romania** (OECD: Romania 2002, p.10). Finally, in the case of the **Slovak Republic**, the Parliament decisions to increase retirement age in the pension system and to switch to a funded scheme was particularly welcomed. However, “first, the envisaged funded pillar should play a much larger role to cope with population ageing. Second, the retirement age should be raised to 65” (OECD: Slovakia 2002, p.13; OECD: Slovakia 2004).

In many ways, the requests of the OECD support the hypothesis of those scholars who affirm that the global market creates incentives for a “race to the bottom” in which standards in social protection are systematically lowered because of cross-national competition\(^{77}\). By contrast, Armingeon and Beyeler (2003) have emphasized that although the OECD is a coherent think tank that promotes clear and coherent advice, it is not capable of playing a prominent role in national welfare state retrenchment, partly because of its limited possibilities to apply

\(^{77}\) For a detailed discussion on the issue of “social dumping” see § Conclusions in this book.
sanctions to the recommendations expressed in the *Country Surveillance Reports*. In any case, however, it should be remembered that the exposure of workers to greater insecurity caused by the forces of globalization would require more comprehensive and more effective welfare states, since they are now called to face new challenges. In critical response to the OECD recommendations, McBride and Russell (2001) have demonstrated that there is little or no convergence between the implementation of the OECD strategy and successful economic development. In other words, the countries that have adopted more firmly the OECD employment strategy did not perform better than those countries that did not.

1.3.5 Other Actors: ILO, WHO, WTO, International Non-State Actors (ICCs and INGOs), Private Insurance Companies

Close to the aforementioned trans-national actors, the International Labour Organization (ILO) was certainly a crucial actor in providing know-how, on labour market issues, to ministries and policy-makers in Eastern Europe. The main tasks of the ILO Subregional Office for Central and Eastern Europe in Budapest are: a) to provide technical assistance by training; b) to carry out research; c) and to monitor the employment situation. The office has also been responsible for implementing numerous programs, such as the project “Strengthening Social Security in Central and Eastern Europe through Research and Technical Cooperation” (Interview no. 3), and in organizing workshops and seminars, not only on labour issues, but also on the reform of the social security system.

In the course of its history, the policy orientation of the ILO has been subjected to numerous changes. Many authors have argued that the ILO’s contribution during the entire Cold War was to perpetuate the hegemony of the American capitalism, whilst neglecting marginalized workers (Cox 1980; Prugl 1999; Whitworth 1994; Vosko 2000). Deacon et al. (1997), on the other hand, have emphasized that the ILO policy orientation was by no means unitary and that internal struggles did exist. According to the authors, the ILO headquarter in Geneva has tended to promote more firmly the Bismarck model of social insurance, while the Subregional Office in Budapest has been less convinced of this approach. A more recent contribution to this debate has focused on the change in policy direction given by the *Decent Work Strategy*, which, again, seems to be the product of the escalating tensions inside the ILO. According to Vosko (2002), NGOs, women’s organizations and trade unions are now forcing the Organization to reconsider its role in the new globalized society by shifting preferences from classical to atypical forms of labour, such as the unprotected workers in the informal economy (see also ILO 2002).

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78 Former name: ILO Central and Eastern European Team, ILO-CEET.
79 Quoted in Vosko (2002, p.20)
80 Similar considerations may apply with regard to the ILO Global Campaign on Social Security and Coverage for All (see ILO web site).
With regard to the power that the ILO may exercise on member countries in order to ensure that its conventions are implemented as planned, Vosko (2002, p.28) explains that:

“the existing ILO supervisory machinery provides the means for ensuring that member states that have ratified certain conventions fulfill their obligations. [...] Article 12 of the Constitution of the International Labor Organization (1998) requires states that have not ratified core conventions to submit reports to allow the ILO to monitor progress made towards implementing the principles enshrined in these conventions”.

Thus, even in the case of the ILO, technical advice, policy recommendations and binding directives have been the fundamental part of an all-embracing strategy aiming to ensure the implementation of the institution’s objectives.

As far as the health care sector is concerned, the World Health Organization (WHO) has been active in Central and Eastern Europe since the first years of transition, providing technical assistance and monitoring the development of the health care systems. The major part of its activities are aimed at providing a detailed overview of reforms, including a comprehensive set of statistics (see WHO 2002, *Health for All Database*), rather than suggesting or promoting a specific health care model. Specific projects to modernize the health care sector have been also sponsored in most transition countries, but no clear policy preference is observable. According to paragraph 5.5 of the Ljubljana Charter on Reforming Health Care (1996):

“The financing of health care systems should enable such care to be delivered to all citizens in a sustainable way. This entails universal coverage and equitable access by all people to the necessary care. That, in turn, requires the efficient use of health resources. To guarantee solidarity, governments must play a crucial role in regulating the financing of health care systems”.

Beside the general call for a more egalitarian health care system, it is worth noting that this document did not confer legal rights and, thus, did not imply binding directives for its implementation. Reasons for this impasse are manifold, including the differences in health care systems among the WHO member states. The ratification of the agreements with the World Trade Organization (WTO) is also often quoted as another cause for the inaction of the UN agency for health. For Koivusalo (2003), the neo-liberal orientation in the trade of health services promoted by the WTO through the GATS (General Agreements on Trade in Services) has not necessarily corresponded to an improvement in the effectiveness of the health care delivery system. According to the author, more commercialized health care systems have tended to be more costly and less equitable (Koivusalo 2003, p.7). Less equitability has not only
involved the GATS discussed above, but also the so-called TRIPS (Agreement on Trade-Related Aspects of Intellectual Property). According to the TRIPS, an exclusive right is granted to the holder of a patented product for at least twenty years. The existence of this form of monopoly, invoked by the pharmaceutical multi-nationals as necessary to cover research costs, has seriously limited and still continues to limit the access to cheap medicines for countries in transition (Correa 2002). Examples of the constrictions created to national governments are the huge increase in expenditures for medicines in Eastern Europe, or the impossibility of affording anti-HIV drugs in Africa.

Sub-contracting the implementation of projects has been the favourite strategy of many donor institutions. The beneficiaries of this strategy have been, in particular, international NGOs (INGOs) and international consultancy companies (ICCs), which have successfully attracted a good part of the funds available for aid and have, consequently, affected global welfare reforms according to a market-driven approach (see Donini 1996; Weiss 1999; De la Porte and Deacon 2002; Ramia 2003; Stubbs 2003a, 2003b). The reasons for sub-contracting are manifold. Often, it has depended on the lack of technical personnel of the donor institution (De la Porte and Deacon 2002). In some cases, however, sub-contracting has also implied indirect subsidies to western companies (Wedel 2001). According to the Rule of Nationality and Rule of Origin of Equipment and Material of the European Commission’s Practical Guide to PHARE, ISPA and SAPARD (2000b), for instance, contracting and the implementation of PHARE aid projects has been restricted to European resident companies (see also Interview no. 1). Beyond the well-known problems of the incompetence of external experts who often demonstrated to have little or no knowledge of national peculiarities (Wedel 2001; De la Porte and Deacon 2002; Interview no.1; Interview no.2; Interview no. 10), Stubbs (2003a, p.8) has pointed out that sub-contracting the management of financial aid has “fuelled short-termism and projectization detracting from critical development, thinking and action”. In this environment of unclear policy directions and insufficient implementation skills, a good part of financial aid did not arrive in Eastern Europe at all, but remained locked-in in the western borders, increasing market competition among non-state actors, rather than the effectiveness in projects’ implementation.

Concluding the list of external actors, the efforts of national private insurance companies to speed the privatization process of the social security sector in East Central Europe is certainly noteworthy. Just to make an example, in the years preceding the accession of the candidate countries, the Deutsche Bank published (on a regular-basis) a report with the meaningful title: “Monitoring the EU Enlargement”. In the issue 9 (2002), the report of the Deutsche Bank Research Group strongly emphasized the dubious success of Polish reforms, and also called for more determination in the introduction of a three-pillar scheme in the Czech Republic. The uncertainties of Hungarian reformers with respect to

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the sustainability of private tier were also evaluated negatively.\(^{82}\) In the bank’s report, critical considerations concerning the costs of transition to a funded system were also cautiously avoided.\(^{83}\) To clarify this, a brief overview of the history of Deutsche Bank and its “Partner Gesellschaften” is required. In the years preceding the enlargement, the German Allianz AG, Europe’s biggest private insurance company, actively expanded in Eastern Europe, acquiring control over the most important pension funds in Bulgaria and Croatia. At the end of 2002, German Allianz AG was also present in Czech Republic, Hungary, Poland, Romania, Russia, represented in the Baltic States by its Finnish joint-venture Sampo and contended the privatization of the leading Slovak insurer Slovenska poistovna.\(^{84}\) The German Allianz AG and the Deutsche Bank are usually referred in the German press as “Deutschland AG” (Germany Joint-Stock Company), which is, according to the definition provided by Jürgen Beyer (2002, § abstract), “a popular label for the dense network of interlocking directorates and ownership ties between German companies”. The history of Deutschland AG can be traced back to the nineteenth century and the reason for its establishment was to provide a form of “coordinated capitalism”, according to which the mutual interests of German companies were recognized and enhanced. In the light of this evidence, it should be asked whether the strong interest of Germany, and recently of the European Union, for the privatization of pension schemes in CEE has been led by objective motivations regarding the long-term sustainability of pension schemes or whether it was also the result of the expansion strategy of German and other European insurance companies that aimed to dominate the new pension markets of transition economies.\(^{85}\)

1.4 Domestic Actors, Freedom of Choice and Social Policy Vacuum

The list of international organizations’ activities carried out to influence national decision-making seems to offer enough empirical evidence to support the thesis that a neo-liberal welfare state was introduced by design. International organizations set their agenda, implemented their policies accordingly, and the game was soon over. In this account,

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\(^{82}\) In order to decrease financial constraints on the first pillar, the participation in the second private tier in Hungary is since January 2002 no more compulsory.

\(^{83}\) For a recent research on the difficulties of collecting pension contributions in the new three pillar system see Fultz and Stanovnik (2004).

\(^{84}\) Source: GermanData.com. (2002)

\(^{85}\) Please note that in Hungary, for instance, the great majority of the pension funds are now in the hands of German, Austrian and Dutch insurance companies. ÁB-Aegon is owned by the Dutch Group, while another five were founded by the National Netherlanden, OTP (Hungary), The Hungária Insurance Company (owned by German Allianz) and Winterthur (Colonia). The other owners include: The Budapest Bank (General Electric), and Bank Austria Creditanstalt. These groups are collecting pensioners’ contributions with the obligation to provide some benefit only in 15 years time (Borbély 2000, p.4).
domestic actors did not need to play any significant role, because the rules of the game were already defined in advance. This was possible, as Karl and Schmitter (1991) would suggest, by a “political” or “institutional” vacuum. In this situation of chaos and anarchy, experts of international organizations could finally bring order to these those societies in ruin. But was really the chaos and anarchy caused by a “political”, “institutional” or “property” vacuum (Böröcz 1992) the main feature of post-communist welfare reforms? In the course of this book it will become clear that what characterized the Central and Eastern European path of transformation was, in reality, a “social policy vacuum”: a situation in which all social policies established by the command economy became obsolete and, thus, needed to be replaced immediately.

In an attempt to clarify the nature of post-communist transformation, Ettrich (2003) noted, for instance, that the leading ideas of the 1989 revolution were not new ideas, but old ideas concerning human rights, democratic and civil rights. The aim of the “peaceful” revolution was to re-establish the “normality” of the pre-Soviet period, rather than to create entirely new forms of government. As Ettrich (2003) points out, the former Hungarian communist party spontaneously renounced its monopoly to power well before the fall of the Berlin Wall. Similar dissolution of communist rules were taking place at the “round table” in Poland on February 1989, where members of the Solidarity trade union sat together with the communists to decide the future of the nation. Similarly, Kis (1999) describes the events of 1989 as a “coordinated transition” to democracy, rather than as a “revolution” or “reform”, while Poznanski (1993) observes that the process of transformation was more the result of a compromise among political parties, rather than the consequence of revolutionary events.

In brief, after the collapse of communism, Central and Eastern European societies were by no means a no-man’s-land. There were already political and property owners: the first were the communist adversaries, while the second were the citizens who had lost their property rights because of the Soviet occupation. Numerous observers have, in fact, emphasized the crucial role played by Central and Eastern European political and economic elites in the establishment and consolidation of democratic institutions (Konrád and Szelényi 1979; Szelényi 1988, 1993; Szelényi et al. 1995; Szelényi and Szelényi 1993, 1995; Eyal et al. 1997, 1998, 2001; Ettrich and Utz 2002). According to Eyal et al. (1997, 1998), the transition to democracy was led by a new post-communist leadership described as a coalition of, to a large extent, pre-existent elites: the intellectual dissidents, the new political class and the managerial technocrats. For Eyal et al. (1997, pp. 61, 70), “the new power elite of post-communism is not composed of owners, but rather of the technocratic-managerial elite together with the new politocracy which constitutes its dominant fraction, and elite humanistic and social science intellectuals which form its dominated fraction. […] The power to make investment decisions was effectively monopolized by managers, not because of their rather insignificant property rights, but
by virtue of their claim to technical know-how”. The result was the creation of a new form of governance based on “managerialism”, in which capitalism could grow even without the existence of significant property owners (capitalists). Studies on the mobility of the political or economic elite have confirmed that no drastic reproduction or revolution of political and managerial leaders has been observed in East Central Europe since 1989 (Böröcz and Ákos Róua-Tas 1995; Szelényi 1993; Szelényi et al. 1995; Szelényi and Szelényi 1993, 1995; Eyal et al. 1997, 1998).

In such a debate, Bockman and Eyal (2002) have also illustrated that discussions about the reform of the command economy were already initiated during the 1970s through a transnational network of American and Eastern economists. Interestingly, during academic exchanges with American universities, such as Yale, Harvard, Stanford and MIT, or with western European think tanks, such as the International Institute for Applied Systems Analysis (IIASA) of Vienna or the Centre for the Study of Economic and Social Problems (Centro Studi e Ricerche su Problemi Economico-Sociali) of Milan, leading Eastern European economists came to the conclusion that any possible reform of the command economy should be conducted in the fastest possible way. Their western colleagues, by contrast, were more sceptical about the successful completion of such drastic reforms. The reasons for such determination, unexpectedly advanced by those who should have promoted a smooth reform, should not have been a surprise, since they were motivated by the numerous failed attempts to implement significant reforms of the command economy during the period of state-socialism. In other words, Eastern economists, who often had strategic positions in the state-socialist bureaucracy, had identified the future bankruptcy of the command economy due to its extreme macroeconomic imbalance and had already taken the necessary decisions and developed the necessary tools in order to transform it into market capitalism.

Once the Iron Curtain disappeared, the resulting cooperation among pre-existing elites became not only necessary to ensure a more rapid economic prosperity, but also was crucial for the survival of their own career. In account of this, it has been emphasized that monetarism, promoted by the international institutions as the leading economic principle, became the cohesive factor in amalgamating the fragile elective affinities among these elites. In other words, even though the interests and needs of the old and new leaders did not often coincide, the internal tensions were resolved in the light of a new Weberian “capitalist ethic”, which would have introduced a new form civilization (Eyal 2000). Taking as a case study the Czech Republic, Eyal (2000) argued that the new “spirit of capitalism” corresponded to the requests of international organizations, not only because neo-liberal reforms were addressed as necessary to the economic prosperity of the country, but also because they implicitly introduced a new lifestyle, which would have been distant from the “corrupt” communist one.
But if everyone was at the right place in the wrong time, what did disappear then? In brief, neither the people representing the leading or opposite political ideology, nor the managers in charge of the economy, but the social policies themselves disappeared from the scene. That is to say the set of social programs that constituted the practical implementation of the communist political and economic organization disappeared. This social policy vacuum undoubtedly facilitated the view of modernization proposed by the international organizations, but this did not automatically correspond to implement capitalism or a welfare state by design.

As Fultz (2002a, 2002b) and Müller (2002, 2004) have correctly emphasized, the existence of high external debt and the presence of agenda-setters coming from abroad were undoubtedly crucial factors for the implementation of neo-liberal reforms. Nevertheless, the will of economic transformation had still to be mediated either with the presence of strong egalitarian aspirations promoted by the civil society (such as in Czech Republic or Slovenia), or with the risk of loosing the elections caused by the public disapproval for a drastic reduction of welfare rights (for example, in the case of the Bókros package in Hungary). In this context, although it can still be affirmed that many governments of transition made the choice of privatization primarily to boost the country’s credibility in the eyes of international organizations (Stiglitz 1997, 2002), and this can certainly help to clarify why many left-oriented governments did not implement left-oriented policies as expected, as in the case of Hungary (Ferge and Tausz 2002), Poland (Cook and Orenstein 1999) or Bulgaria (Müller 2002, 2004). This account, however, is by no means sufficient for explaining the variety of policies implemented. Domestic actors demonstrated that they were able to block or to make changes to the prescriptions coming from the international institutions and to realize hybrid social policies in line with the country’s historical and cultural heritage. In the next chapters, it will be shown that these governments had at their disposal a broad range of policy options, which have been used to preserve national peculiarities or, at least, to avoid that a “social policy transfer” occurred.

**Conclusion: Toward a Neoclassical Social Policy**

By providing an overview of the existing literature on institution building, this chapter has aimed to clarify the relationship among social, political and historical forces in the making of post-communist transformation. The path of extrication from state-socialism has been described as “developmental path dependent” in that it is certainly a process characterized by legacies, but it is also in continuous evolution. The concept of “embeddedness” reintroduced by the new-institutionalist and, more recently, by neoclassical sociology has been particularly helpful in elucidating the limits that external actors may face when influencing internal policy outcomes. These have been identified as strictly connected to the socio-political environment in which any institution building takes place. If, on the one hand, it has been affirmed that a
social policy vacuum (and not an institutional or political vacuum) facilitated the acceptance of the advice expressed by the international organizations, then this has not automatically implied that a social policy transfer occurred. The variety of rationalities, which characterize these countries in transition, is indeed the best vaccine to avoid the introduction of a welfare state by design.

In conclusion, for the purpose of this study, a synthetic conceptual framework, which, for simplicity, we will call “neoclassical social policy”, is proposed. The neoclassical social policy approach not only emphasizes the crucial role played by historical legacies, culture, institutional structures, political organizations and social interactions in the “path of creation” of Central and Eastern European welfare states, but also, as Hall and Soskice (2001) have called attention to, focuses on the strategic interactions of economic, political and social actors as well as the set of formal and informal rules, which govern human behaviour.

86 Recently, Pfau-Effinger (2004) has called attention to the necessity to use a broader concept of path-dependence, which also includes cultural factors in the explanation of the welfare state’s transformation.
Important Note: If not differently stated, all background information regarding pension, health care, unemployment, social assistance and family support policies presented in this part of the volume are based on unpublished seminar papers prepared by the author for the seminar “Social Policy in Central and Eastern Europe: A New European Model of Solidarity?” conducted at the University of Erfurt, Staatswissenschaftliche Fakultät (WS 2002/2003). The main sources of these documents are: a) Official Reports financed by the CONSENSUS II Programme (1999); b) MISSCEEC (2002); c) ISSA - Social Security Programs throughout the World - (2002); d) Studies on the Social Protection Systems in the 13 Applicant Countries prepared by the Gesellschaft für Versicherungswissenschaft und- gestaltung e.V. for the European Commission Employment and Social Affairs DG (2003); and e) Information available at the web sites of Ministry of Family and Social Affairs and MISSOC (2004). All information represents the situation of the social security systems until January 2004.
Introduction
As already mentioned (see chapter one, §2), during communism the state was the main guarantor of the social security system. The state allocated the work force to the state-owned firms and these paid the contributions for their employees to a social security fund within the state budget. Workers did not need to transfer any money to the fund because their firms were already doing this job. The communist pension scheme was highly centralized and essential part of the state apparatus. Retirement age was low and usually set at 60 years for men and 55 for women, with approximately 25 years of service. There was also the possibility of early-retirement and, as a result, many “baby pensioners” kept on working while receiving benefits. Since the communist system was primarily aimed at redistribution, pension benefits were almost flat-rate and only based on a first pay-as-you-go component. In brief, public responsibility and a mix of corporatism and universalism characterized this highly egalitarian pension scheme. Despite the egalitarian orientation, however, special privileges existed for certain professional groups, often in strategic sectors of the state. As will be shown, most of the peculiarities of the communist scheme have survived even after the most drastic reforms.

1. Political Background
At the beginning of 1990s, Central and Eastern European governments responded to the dissolution of the Iron Curtain by immediately aligning themselves with the West and by attempting to mirror its economic system. This transition took several forms, one of which was basic shock therapy (e.g. Poland) while others were of a less painful nature (e.g. Hungary). At the core of these policies was the notion that joining their Western European brothers was the only way to forget the past and take advantage of the opportunities that a free market system might offer.

The transition toward a market economy, however, has been, probably more than expected, extremely painful (UNDPAD 2003). Real GDP growth drastically declined in all countries during the first years of transition. A decade after the fall of the Berlin Wall, only in the Czech Republic, Hungary, Poland, Slovakia, and Slovenia, has the increase of the domestic production reached the same level that it was at in 1989 (TransMonee Database 2001). Economic deterioration hit countries in transition with varying degrees of intensity. The negative impact of the economic slowdown was particularly evident in
Bulgaria, Estonia, Latvia, Lithuania and Romania, but no country was an exception. Inflation also massively increased. Unemployment, basically non-existent before (or, at least, officially), was a further shock of transition, undermining political and social stability. The youth, the elderly, people with disabilities, unskilled workers, long-term unemployed, and, to a lesser extent, women, remained the most vulnerable groups (Szelényi 2002; for detail information see chapter 9). It goes unsaid that the consequences of the persistent economic crisis led to other negative effects. These effects can be identified in a political and social sense. The first involve political instability of governments and institutions, refusal of necessary reforms, and growing support for extreme-right or nationalist parties. The latter included social distress, intolerance of the poor (e.g. the Roma minority), intolerance of the rich, or, in other words, of those seen as a possible beneficiary of special and undisclosed privileges, the “different”.

Restructuring pension systems already in place for more than forty years was, of course, not an easy task. Since the first years of transition, governments faced the problem, on the one hand, to carry out the transition to market-friendly schemes, whilst on the other, to avoid the collapse of the old system, ensuring that the beneficiaries still gained access to decent benefits. It goes unsaid that economic and social priorities often went opposite directions. In almost all countries, the priorities, regarding the transition, were, firstly, those involving the economic development and, only then secondly those involving social protection and inclusion. This was a necessity. According to the point of view of numerous experts interviewed, that were indirectly involved in the process of economic and structural transformation, it was impossible to ensure social inclusion without economic development (Interview no. 2; Interview no. 9; Interview no. 10; Interview no. 11). Some countries, such as Bulgaria and Romania, attempted to postpone reforms. This strategy lasted, however, only until the economic crisis became unsustainable and the requests for austerity measures coming from the international organizations turned out to be a fundamental pre-requisite for the continued existence of the country.

Political instability soon became one of the clearest outcomes of transition. The murder in Romania of Ceausescu and his wife is an emblematic example of such instability. Nonetheless, not always was blood required to sign the change of political rulers. In Bulgaria and the Slovak Republic, short-lived governments were the norm. In Hungary, the introduction of a package of austerity measures led to the immediate dismissal of the Finance Minister Lajos Bokros, while in the Czech Republic, neo-liberal reforms strongly proposed by Václav Klaus were simply never implemented due to a strong trade-union opposition. Uncertainty in the political sphere resulted in

89 Bokros’ decisions, however, have received particular support among World Bank’s analysts and other experts.
uncertainties in the reform process (Fultz and Ruck 2000). This did not only mean unfinished (first period of Polish reforms), blocked (Bokró Package in Hungary), or complete rejection of reforms (in the case of the Czech Republic and Slovenia: refusal of compulsory private schemes), but it also implied an increasing friction with international organizations (IMF and World Bank) that had agreed to grant financial aid under the specific condition of privatizing pension schemes. As mentioned in chapter two, in Bulgaria and Poland, the World Bank froze access to loans because less reform-oriented governments were not implementing the reconstruction of the pension system as planned.

Resistance to reforms sometimes came from the back door, so to speak. In the case of Slovenia, scholars and trade-union leaders succeeded in convincing the government of the financial and political risks of switching to a compulsory pre-funded scheme. Stanovnik (2002, p. 48) describes an emblematic example of the reform process:

“At the same time [1998], a mission of Slovene MPs and journalists visited Switzerland in a study and fact-finding mission on pension systems. MPs continued their trip to the Netherlands, and the journalists – lead by Tone Rop90 – visited Rome. Upon departure from Rome, a trade union leader presented Mr Rop with a gift: a video recording of the massive demonstrations against Prime minister Silvio Berlusconi in 1994. These demonstrations compelled the government to renounce plans for pension reforms, and eventually led to the fall of the Berlusconi government. [...] After this rapid succession of events, Mr Rop “simply pulled the mandatory second pillar out of circulation.” [...] This seems to be an accurate description, since the decision was never discussed at cabinet meetings”.

While trade-unions leaders in the Czech Republic and Slovenia succeeded in blocking reforms, this was not the case in Poland, where “Solidarity” (Solidarnosch), instead of pushing for coverage and redistribution, expressed its strong support for market-oriented policies and differentiation of provisions. Although the reasons for the rejection of neo-liberal policy-making greatly differed from country to country, Laviec and Fultz (2002, p. 8) identify several common explanatory factors, including:

“1) the presence of well-placed actors in both reform debates with serious concerns about the high financial costs of the transition from pay-as-you-go to pre-funded pensions; 2) governments compelled to engage in broad consensus building

90 Slovenian Minister of Labour, Family and Social Affairs. Later Minister of Finance (2000)
by their coalition status (Slovenia) or by a succession of minority governments (the Czech Republic); 3) opposition from trade unions that were mobilised by what they saw in privatisation as a threat to the future financial strength of the public pension system; 4) strong national orientations toward the European mainstream, reinforced by the presence of EU-sponsored programs like Phare in the area of pension restructuring; and 5) relatively low levels of external debt, which may have rendered these countries less open to influence from international financial organisations favoring privatisation strategies”.

Unquestionably, these are all crucial elements, which may help to explain the development of modern Central and Eastern European pension systems. What should not be forgotten, however, is that the transition toward market-based schemes has also been strongly influenced by the characteristics which permeated the past social policy organization. As it will be shown in the next section, pre-communist and communist features still characterize these systems of old age protection.

2 Country Overview
2.1 Bulgaria
In Bulgaria, the first legislations in 1924 introduced the Bismarck model of old-age security. During this period, wage earners were covered on the basis of their professional status. This lasted until World War II, when equalization of status differentials became the leading principle of the post war communist system. Most of the legislation in force during this period survived, though modified several times, until recently. The legislation in 1957 (with many later amendments) established numerous types of pensions (old-age pension, various invalidity pensions, survivors' pension and social pension) totally based on the principle of solidarity. Until 1999, the Bulgarian pension sector was divided into two pillars: the first PAYG tier was the most important, while the second one, voluntarily supplementary pension, was basically non-existent. The system was universal in scope and coverage, but it was financed through contributions. The communist legacies were preponderant. The employers were the most important, if not the only, source of funds; the state was responsible to guarantee and to preserve constitutional rights, and redistribution was the main priority of each Bulgarian policy-making.

Bulgaria is one of the Eastern countries in which the transition has been more painful. For example, inflation increased constantly during the entire period of reforms, causing huge social costs. Under these circumstances, it is also easy to understand why immediate financial aid was needed. Discussions with the IMF and World Bank started immediately and large loans were granted. The access to aid was
approved under the implicit obligation of devaluing the Bulgarian currency and of starting austerity measures. Although not officially announced, the guidelines provided by the World Bank were clear enough to avoid any possible misunderstanding: first, the dismissal of the old state financed structure and, second, the establishment of a market-friendly social insurance, which should have replaced the universal pension and health care sector. In 1997, the conservative coalition of the Union of Democratic Forces won the elections and set the reform of the welfare state as a priority. The reorganization of the pension system was carried out through a partnership with USAID (US Agency for International Development) that firmly promoted the privatization of provisions.

The Constitution of 1991 (art. 51 par. 1 and 3) is still the most important legislative act, defining the basic citizens’ rights. The right to social security is ensured to all citizens resident in the Republic of Bulgaria, covered, under state responsibility, by the risks associated to old age, sickness and maternity. The Bulgarian pension scheme is now based on three pillars. The first pillar is comprised of the state managed compulsory pay-as-you-go scheme. This tier is divided into: 1) old-age pension; 2) various invalidity pensions; 3) survivors’ pension; 4) and social pension (linked with social assistance). The second pillar is a privately managed compulsory funded scheme, which is earnings-related based and depends on private responsibility. The third pillar is a voluntary private scheme. According to the state public insurance (art.3), the new leading principles involve: a) obligatory and comprehensive insurance; b) solidarity of the insured persons; c) equality of the insured persons; d) social dialogue in the management of the insurance system; and e) a fund organization of the insurance payments. These principles aim, on the one hand, to increase the market orientation of the pension scheme, but on the other, to ensure the values of solidarity expressed by the constitution.

2.2 Czech Republic
The Czech Republic has a long tradition of Bismarck social insurance going back to when it was part of the Austro-Hungarian Empire. The first laws on old-age protection were introduced in 1906 and included salaried employees and in 1924 this also included wage earners. During communism, the Bismarck-orientation was drastically reduced and the enhancement of universal rights became the main priority of communist rulers. The contemporary pension system encloses parts of these two periods. Every pension is formed by two amounts: a basic flat-rate based on citizenship and is associated with an additional earnings-related component based on the professional status. The purpose of this redistributive policy-making is to ensure a smooth reform of the old communist system, while, at the same time, to avoid excessive disparities in the amount of benefits at disposal for the population. In addition, a “supplementary pension” scheme is available for those citizens who voluntarily decide to increase their
future pension income. This supplementary provision is run by joint stock companies\textsuperscript{91} that require special authorization and need to fulfil determined criteria (for example, prudent investments, enough capital basis, avoiding to purchase shares on other pension funds in issue bonds, and so on).

The political debate of the Czech Republic has been strongly characterized by different interests and needs among the numerous forces present inside and outside the new elected parliaments. Václav Klaus and his supporters have been determined to promote neoliberalsm as the best way towards successful reforms, but this rapid “westernization” has faced the reality of very different requests made by the opposition (very strong in the Czech parliament since 1997) and the civil society (especially delegates of Trade Unions and pensioners’ associations). In particular, according to Consensus II specialists, four different forces acted on the pension reform process of the Czech Republic: 1) radical liberal economists and bankers; 2) demography experts of the Charles University of Prague and Masaryk Brno who pushed for funded schemes due to the ageing population of the Czech society; 3) experts of the Ministry of Labour and Social Affairs who had a cautious vision of reforms; 4) trade union experts who believed that only the current system can guarantee the real value of benefits (Consensus II 1999, Czech Republic, part 2, p.32).

At the end of this struggle, the cautious and gradual vision of reforms promoted by the Ministry of Labour and Social Affairs and trade union delegates turned out to be the winning strategy and the planned introduction of a three-pillar scheme was blocked due to possible transition costs. Despite the apparent absence of drastic solutions, the pension system of the Czech Republic has met the needs of a market economy by increasing individual responsibility and by complying with international conventions. The result is a mixed system, which combines the corporatist orientation of the Bismarck period with the egalitarian principles in force during communism\textsuperscript{92}.

2.3 Estonia

Until 1989, the Baltic States were part of the Soviet Union and thus shared the same old-age security system. The Law on State Pensions of 1956 regulated the situation of employees, while the Law on Kolhoz Members (1964) covered the farmers. Enterprises paid the contributions for their employees to the state budget. In addition to these two separate schemes, several categories of workers received

\textsuperscript{91} Please note that pension funds in the Czech Republic differ from other joint-stock companies especially by the way profits are distributed. 5 per cent must be vested in reserve; a maximum of 10 per cent is distributed to shareholders; the rest for the advantage of the participants.

\textsuperscript{92} On the egalitarian aspirations of the Czech pension system, see Mácha (2002) and Potucek (2001). For further information on pension reform, see Kral (2004).
old-age pensions on more favourable conditions (such as hazardous working conditions). A new legislation started immediately in 1990, aiming to separate the Estonian pension system from that of the Soviet Union. The final result was, however, not very dissimilar. The legislation tried to make pension benefits directly linked to the premiums paid, but this principle was suspended by the parliament in 1992 because of feasibility problems (primarily issues related to the economic crisis and tax collection). As a result, flat-rate benefits instead of earnings-related benefits were immediately re-established. Only in a second period, due to protests of pensioners’ associations, did the government maintained its promise to increase the differentiation of pensions by introducing an earnings-related component (Leppik and Männik 2002).

The Estonian pension system is not a clear contributory scheme: it has both flat-rate and earnings-related elements. The law establishes four types of pensions: 1) National Pension, which is flat-rate and paid to those citizens who have paid no contributions; 2) Old Age Pension, which applies to employees and is formed by the National Pension plus an additional work-related component based on the length of years of service; 3) Invalidity Pension; and 4) Survivors’ Pension. In addition, there is the possibility of a “Superannuated Pension” for certain professional groups (for example, pilots, mariners, miners and some groups of artists). The Old Age Pension is formed by: a) a base amount; b) a component calculated on the basis of years of pensionable service; and c) an insurance part. Pensions are mainly based on the principle of solidarity and paid from the revenue of the state insurance budget (social tax). Coverage includes all permanent residents in the territory of Estonia. At the end of 2002, the government introduced a second pillar concluding the three-pillar scheme reform (the third private tier was already in place in 1998 for those citizens who voluntarily decided to increase their future pension income). Despite the introduction of such reforms, Estonia seems not to have renounced most of the peculiarities existent in the previous structure. In fact, the communist heritage was key in defining the parameters within which universal principles should be maintained, even in presence of drastic reforms. Leppik and Kruuda (2003) have outlined, for instance, that the flat-rate basic component still plays a vital role by focusing on solidarity and by providing vertical redistribution from higher-income earners to lower-income earners.

2.4 Hungary

Hungary has a long tradition of Bismarck insurance. The numerous funded pension schemes in place since 1912 were based on a corporatist vision of social solidarity, primarily aiming to secure occupational standards. These funded schemes collapsed before and/or during World War II. In 1950, a new unified and unfunded pay-as-you-go system covered about half the population, but only in the mid-1970s did the coverage and range of benefits reached all citizens (Augusztinovics et al. 2002, p.29).
In Hungary, three periods of pension reforms can be identified. In the first period (1990-1995), the main objective of policy-makers was to move away from the old pay-as-you-go system, by creating the basis for the future adoption of the three-pillar scheme. The Act 84/1991 signed the first rupture with communism, establishing the National Pension Insurance Fund and the Health Insurance Fund. Both remained self-governing bodies until 1998. The second period of reforms (1995-2002), put in place the three-pillar scheme. The Acts LXXX, LXXXI, LXXXII of 1997 (which belong to the same family of legislation) are the core of the new system. The first pillar is state-managed, mandatory and based on pay-as-you-go. The state, which is responsible for its operation and development, ensures the payment even if the expenses of the Pension Insurance Fund exceed its receipt. The second pillar is privately managed and compulsory funded. Mandatory private pension funds operate according to the principle of funding members’ contributions accumulated in a personal account. These two pillars may also be complemented by a third pillar where other funds are accumulated in the voluntary pension tier based on individual decision (a voluntary private scheme). The private pillars are administered by several independent pension funds under strict supervision by the state. Finally, the third period of reforms (2003 onwards) is characterized by attempts to reduce the negative impacts of the changes previously implemented. Adjustments primarily aim to reduce the excessive pressure on the first pay-as-you-go pillar by making the two private tiers less attractive. The affiliation for career-starter to the private pillar is no more obligatory and the state guarantee for the second pillar has been abolished. Although these last changes might seem an attempt to return to a pre-reform system, each reform cycle should be seen as a necessary re-adaptation. According to experts’ opinion, such revisions aim indeed to ensure the long-term sustainability of previous reforms, rather than to abolish them.

2.5 Latvia

As far as the pension sector in Latvia is concerned, the law on State Pension of 1990 created a unified system of pension insurance primarily based on pay-as-you-go, redistribution and social tax payments. Benefits were mostly flat-rate, while the earnings-related component played only a minimal role. Following the 1993 elections, drastic reforms were envisaged as imminent. The efforts of the Minister of Welfare (centre right coalition) to introduce a system fully based on private insurance achieved, however, little or no results, primarily due to strong trade union opposition (especially the Latvian Association of Free Trade Unions and the Pensioners’ Federation) (Bite 2002). As a consequence of internal struggles, the introduction of private tiers was, at least temporarily, postponed.

In 1995, the persistent economic crisis provided a good opportunity to implement more drastic reforms as suggested by World Bank officials, which otherwise would not have found the necessary political
support. The three-pillar scheme was implemented by the State Pension Act of 1995 (see also Law on State Funded Pensions of 2000), which introduced, for the first time, the concepts of differentiation of risks and responsibility. Old-age security in Latvia is now formed by: 1) a publicly managed pay-as-you-go tier; 2) a privately managed compulsory funded scheme (earnings-related); and 3) a voluntary private scheme. In addition, there are also special pensions financed through the state budget for the following professional groups: a) State President; b) police; c) State prosecutors; d) persons in active military service; e) MPs who voted for independence in 1990; f) children of people killed during the independence struggle of 1991.

The NDC, notional defined contribution, was launched in January 1996 well before it was introduced in Sweden and Italy\textsuperscript{93}. The NDC is calculated on the amount of the insured’s contributions, plus annual growth adjusted according to changes in the earnings, divided by the average remaining life expectancy. At retirement, the insured can purchase an annuity or have the funds transferred into the insured’s NDC account. The NDC, on the one hand, is preferred because it is supposed to link benefits to changes in economic and demographic trends in a more effective way, but on the other hand, it is often criticized because of its radical departure from the pay-as-you-go. As indicated in chapter two, Central and Eastern European countries did not remain “locked-in” in their path of extrication from state-socialism, but had opportunities for innovative solutions. The introduction of the three-pillar scheme and the NDC in Latvia are few notable examples of this trend.

2.6 Lithuania

For a long period, the Lithuanian pension sector remained characterized by the principles introduced by the first set of reforms of 1991/1994, which aimed to maintain most parts of the previous communist structure. This involved a system primarily based on one mandatory pay-as-you-go pillar. The possibility to establish a private second-tier has recently been envisaged, though in this case only as an option (OECD: Baltic States 2003). The current legislation introduces different types of pensions: 1) old-age pension; 2) invalidity pensions; 3) survivors’ pension; and 4) social pension; but also special schemes for determined categories of citizens/workers (for example, President’s pension, scientists’ pension; actors’ allowance, 1\textsuperscript{st} and 2\textsuperscript{nd} degree state pensions, military and state officers’ pension and deprived people’s pensions). The old-age pension is formed by two elements: a main component and a supplementary component. The first element or basic pension is a flat-rate payment for all citizens who have paid their contributions to the state social insurance. The

\textsuperscript{93} For further information on pension reform in Latvia, see Bite (2002) and Vanovska (2004).
second element, the supplementary one, is earnings-related and applies for all those citizens who have worked under labour contract and, thus, have paid the obligatory contributions (the second element involves the self-employed on a voluntary basis). The Ministry of Social Protection and Labour and the Board of the State Social Insurance Fund are responsible for policy development and implementation.

Article 52 of the Constitution of Lithuania (1992) guarantees the right of citizens to an old-age and disability pension. The constitution remains the most important pension act, defining not only basic citizens' rights, but also introducing the concept of state social insurance. Since the Law on the Pension Scheme Reform (entered into force at the end of 2002), there is the possibility of a voluntary private-managed second-tier. A voluntary third pillar was already in place as part of the overall voluntary life insurance (Dobravolskas and Bulvydas 2003, p. 41). Lithuania has therefore introduced a modified version of the three-pillar scheme, based on voluntary rather than on compulsory private insurance. Also in this case study, legacies of the past persisted to the most drastic reforms. The communist heritage is still notable in the universal and redistributive orientation of pension insurance, but also in the existence of special provisions for determined professional groups.

2.7 Poland
In Poland, social insurance is differentiated according to various groups of workers. ZUS is the institution responsible for collecting and administrating the contributions of the employees, while KRUS bears responsibility for the insurance of farmers. In addition, various special provisions apply to different categories of workers such as coal-miners, or members of the armed forces and police. These provisions primarily involve privileges such as early-retirement, better pension formula, and so on. Thus, it might be argued that three different social policies exist in Poland, rather than a single one.

The "old" pension system introduced in 1991 was divided into the so-called “social component” that was flat-rate and the “individual component” that depended on the length of the insurance period and earnings. In 1997, the report “Security through Diversity”, which represented the successful conclusion of many proposals, projects and recommendations prepared by experts of the ministries of Finance, Social Affairs and the “Solidarity” trade-union, opened the doors for the introduction of the three-pillar scheme. The financing of pensions now depends on the contributions equally paid by the employers and the employees to the fund account managed by ZUS.

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94 For further information on pension reform in Lithuania, see Morkuniene (2004).
95 ZUS is also the biggest Polish bank, the biggest Polish cashier and the biggest Polish Tax Office. See ZUS web site: http://www.zus.pl/. Last log-in: January 2004.
KRUS (social insurance of farmers) is, however, primarily tax-financed, since three-fourths of it is funded by the state budget (source: ZUS web site). The three-pillar scheme includes: 1) a mandatory pay-as-you-go scheme; 2) a second tier that is earnings-related and privately funded; and 3) a third-tier, which involves a supplementary voluntary private pension. As for Latvia, the system of Poland is based on notional defined contributions (NDC) that makes the level of pensions dependent on the developments on the capital market and the moment of retirement (Golinowksa et al. 2003, p.57; Chlon-Dominczak 2004).

The Polish pension scheme is work-related in scope and coverage, but this cannot be seen as a new introduction. The pre-Soviet experience (Bismarck-oriented insurance) was indeed reinforced even during the communist order. One example was the financing method, which remained based on contributions, though fully financed by the employers. Moreover, a high level of devolution of responsibilities to regional bureaus also existed prior to the end of the Cold War. In the Polish special case, the central planned economy remained the main engine of policy-making, but centralization in planning was coupled with high levels of devolution in the implementation of policies.

The highly path dependent development of Poland has not precluded the introduction of innovative reforms, such as the three-pillar scheme and the NDC. Interestingly, innovation was not confined to the early transitional period, as many path-dependent theorists would suggest, but was introduced even after a first set of reforms was successfully set up.

2.8 Romania
In the last years, the Romanian pension system has faced huge reforms. The main characteristics of these reforms have been the consolidation of the insurance model established before the communist period (Bismarck-oriented, 1912), and the transformation into a three-pillar scheme. The past legislation (1989-1997) established different types of pensions (old-age pension, various invalidity pensions, survivors' pension and social pension) totally based on the principle of solidarity. The first pay-as-you-go pillar was the most important, while the second supplementary pension was complementary to the first one. In addition, special provisions were available for determined professional groups such as farmers, lawyers, military personnel and war invalids. This differentiated system is, to some extent, still in place.

In November 1996, a coalition of democratic parties won the elections, interrupting the supremacy of the reformed communists. In 1997, the reform of the pension system was declared a priority and the three-pillar scheme was introduced as suggested by the World
Bank. The radical orientation of reforms implemented by the new coalition should not come as a surprise because during the period 1990-1996, the pension system established by Ceausescu remained substantially unreformed. The only changes in the legislation (Decree 60/1990) involved a drastic increase in entitlement criteria, which, in the long-run, had the negative effect by making the pension system financially unsustainable (Consensus II, 1999, Country Report: Romania). Despite the new neo-liberal direction, many of the peculiarities of the old pension system remain. In particular, these involving a universal orientation in pension insurance and the existence of special provisions for determined professional groups, such as farmers, lawyers, military personnel, or war prisoners.

2.9 Slovakia
Slovakia shared the same history of social security with the Czech Republic until its independence in 1993. Since the fall of state-socialism, the predominant model is again Bismarck insurance. The Ministry of Labour, Social Affairs and Family is now the institution responsible in the field of social policy, while the Social Insurance Agency collects and administers the contributions of the employees, employers and self-employed. This is similar to other countries, as special provisions apply to different categories of workers, especially members of armed forces and police. Social policy in Slovakia consists of three different pillars: a) social insurance; b) state social support; c) social care, which became social assistance in July 1999. This system is not dissimilar to that present in the Czech Republic.

Slovakia has recently introduced the three-pillar scheme. The first pillar (compulsory pension scheme for employees and self-employed) is divided in the general pension scheme and in special regulations for soldiers and policemen. The financing method in this tier is based on contributions and PAYG. The second pillar, supplementary private pension, is financed by contributions, but privately funded, while the third pillar includes voluntary private pensions. The system is work-related in scope, but it is still universal in coverage. Article 39 of the Slovak Constitution affirms the right to adequate material provisions

96 However, the introduction of the three-pillar scheme in Romania has been concluded with the Governance Program 2001-2004 and the Plan of Action, approved by the Government Decision no. 455/2001 (Vilnoiu and Abagiu 2003). Nonetheless, at the moment of writing (2003), only the I and III Pillar are functioning.
97 As a result of these failed reforms, four successive IMF loan agreements were signed and then broken.
98 The state guarantees the solvency of the Social Insurance Agency by providing a returnable financial amount of 100 per cent of its insolvency. Source: Social Insurance Agency web site, Act no. 274/1994 Coll.
99 For further information on pension reform in Slovakia, see Jakoby (2004).
for pensioners establishing a strong linkage with the minimum guaranteed income. On the basis of this article, the state shall pay for all those citizens who cannot take part in the social insurance (for example, unemployed; beneficiaries of social assistance, benefits, and so on). The principle of solidarity established by the constitution and the persistence of special schemes represent the most important communist legacies. These legacies, however, did not block the introduction of innovative reforms (three-pillar scheme), implemented in a second stage.

2.10 Slovenia
Slovenia has a long tradition, as like the Czech Republic and Hungary, of Bismarck insurance as part of the Austro-Hungarian Empire, with some earlier legislative elements surviving the Soviet social policy reorganization. The system is strictly based on the concept of state responsibility. Also in this case, particular provisions established during the communist period apply to certain categories of workers (such as craftsmen). Pensions consist of two different pillars: a) compulsory insurance; and b) voluntary insurance. The compulsory insurance is a legally prescribed state insurance and is related to all professionally active people, while the voluntary insurance can be used by the non-insured or by people who want to increase their level of benefits. Voluntary insurance is carried out by the state through the Institute of Pension and Disability Insurance of Slovenia. The main principle of compulsory state insurance is solidarity, while in the voluntary insurance the main principle is income differentiation. The basic compulsory scheme is universal in scope and coverage. The state shall pay for all those citizens who cannot take part in the social insurance (for example, unemployed; beneficiaries of social assistance benefits, and so on). Despite strong political pressures made by the World Bank and the IMF\textsuperscript{100}, the mobilising structure of Slovenian trade unions succeeded in convincing the government of the financial risks of shifting to compulsory funded schemes. The second pillar was first introduced in 1992, but then blocked until 2000, when the Pension and Disability Insurance Act came into force. After an intensive political bargaining, the second pillar was not established on a compulsory, but rather on a voluntary, basis. The Slovenian pension system has thus become an atypical three-pillar scheme: the first-tier is publicly managed and based on pay-as-you-go, the second is a voluntary private-tier and the third pension pillar consists of voluntary individual savings for old-age (mostly in the form of life insurance, administered by insurance companies) (Stropnik \textit{et al.} 2003; Kidrič 2004). Universality and redistribution still remain the main characteristics. The public pension

scheme (“first pillar”) is a mandatory system for the whole active population, but unemployed persons receiving unemployment benefits are also included. In addition, pensioners with low incomes and an incomplete contribution period can apply for a pension income supplement.

3. Problems regarding the pension sector
Finally Although the impact of reforms differed significantly from country to country, CEECs seem to be characterized by common problems. Unquestionably, the principal issue concerns the ageing of the population. Despite the fact that Central and Eastern European societies can be addressed as still “young”, according to ILO estimations, the reliance of pensioners on the work force is constantly increasing and will achieve the Western European average no later than in 2030 (see Fultz and Ruck 2000, p.22; ILO 2000, pp.58-9). Indeed, the Eastern European region shows a significant decrease in births followed by an increase in life expectancy (see TransMonée Database 2001).

Unfortunately, the ageing of the population is expected to produce more negative consequences in the East than those it might cause in West, largely because of the destruction of the unnatural equilibrium created by the central planned economy. In East Central Europe, in fact, pension entitlements were regulated by the command economy, which set retirement rules in accordance not only to the production necessities of the countries, but also to the availability of the future work force. As a consequence, retirement could easily be anticipated for the reason that the existence of numerous “baby pensioners” could be tolerated by an economic system, which made continuous and extraordinary efforts in finding an artificial balance between the number of workers and the number of pensioners. With the introduction of market-based mechanisms, pensions lost their abnormal linkage to the wider economic system and the equilibrium was inevitably broken. The most painful results, however, will only be observable in a near future and, precisely, when, as a consequence of the economic restructuring, Central and Eastern European young workers will be called to pay the costs of the new generation contract twice: once, for the older society in which they will live and, a second time, for the dissolution of communism.

A second issue, which has a negative impact on the performance of pension systems throughout the CEEC’s, is related to the changes in the labour market during the period of transition. Particularly in the first years of transition, Eastern Europe dramatically suffered from a decrease in economic activity. This has resulted in a reduction of funds for the social security budget. At the same time, governments embarked in a broad use of early-retirement policies. This strategy was particularly common in Poland (Cook and Orenstein 1999), but no country was an exception. By so doing, on the one hand, politicians succeeded in artificially lowering the pressure on the labour market by guaranteeing to the citizens some form of reward for the
loss of their jobs, whilst on the other hand, they increased the financial constraints for the social security funds. Since the problem concerning the decrease in economic activity was, in reality, never resolved, but simply amplified, postponed and given to future generations to sort out, the newly established pension insurance funds, responsible for collecting and distributing the contributions of workers, were faced with a disastrous situation. They witnessed a constant reduction in their revenues due the diminution in the number of contributors, as well as being requested to increase their expenditures because of the growing number of applicants.

Moreover, new market rules required new forms of state control and, in this context, the decentralization of tasks was seen as the fastest way to increase the autonomy of local authorities, as well as enhancing a more rational and more efficient use of pension contributions. What was not expected, however, was that excessive decentralization, instead of improving the effectiveness of pension systems, resulted in an enormous increase in management costs. If, a few years ago, one institution with a set number of employees and administrative costs was responsible for managing the collection and payment of all pension benefits, with the increase in decentralization there is now a multitude of institutions responsible managing the pension benefits, which subsequently have increased the expenses and transaction costs. The main problem was, however, that the increase in administrative expenditures has not always been associated with an equal increase in administrative efficiency. In the case of Hungary, as mentioned, the National Pension Insurance Fund was abolished after few years because of the impossibility in reaching the standards in force in the period antecedent to the reforms.

Finally, the adoption of private savings is a political decision with still no clear outcomes (Barr 2004). In fact, despite the necessity in emphasizing, as Pierson (2001) correctly does, that the demographic issue is making the responsibility given to young workers either unsustainable or politically unacceptable (under contemporary pay-as-you-go schemes, current workers pay for current pensioners without the certainty of receiving an equal treatment when they reach retirement age), the decision to “individualize” old age security through an increase in private schemes, as anticipated by the World Bank (1994) and frequently re-proposed by the OECD (see § OECD in this volume), might not lead to the expected results or might even cause greater insecurity (for an interesting discussion on this issue see Ellison 2003; Barr 2004; Oksanen 2004).

Recent simulations carried out by the ILO have, in fact, shown the unpredictability of pensions in mandatory retirement savings schemes (ILO 2000). According to ILO specialists (ILO, 2000), even under the unrealistic assumption that the authorities have perfect knowledge of

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101 According to Steinhilber (2004), privatized pension schemes may also damage women more than men, because of the gender wage gap.
the long-term average rates of wage growths and interests over a period of 43 working years, the simulated actual balance is quite far from 100 per cent of the target (the determined amount of pension as stated in advance). The reasons for this failure does not only depend on the fact that the authorities cannot know the long-term average wage growth and interest rates, but also it depends on the interest rates used to convert the final balance into an annuity fluctuate over time, sometimes quite sharply (ILO 2000, pp.142-143). In other words, in order to let people know in advance what their pension is going to be, authorities and pension fund managers should not only be able to predict the future (for example, the value of the Euro or of the US Dollar ten years after the Enlargement), but they should also be capable to adjust interest rates according to the fluctuations of the markets, both national and international.

Conclusion
The countries discussed here have clearly moved to a corporatist-style pension insurance system, readjusting pre-existent features into a new organism. Wagener (2002) has affirmed that the presence in all countries of a strong link to social assistance provisions (old-age allowance, the so-called fourth-pillar available for those citizens whose pension under the above scheme would not be sufficient) has made these pension systems in transition distant from the classical World Bank’s three-pillar scheme (see World Bank 1994). What Wagener (2002) envisages is a new four-pillar model, which is becoming the blueprint for reforms in other European countries (e.g. in Germany). Unquestionably, a path-dependent development has been the main characteristic in this sector. This evolution has included: a) pre-socialist Bismarck-features; b) reinforcement of work-orientation (Bismarck- and communist background); c) mix of universalism and corporatism (communist background) (see Ringold 1999); d) common attitudes towards solidarity values through the maintenance of significant levels of public responsibility; and e) great importance given to constitutional rights established according to egalitarian principles. The new Central and Eastern European constitutions emerged, indeed, as a mixture of old and new elements, in which past actors played a key role in defining the new rules (Elster 1993, Batt and Wolczuk 1998; von Beyme 2003). It is also noteworthy that many pension schemes have retained privileges (such as early-retirement or better pension formula) for certain professional groups established during the communist period or even prior to this period. These path-dependent features have not precluded, however, the

102 1. Pensions in CEE have a well-developed redistributive component; 2. The control of the state over the management of pension systems is still high. 3. Employers contributions are usually much higher than employees contributions; 4. Existence of a strong four pillar covered by the State budget at disposal for all those citizens, who otherwise would remain unprotected.
introduction of highly innovative reforms, which did not remain “locked-in” in the early transitional period, but were possible also in later stages of development. The clearest examples are the introduction of the three-pillar scheme or the notional defined contribution (NDC).
Chapter 4
Health Care Systems

Introduction

Until 1989, the dominant health care model in East Central Europe was the so-called Semashko system, which was a highly centralized scheme, fully part of the central planned economy. The Soviet organizational structure implied that decisions concerning health care planning were taken at the national level with little or no knowledge of local requests. The Semashko model was universal in scope and coverage, but high morbidity rates, inefficiency in the delivery of health care services and the systematic neglecting of building and medical equipment were the norm. Moreover, the number of medical personnel and hospital beds did not correspond to real local needs, but it was connected to the necessity of the state to allocate the work force. Since the scheme was tax-financed, payments for health care primarily depended on the budget available. As a consequence, health care expenditures were constantly below OECD and Western European average. With the collapse of communism, the requests for reforming this system increased. There were three main reasons why immediate actions were required. Firstly, because citizens were unsatisfied with the quality of the services provided. Secondly, because health care expenditures as a percentage of GDP needed to be drastically increased in order to cope with international standards, and finally, because the health care personnel openly showed its malcontent for the low salaries. The establishment of health insurance was the favourite choice in almost all countries. The motives for this preference are easy to imagine. The first reason largely depended on the countries’ historical background. CEECs had already established some form of Bismarck insurance during the pre-Soviet period. The Bismarck model was also not very far from the employment orientation of the communist system. The second driving force was associated to the belief that the introduction of health insurance would have separated the source of funds from the state budget without any significant delay. The desired outcome was an immediate increase in health care expenditures without worsening the financial situation of the state budget. The third motive found its origins in the health care personnel, who expected more financial benefits from the health insurance rather than from a tax-financed system. And, last but not least, health insurance was supposed to facilitate the privatization of health care services, and this was, of course, the main requests coming from the international organizations.

103 During the first years of reforms, Estonia, Latvia and Lithuania preferred a Scandinavian tax-financed system.
1. Country Overview
1.1 Bulgaria

The Bulgarian legislation on protection against illness dates back to 1879 and 1903 with the institution of collectively funded health care services. During this period, the Bulgarian medical and dental associations were set up and the state-funded free hospitals started to provide protection for the poor. In 1903, a law on public health care was passed, opening the door for the establishment of private health facilities. The predominant model was Bismarck social insurance on the basis of which all employees in government, private and public enterprises and on farms were compulsory insured. The first attempt to decentralize the system to local authorities came in 1928, but decentralization of tasks was dismissed during the Soviet occupation (WHO: Bulgaria 1999). Prior to the most recent reforms, tax financing and universality characterized the Bulgarian health care system. The definition of “Public Health Care” was commonly used. This concept has been recently replaced by the term “social health protection”, which clearly shows its egalitarian origins.

In 1997, in the middle of an economic crisis, Bulgaria gained large international support from the European Union, World Bank, World Health Organization and the US Agency for International Development (USAID). Although the health care reform was conducted on the basis of the requests made by these international actors, primarily focusing on financial stability, most of the universal principles of the old system were maintained. The Bulgarian health insurance is now divided into social health insurance based on obligatory contributions and voluntary corporative health insurance. The Ministry of Health, through numerous regional offices, is the organ responsible for its administration. According to the law, health care services are provided to all resident people and the access to benefits is granted regardless of financial positions. The Constitution of 1991 (article 51 par. 1) remains the most important legislative act, defining the basic and irrevocable right to health insurance for all citizens and the right to free medical services. This includes full coverage in case of sickness. Article 3 (1) of the Health Insurance Act (1998) affirms that “the compulsory health insurance is a system for social health protection of the population guaranteeing a package of health services, which shall be carried out by the National Health Insurance Fund (NHIF) and by its territorial divisions - Regional Health Insurance Funds (RHIF)”. Article 3 (2) points out that “the voluntary health insurance is additional and shall be carried out by shareholder companies registered according to the Commercial Law and who have obtained license under the conditions and by the order of this law”\(^\text{104}\). Unlike other CEECs, Bulgaria has decided not to

establish numerous funds, but rather a single health insurance fund. The reason for this decision was to provide more financial stability, while, at the same time, to ensure solidarity and better regional redistribution (Noncheva and Satcheva 2003). To sum up, the principles of Bulgarian reforms involved: a) compulsory participation in health insurance; b) solidarity of the insured persons in using the raised resources; c) equality in using medical care; d) self-management of NHIF; f) change of property; g) privatization of outpatient care; and h) decentralization of tasks.

1.2 Czech Republic
The first health policy in Czech Republic dates back to 1918, when the Czech Lands declared their independence from the Austro-Hungarian Empire. During this period, Bismarck social insurance was the standard scheme. The first fully functional health insurance system was established in 1924 with the adoption of the Health Insurance Act, which provided coverage for employees, for approximately one-third of the total population. This system lasted until 1952, when, following the Soviet occupation, the health care services were nationalized and put under state control. The current legislation finds its origins in the Law on Health Care for the Population of 1966, which introduced egalitarianism and universalism as leading principles (WHO: Czech Republic 2000).

The contemporary Czech health care sector is a compulsory public health insurance system based on contributions paid by the employees, the employers, the self-employed and the state. Despite the corporatist orientation, the system is redistributive in scope and the contributions collected are used to provide universal health services. In the Czech Republic, the entire population is covered, with very few exceptions that must buy individual insurance. In 2003, about half of the population was insured by the state, which remains the main guarantor of the system, paying almost 20 per cent of total health insurance contributions (Tomeš et al. 2003, p.108). The collection of premiums is administered by the new established health insurance funds (joint-stock companies). These joint-stock companies are required by law to provide the same coverage under the same conditions and are also not allowed to make profits. Any surplus must be transferred to a common reserve. Redistribution remains the main rule of the Czech public health insurance system.

There can be little doubt that the Czech system of protection against illness is the result of an ambiguous compromise between neo-liberal theorists and more cautious policy-makers. The current public health insurance model is clearly based on contributions, but the freedom of the health insurance funds to operate in a competitive and profit-oriented environment has been strongly limited by the necessity of redistribution.

The Czech health care sector is thus a hybrid system: it is German-style with regard to the social insurance orientation, but
universal, redistributive and non-profit-oriented with respect to the coverage.

1.3 Estonia

By the beginning of the twentieth-century, Estonia had already established a functional basic system of health care protection, which was highly decentralized with services developed and managed locally. This early basic system was replaced, after World War II, by the Semashko health care model. Centralization instead of decentralization became the leading principle, while universalism restored the occupational orientation of the previous scheme (WHO: Estonia 2000). In 1991, the Soviet scheme was reformed (central management, planning and financed from the state budget). The quality of health care facilities inherited was bad and medical equipment was poorly developed. During the first period of reforms, experts were divided by what to implement: a) the German health insurance; b) the system present in the United States; or c) the Scandinavian tax financed scheme. The Law on Health Care Organization (1995) and Health Insurance Act (2002) expressed a compromise among the different political parties by establishing a system, which finds its place between an expensive German health insurance and a more affordable Scandinavian system. The principle of redistribution of resources among different regions was introduced and decentralization and privatization began.

The Ministry of Social Affairs through the Central Sickness Fund now administers the health insurance in Estonia. According to the law, health insurance is provided to all resident citizens who have paid the social tax. The coverage is broad and the contributions collected through the social tax are redistributed to provide universal health services. Dependent family members, students, pregnant women, persons receiving a state pension are insured according to the principle of solidarity. Other groups not covered by compulsory or voluntary health insurance must pay their own medical expenses.

Despite huge efforts, the decentralization of health care has been described as one of the less successful aspects of the Estonian reforms. This has been attributed to a lack of planning and administrative skills at local level, but also to the fact that municipalities were too small to be administratively efficient (WHO: Estonia 2000). As a result, the collection of social tax payments since 1999 is no longer decentralized, but given to the Taxation Office, which distributes the funds proportionally to the regional offices. A form of hidden re-centralization is indeed taking place.

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105 The former Ministry of Health Care was abolished in 1993 in order to provide a unitary social policy.
1.4 Hungary

Hungary has a long tradition of public health services. The first act on public health was emanated in 1876 (Act XIV of 1876). According to the law, the eligible poor obtained free health care at special surgeries. Corporatist social insurance was the foundation of the system. Health care was delivered through the private sector and in some state hospitals. The 1949 Constitution, established during the Soviet occupation, signed a turning point from the Austro-Hungarian heritage declaring that the state would be responsible for the health of all its population. These universal values were, to a large extent, reaffirmed by the Constitution of the Republic of Hungary, amended in 1989, which emphasized the right to a healthy environment and to an optimal level of physical and mental health for all citizens (WHO: Hungary 1999).

The contemporary Hungarian health insurance is compulsory, based on the professional status and financed by contributions. Coverage is no more directly linked to citizenship, but since 1992 health services are provided to all persons in possession of the correct insurance card. Despite this corporatist orientation, a very small part of the population remains uninsured. The government is responsible for the following: a) regulation of health services; b) exercising statutory supervision over the National Health Insurance Fund; c) providing capital costs; d) financing and delivering public health services; e) providing tertiary care services; and f) covering the deficit of the Health Insurance Fund (WHO: Hungary 1999, pp.19-21). The Ministry of Social Affairs determines the health policy, but since 1990 (Local Government Act) local authorities bear the responsibility for providing services.

Medical services are provided directly to patients through the public health facilities in contract from the health insurance scheme. Benefits include general and specialist care, basic dental care and preventive care. As they did during communism, Hungarian patients still pay “gratitude money” in exchange for medical treatments. A recent research carried out by the TARKI Social Research Centre in Budapest has estimated that the amount of informal payments in 1999 was equal to 4.6 per cent of total health care expenditures. It is clear that the Hungarian health care sector has been built on communist and pre-communist ruins. Numerous elements, however,

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106 Constitution of the Republic of Hungary, Article 70/E
107 The central and local government have the obligation to cover a large part of the population (such as unemployed, people in social need, and the pensioners) that otherwise would remain uninsured.
108 The Ministry of Health has been reunified with the Ministry of Social and Family Affairs in order to provide a unitary social policy.
109 Informal payments in Hungary were tolerated throughout the communist regime and included in the calculation of salaries.
of Bismarck social insurance have survived even during state-socialism. These include, for example, the private medical practice that was tolerated by the communist regime (though not enhanced), and the collection of pay-roll social insurance premiums (WHO: Hungary 1999). In contrast, the existence of informal payments is the most notable communist legacy.

1.5 Latvia
At the beginning of the twentieth-century, Latvia was part of the Russian Empire. Private practitioners provided health care, while patients paid the cost for services. In 1930, a law on compulsory health insurance was adopted, providing coverage for the urban and rural population. During this period, there were three sickness funds: independent, occupational and territorial. Bismarck social insurance was the basis of the Latvian health care. After World War II, this model was replaced by the highly centralized Semashko system, which lasted until the independence of Latvia from the Soviet Union in 1991 (WHO: Latvia 2001).

Health insurance in Latvia is tax-financed and administered by the Ministry of Health through the State Compulsory Health Insurance Agency (and eight regional sickness funds). In the near future, however, more importance will be given to private health insurance. Latvia has indeed gained access to a World Bank loan for the health care reform\(^{111}\). The project includes support for health care system administration, reform of health care financing, strengthening of sickness funds, and management of the health information system (Bite and Zagorskis 2003).

The liberalization of the health care system has primarily involved the free choice of health care facilities and the decentralization to local authorities. The Law on State Compulsory Social Insurance (1999), Law “On Local Governments” (1993) and Law “On Medical Care” (1997) are the basis of the new system. These acts establish the compulsory state social insurance, regulate the organization of health care facilities (Law on Local Governments) and reorganize the public health system (status, structure, functions and financing of the public health network). According to the law, health care services are provided to all resident citizens. The coverage is broad and the resources available are used to provide universal health services. Latvians are, in fact, insured according to the principle of solidarity. The organization of medical services is now the task of local authorities, but since 1997 financing is no longer decentralized. The incapacity of municipalities to collect enough financial resources is the main reason for the current attempts to re-centralize the system.

1.6 Lithuania

Between the two world wars, Lithuania had established a Bismarck model of health insurance, but, following the Soviet occupation, the existent health care system was reorganized to be in line with the central planned economy. This system mainly survived (although some reform took place in 1991) until 1997, when the Law on Health Insurance moved the health care sector from a tax-financed to a contributory one\(^{112}\) (WHO: Lithuania 2000). The liberalization of health care started in the beginning of 1990s, involving the free choice of health care facilities and the re-establishment of private practice. The Constitution of the Republic of Lithuania (Article 53) affirms the right to free health care in public health care facilities. The Law on Health Care System of 1994 defines the organizational aspects of the national health system, while the Law on Health Insurance of 1997 introduces the obligatory health insurance scheme. The level of universalism is high. The state covers all those citizens who are not able to pay contributions by themselves (such as unemployed, pensioners, and so on).

In Lithuania, health care is predominantly public financed. The main sources come from the obligatory Health Insurance Fund and the state budget (including both national and municipal budgets). The majority of the health care institutions works on a not-for-profit basis and are state-owned. Health insurance is administered by the Ministry of Health and by the municipalities. The Ministry of Health is responsible for the development and the implementation of legislation, while the municipalities are responsible for providing primary health care to their local population. In addition to the health services provided under the supervision of the Ministry of Health, two parallel state-run health care schemes exist. The first, run by the Ministry of Interior, provides services for the police and prisoners, while the second, run by the Ministry of Defence, covers the military personnel (Dobravolskas and Buivydas 2003). This differentiated system was established during the communist period.

Despite the new health insurance, some principles of the old communist system have been maintained. State responsibility in health care protection has often been reconfirmed as the untouchable foundation of reforms.

1.7 Poland

Poland has a long tradition of Bismarck health insurance, which dates back to 1918. This system provided, however, very limited coverage with only seven per cent of the population insured. Following the Soviet reorganization, after World War II, coverage and protection

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\(^{112}\) Please note, however, that, for the Lithuanian legislation, 30 per cent of a persons income tax is considered as health insurance contributions.
were extended. Some aspects of the old system survived even in the Semashko model. Private practice was never formally abolished, while private medical cooperatives and dental services remained in place even during communism. Decentralization also became an exception to the communist monolithic structure. By the beginning of 1980s, more administrative power in decision-making and implementation of policies was in fact given to local authorities (voivodships and gmina) (WHO: Poland 1999).

The reforms in this sector essentially aimed to change the understanding of total state responsibility through decentralization, social insurance and the increase in individual involvement. The Ministry of Health through numerous regional, provincial and local offices now administers the health insurance. According to the law, health services are provided to all insured persons in the territory of Poland. The concept of insured person is broad: it includes workers, but also their families and the unemployed. Groups not insured by compulsory or voluntary health insurance must pay medical expenses. In November 1990, a document on health responsibility reduced the competencies of the state by limiting its management activities (Consensus II: Poland, 1999, part 3, p. 108), but only with “Balczerowicz Plan” of 1991 the Semashko model was drastically reformed. As with the pension sector, the health care system was characterized by a huge number of proposals preceding the final reforms. The concluding step was made after intense negotiations with World Bank experts, who were working out a loan for the reconstruction of the health care system. The guiding philosophy was clear and involved: a) the introduction of health insurance, b) market-orientation; c) increase in individual responsibility; and d) the dissolution of the monolithic Soviet structure through an increase in the already existent administrative devolution. Despite numerous attempts to carry out the transformation in a fast and drastic way, the health care reorganization was stopped for many years due to the necessity to find a compromise between the universal right to health protection and the newly proposed health insurance model. On 1 January 1999, the right-wing government finally introduced the new health insurance scheme. This was the conclusion of numerous years of political discussions and debates among the different social partners.

The contemporary Polish health insurance still aims to provide universal coverage, but the excessive devolution of responsibilities seems to have left large groups of the population unsatisfied. In recent polls, 62 per cent of respondents replied that the new health care system performed much worse than the pre-reform system, while approximately 72 per cent demanded that the main responsibility in this area should have been returned to the state (quoted in Golinowksa et al. 2003, pp.116-117). As it might be expected, the implementation of neo-liberal reforms had still to face the long-lasting effects of Poland’s communist/egalitarian legacies.
1.8 Romania
Until the end of World War II, the health insurance in Romania was based on the Bismarck conception of social solidarity, covering workers from industrial enterprises, merchants, employers, and self-employed. This group of employees represented, however, only 5 per cent of the citizens. In 1949, the Law on Health Organization of the State introduced the Semashko system, extending coverage and protection to almost the entire population. In Romania, the highly centralized structure, heritage of the communist system, remained in place until 1995, during which the government did not introduce any significant changes that might have been in contrast to the right to health care expressed by the Article 33 of the Constitution. Only in 1997, the new regulation on Public Health and on Hospital Organization altered the previous system by introducing the legal framework for a decentralized pluralistic social health insurance (WHO: Romania 2000).

The Romanian health care sector is now undergoing a process of drastic transformation. The departure from tax financing through the (re)-establishment of health insurance (Health Insurance Act of 1997) has been relatively rapid and facilitated by the persistence of the economic crisis, which required immediate financial help from the World Bank. The Ministry of Health through numerous regional offices now administers the health insurance, while territorial and local authorities, on the basis of the payment of health insurance contributions, provide health care services. With respect to the universal guarantee in health protection established in the past, the social health insurance system covers almost the entire population. Citizens who cannot pay health insurance contributions are either supported from other budgets, or from the social health insurance budget according to the solidarity principle (Vilinoiu and Abagiu 2003).

1.9 Slovakia
Slovakia shares the same Bismarck tradition of health insurance as the Czech Republic, which lasted until the Soviet occupation after World War II. During the communist period, the responsibility for health care promotion and protection against illness was totally given to the state. With the fall of the Berlin Wall, the reforms of the health care system did not aim to destroy this, and most of the egalitarian values established by the previous regime were reaffirmed. Some change, however, occurred. This has involved a mixture of decentralization and centralization, the re-establishment of health insurance, and an increase in individual responsibility.

The Ministry of Health, State Regional Hygienists, and State District Hygienists administer the health insurance. According to the law, the entire population is covered, even if the insured person is not employed and therefore pays no contribution to the fund of the health insurance companies. In this case, the state will pay for the budget deficit. The idea of state responsibility has been maintained. All
citizens have the right to equal access to health services regardless of their financial position.

The Constitution of 1\textsuperscript{st} September 1992 is the most important legislative act confirming the right to protection against illness for all citizens. The constitutional rights are implemented by the Act no. 277/1994 on Health Care (with later amendments), which affirms that “everybody” (and not only the insured person) has the right to get health care including medicaments and that the collected premiums will be redistributed according to population needs. In 1998, the Government reassured the population that they “will only allow privatization of health facilities that will serve as a means of improvement in the provision of health care” (Consensus II: Slovakia, 1999, part 3, p. 102). Since then, this principle has never been brought into discussion.

The delivery and the management of health care facilities are decentralized, but the state control is still high. This mixture of decentralization and centralization depends on the necessity to preserve the constitutional rights, which could not easily be ensured by the social insurance model. Health care benefits are very comprehensive covering a wide range of services with the exclusion of few treatments, such as acupuncture, sterilization, abortion, cosmetic surgery, experimental treatment, and psychoanalysis. According to Vagac and Haulikova (2003), the wide scope of covered benefits is the most notable legacy of the communist regime.

\textbf{1.10 Slovenia}

As part of the Austro-Hungarian Empire, Slovenia had established a functional health insurance system based on the Bismarchian model. The first act dates back to 1854 introducing compulsory insurance for miners and foundry workers. Insurance in case of illness was first extended in 1858 to railway workers and then to a larger part of employees. This system lasted, though modified several times, until the end of World War II. During the communist period, health care was based on the principle of universality. In 1954/1955, health insurance was separated from social security and different systems were established for workers, public employees, craft workers, self-employed and, later, also for farmers. In 1972, a referendum reinforced universal values by amalgamating the differences in protection existent between employees and farmers. In 1974, a new legislation on health insurance introduced the first steps towards decentralization and gave to the “self-managing communities in health” the responsibility to be the main source of funding (WHO: Slovenia 2002).

In Slovenia, the Ministry of Health is responsible for the implementation of health care policies; the Health Council is responsible for monitoring proposals for the development of health policy; while the National Health Insurance Institute is responsible for the management of health insurance (WHO: Slovenia 2002).

According to the law, health services are provided to all insured
citizens. The entire population is in theory covered, even if the insured person is not employed and, therefore, pays no contribution. In this case, local authorities will cover the deficit. The Act on Medical Activity of 1992 re-introduced private practices abolished during the socialist period. The level of contributions are established by the assembly of the Republic of Slovenia, based on proposals by the Health Insurance Institute. This implies that health insurance is linked not only to market (financial stability) factors, but also to social priorities.

As far as the reform process is concerned, gradual change rather than shock therapy was one of the main features of transformation. The new legislation reconfirms that health insurance should not undermine the right to use health care facilities, which must remain predominantly universal in scope and coverage.

2. Challenges of Transition
In the early 1990s, Central and Eastern European health care systems faced numerous challenges, largely caused by the re-organization of the old communist structure. These challenges included: a) the re-organization of the communist health care arrangement into a new market-oriented environment, b) the decentralization of the administration in order to ensure that local requests were met; c) the improvement of the health care delivery system through an increase in GDP expenditures; and d) the establishment of an efficient health insurance scheme capable of ensuring the financial viability of reforms. Although all countries were successful in carrying out the necessary structural changes, several problems still wait for an adequate response.

Undoubtedly, one of the major unresolved issues concerns the introduction of the health insurance model that demonstrates its weakness in times of raising unemployment. In more than one aspect, the establishment of market-based mechanisms is a decision that still implies a significant degree of hazard. The decrease in economic activity, present in all Eastern societies, makes a direct link between the payment of health insurance contributions and the access to health care services particularly problematic. The obvious consequence is a growing deficit of the health insurance funds caused by the impossibility of the unemployed to pay the monthly premiums. Moreover, while in the case of pension reforms, numerous policy options are available to diminish the budget constraints (for example, retirement age can be postponed, the amount of pensions can be reduced and so on), these possibilities cannot be applied to the reforms of the health care system. As it is well known, the need for medical services cannot be simply postponed or the expenditures of medicines blocked, but immediate actions are expected. Providentially, however, in the situation of financial instability, central governments guaranteed the most basic health services by ensuring, at their expenses, the solvency of the newly established health funds.
A second problem related to the introduction of health insurance involves, once again, the excessive decentralization of tasks given to local authorities, which has resulted in a disproportionate increase in administrative costs at the expense to the efficiency of the overall delivery system. This situation has been worsened by the huge regional differences that still exist in these countries. The condition of Central and Eastern European medical services are, as a general rule, much better the closer one is to the capitals, while a lot of work still remains to be done in the peripherical zones (WHO HIT Profiles). This asymmetrical distribution of resources is the unfortunate consequence of forty years of central planned economy, which systematically neglected the needs and requests of the peripheries. In this context, it comes as no surprise that Eastern policy-makers saw the devolution of responsibilities to local authorities as the fastest way to find an answer to this old problem. Unluckily, decentralization did not automatically imply more efficiency, but rather a constant increase in the expenditures of the health insurance funds.

A third, more debated question, concerns the fast opening of Central and Eastern European markets, which has been a reason for the closure of many pharmaceutical industries. Unquestionably, Eastern medical technology and products were far behind the ones available in the West, but they were cheap and, thus, even institutions, which suffered from a chronic lack of funds, could buy them, ensuring, at least, basic services to their patients. New medical products imported from the West, if on the one hand, have enlarged the chances of gaining access to the most appropriate medical treatment, then on the other, have progressively caused further budget constraints for the health insurance funds. This is primarily because, being paid in the currency of the country of origin, they are much more expensive than they would have been if produced by national industries. Of course, the debate on this topic is huge, since it includes the dispute on the costs of medical research as discussed in chapter two of this volume (see the TRIPS and GATS agreements, chapter 2 §1.3.5). Nevertheless, what it seems crucial to mention here is that the increasing competition with Western industries under current rules did not only produce positive outcomes (such as the possibility to buy better equipment or the access to the most recent inventions), but had also the undesired effect in reducing the profits of national pharmaceutical companies that provided products of great use and value to Eastern European citizens. As a consequence, instead of improving the efficiency of the health care delivery systems, liberalization of medical equipment and pharmaceuticals severely impacted on the availability of services for the entire population.
Finally, the new "risk society\textsuperscript{113}\textsuperscript{113}

in which CEE citizens have been catapulted into has required an increase in the protection against unemployment, poverty and, of course, illness. Unfortunately, governments are only partially succeeding in ensuring an adequate safety net. There are numerous reasons for this incapacity to ensure basic social security, among which it can be mentioned the financial restrictions of the social security budgets, the inadequate performance of labour market institutions, the impossibility of Central and Eastern European markets to be competitive in the new globalized environment and so on. The extraordinary efforts, however, made to reform a health care system, which was highly inefficient and inevitably subject to continuous deterioration, should not be forgotten.

At this stage, an important point still needs to be made. It has to be clarified whether Central and Eastern European health care systems are moving towards a full corporatist model or whether universal aspirations are still the leading principles of reforms. In fact, even though it is true that almost all countries have opted for a clear Bismarck-oriented model, which grants health care services upon the payment of health insurance contributions, state responsibility and redistribution of resources remain the main characteristics of reforms. As it has been mentioned, the state is responsible not only to ensure the solvency of the newly established health insurance funds, but also to redistribute the resources collected to regions and individuals more in need.

On the side of the critiques, the recent attempts to re-centralize the health care organization of this region have been seen as a possible return to the past. Nevertheless, it is worth noting that re-centralization has been a necessary adaptation to ensure the long-term sustainability of the new system, which otherwise would have fallen under extreme financial pressures caused by the often insolvent municipalities. In numerous cases, the introduction of health insurance was conducted in an exceptionally fast manner, especially if the loss of numerous jobs caused by the transition from the command to a market economy is considered. As Stiglitz (2002) has correctly emphasized, reforms in East Central Europe have frequently been conducted according to a wrong sequence of priorities on the basis of which the transition toward a market economic system was implemented well before the social and economic conditions made this shift possible and sustainable. In the case of health care systems, for example, the establishment of market-based services should have been introduced only after a “functioning” market economy was in place. This would have certainly reduced the imbalance between the increase of unemployed and the consequent reduction of contributions collected.

\textsuperscript{113}\textsuperscript{113} For an interesting debate on the new social risks emerging in post-industrial societies see Esping-Andersen (1999), Bonoli (2004) and Taylor-Gooby (2004).
These mistakes in sequencing the order of reforms inevitably led Eastern politicians to a crossroad. The principal question was how to ensure continuity of the decisions taken in a reformed system that was producing unexpected negative results. The possibilities at disposal were, of course, limited. Reforms could have been blocked, continued or readjusted to the new evolving needs. The recent attempts to re-centralize the health care delivery system or to maintain high levels of state responsibility even in presence of market-oriented reforms must undoubtedly be understood in this context and cannot be separated by an accurate analysis of the new emerging problems.

Conclusion
The perspective that looks at Eastern societies as a tabula rasa, in which institutions can be introduced by design, shows all its weakness, when used to explain the transformation of the health care sector. Contemporary Eastern European health care systems did not only retain many of the characteristics established during their Bismarck period of social insurance, but also recombined these features with the egalitarian principles introduced by the communist regime. The persistence of strong universal aspirations in health protection is the most notable indicator that history matters.

In spite of the enormous budgetary costs caused by raising unemployment, governments did not renounce the decisions taken in advance and the reform of the old health care organization has been carried out as planned. This time, however, new policy priorities came to light. If during the first years of transition, privatization of provisions was chosen as a necessary step to improve the effectiveness of a highly inefficient and under financed health care system, the latest policy challenges concern the sustainability of the reforms already implemented. This has primarily involved the necessity to ensure the availability of sufficient services for the population. Recent studies have demonstrated that, despite the introduction of drastic reforms, health insurance in Eastern Europe still covers more than 90 per cent of the population (Bite and Zagorskis 2003; Dobravolskas and Buivydas 2003; Golinowksa et al. 2003; Gál et al. 2003; Leppik and Kruuda 2003; Noncheva and Satcheva 2003; Stropnik et al. 2003; Tomeš et al. 2003; Vagac and Haulikova 2003; Vilnoiu and Abagiu 2003). This positive result, however, has not been made possible thanks to a natural efficiency of health care systems fully based on market resources, which in reality have been demonstrated as being extremely vulnerable to economic cycles, but thanks to an active involvement of central governments that covered the financial deficits of the new health insurance funds.
Chapter 5
Protection against Unemployment

Introduction
During communism, unemployment was basically non-existent or, at least, not officially recognized. As a consequence, no legislation was required. Every communist citizen had the right and obligation to work for the maintenance of his/her family, as well as for the development of the communist ideology. Applied to the state-socialist society, what Baldwin (1990) affirmed for the Germany of Bismarck (see chapter one), the communist regime made concessions to its industrial working class in the coin of full-employment with the aim of avoiding the possible spreading of anti-revolutionary forces. As Baldwin (1990) would point out: full-employment for empowerment. This is, however, only part of the story. During communism, statistics were often unreliable and forms of hidden unemployment did exist. The lack of jobs did not only involve groups marginalized by the society, such as the Roma population, but also social groups better integrated in the state-socialist system. Nevertheless, in the beginning of 1970s, the existence of unemployed people became so evident in the Yugoslav Republic that the government was forced to introduce the first unemployment insurance along the same lines as the German pattern.

Not only did hidden unemployment existed during state-socialism, but also forms of part-time, or “second jobs”, existed in agriculture. A survey led by Ivan Szelényi and D.J. Tremain has shown that 18 per cent of Bulgarians, 19 per cent of Hungarians, 11 per cent of Poles (4 per cent in Warsaw) and 45 per cent of Russians had already worked part-time in agriculture in 1988 (Table 1.1), earning extra money to help support themselves or their family. The income from this activity was not high (usually less than 10 per cent of family income, see Table 1.2), but certainly helped these citizens to face times of shortage (see Szelényi 1989) (Table 1.3). Unquestionably,

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114 I owe much to Fabrizio Caponnetto (Associate Expert on Active Labour Market Policies at the ILO Sub-regional Office for Central and Eastern Europe in Budapest) for his valuable discussion.
115 SSEE -Social Stratification in Eastern Europe After 1989 Dataset-. This is the international project led by I.Szelényi and D.J. Tremain (UCLA). The SSEE general population surveys were conducted in 6 countries in 1993: Bulgaria (N= 4919), Czech Republic (4737 and Prague over sample 884), Hungary (4977), Russia (5002), Slovakia (4920), and in 1994 in Poland (Poland 3520, Warsaw sample 1503). Question g2a: “Now I’d like to ask you some questions about things in addition to your regular job that you have done to earn extra money or help feed or support yourself or your family.”
116 Only 2 per cent of Czechs responded to have worked part-time in agriculture prior to 1989. This result can be explained by the highly industrialized structure of the Czech society.
The emergence of these “atypical” jobs represented the first example of breakdown of the Soviet monolithic system of allocation of labour (see also Hankiss 1991).

### Table 1.1 Ever worked Part Time in Agriculture? %

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Source: SSEE-Social Stratification in Eastern Europe after 1989 Dataset

### Table 1.2 Fraction of Income from agriculture? %

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<th>about a half</th>
<th>more than a half</th>
<th>almost all</th>
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Source: SSEE-Social Stratification in Eastern Europe after 1989 Dataset

### Table 1.3 Fraction of food from agriculture? %

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Source: SSEE-Social Stratification in Eastern Europe after 1989 Dataset

### 1. The Performance of Labour Markets in Central and Eastern Europe

The fall of Berlin Wall brought a free market economy, but also unemployment. This was not only the result of the necessary change
of economic alignment from the Soviet Union to Western Europe and consequent diminution in trading power, but also the outcome of years of industrial mismanagement. Central and Eastern European countries inherited an obsolete industrial structure, where workers were often trained accordingly (Interview no. 9). The extraction industry and the defense industry were the engine of the command economy, while the service sector was largely underdeveloped. Agriculture was managed by big state-owned enterprises and, only in Poland was agriculture based on small family farms. The private sector was only symbolic and almost limited to Hungary and Bulgaria (Nesporova 1999) only. According to the European Commission, employment in Central and Eastern Europe is still largely over-represented in agriculture and industry, to the detriment of the service sector (DG Employment and Social Affairs 2002).

Competitions with Western European industries became a major problem immediately after the first years of transition. Unfair trade agreements\(^\text{117}\) accompanied by the necessary macroeconomic stabilization policies led to a cut in the domestic demand, in the end resulting in the bankruptcy of many Eastern companies. As a first response, numerous state-owned enterprises tried to reduce production costs, in many cases, by firing employees. At the political and managerial levels, it was hoped that most of these workers would be absorbed into the private sector (Nesporova 1999). Unfortunately, this did not happen. Data regarding employees insured by the Social Insurance Agency in Poland (ZUS), for example, show that during the period 1991-1998 approximately 1.3 million employees lost their jobs in the process of re-allocation from the public to the private sector\(^\text{118}\).

In practice, although the real GDP growth significantly improved after the first shock of transition, economic recovery was not followed by a proportional job creation (see Table 1.4 and Table 1.5). Identifying the reason for this imbalance in the labour market is extremely difficult, especially due to the fact that there are many possible responses to such a big issue. Perhaps, the most convincing explanation is provided by Nesporova (1999, 2002a, 2002b), who identifies as the main reason the necessity of enterprises to be competitive by reducing labour costs and redundant labour while

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\(^{117}\) The EU Member States agreed to push for trade liberalization of CEE markets, while protecting those sectors in which competition from accession countries might have threatened their economies. The so-called “Strategy of Asymmetry” expressed by the Europe Agreements. See Stiglitz (2002).

simultaneously increasing production. This obviously involved a decrease in real wages and consequently poverty for workers.

### Table 1.4 Real GDP

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Source: DG Employment and Social Affairs 2003, pp.206-208

### Table 1.5 Occupied Population

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Source: DG Employment and Social Affairs 2003, pp.206-208

Raising unemployment did not only imply a constant decrease in household income, but it also meant changing values established for more than 40 years. If during communism men and women had equal access to full-employment (the system was based on a dual-breadwinner model), in the new post-communist order, gender roles became more differentiated. Here, points of view on the weakness of gender-related labour market situation in Eastern Europe substantially differ (see Table 1.6). The European Commission, by affirming that unemployment hit men harder than women (DG Employment and Social Affairs 2002), has indirectly supported the hypothesis proposed by Fodor (1997) that women are seen as “revalued resources”. By contrast, Nesporova (1999, 2002a, 2002b) has demonstrated that female participation rates fell more rapidly than male rates, showing a weaker position of women in the labour market. In addition, women in East Central Europe are now openly facing new forms of “ethical

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119 Eva Fodor (1997) argues that women will have a significant advantage over men in the labour market as a result of their better training and educational skills acquired during communism.
discrimination”, which result in an increase of the gender wage gap. In other words, since women are often considered less reliable and less productive than men only because of their sex, they are more likely to be discriminated against in recruitment, promotion and pay (Interview no. 1; Interview no. 12; Nesporova 1999, 2002a, 2002b; Cazes and Nesporova 2003; UNECE 2003).

| Table 1.6 Unemployment Rate (% Labour Force 15+) by Sex |
|-----------------|-----------------|-----------------|
|                 | 2000            | 2001            | 2002            |
|                 | Tot Male Fem    | Tot Male Fem    | Tot Male Fem    |
| Bulgaria        | 16.4 16.7 16.2  | 19.2 20.0 18.4  | 18.1 18.7 17.4  |
| Czech Rep.      | 8.7 7.3 10.3    | 8.0 6.7 9.7     | 7.3 5.9 9.0     |
| Estonia         | 12.5 13.4 11.5  | 11.8 11.5 12.0  | 9.1 9.8 8.4     |
| Hungary         | 6.3 6.8 5.6     | 5.6 6.1 4.9     | 5.6 6.0 5.1     |
| Latvia          | 13.7 14.4 12.9  | 12.8 14.1 11.6  | 12.8 13.7 11.8  |
| Lithuania       | 15.7 17.9 13.4  | 16.1 18.4 13.8  | 13.1 13.3 13.0  |
| Poland          | 16.4 14.6 18.6  | 18.5 17.1 20.2  | 19.9 19.1 20.9  |
| Romania         | 6.8 7.2 6.3     | 6.6 6.9 6.2     | 7.0 7.3 6.6     |
| Slovakia        | 18.7 18.9 18.5  | 19.4 19.8 18.9  | 18.6 18.4 18.8  |
| Slovenia        | 6.6 6.4 6.8     | 5.8 5.5 6.2     | 6.0 5.7 6.4     |

Source: DG Employment and Social Affairs 2003, pp.227-237

As far as the structural change in occupations is concerned, transition meant a drastic transformation of the labour structure for these countries. In the process of reallocating the work force to the new sectors, the industrial workers have undoubtedly paid the highest social costs. This result, however, is hardly surprising, since the communist industries were in particular urgent need of modernization and thus subject to a painful restructuring.

In order to have a clearer picture, Figure 1.1 reorders data regarding employment by occupation provided by the ILO (ILO: Laborsta 2002) into four major groups. “Major Group 1” involves legislators, senior officials and managers (ISCO-88 Group 1), professionals (ISCO-88 Group 2), technicians and associate professionals (ISCO-88 Group 3). “Major Group 2” includes clerks (ISCO-88 Group 4), service workers and shop and market sales workers (ISCO-88 Group 5). “Major Group 3” includes skilled agricultural and fishery workers (ISCO-88 Group 6), craft and related trade workers (ISCO-88 Group 7), plant and machine operators and assemblers (ISCO-88 Group 8), while “Major Group 4” involves

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120 The United Nations Economic Commission for Europe has estimated that the gender wage gap in Central and Eastern Europe in 2001 was between 18 and 25 per cent, that is, women earned, for the same job position, between 18 and 25 per cent less than men (UNECE 2003).
Elementary occupations\textsuperscript{121} (ISCO-88 Group 9). Although it is still not possible to know in detail what has happened to the old communist worker (in order to do this, data is needed that clearly show that a worker moved from one group to another), Figure 1.1 demonstrates that the new Central and Eastern European labour market structure is characterized by a clear increase in Major Group 1 (ISCO-88 Group 1, 2, 3) and Major Group 2 (ISCO-88 Group 4, 5) workers, that is, an increase in middle and upper-classes, at the expenses of lower occupations, such as Major Group 3 (ISCO-88 Group 6, 7, 8) and Major Group 4 (ISCO-88 Group 9). The latter are more directly associated to the ex-socialist working class. This, however, by no means implies that the old socialist worker successfully climbed the social class, moving from lower to higher positions, but rather that the new social scale is characterized by a different class composition in which a larger availability of jobs in the highest positions will necessarily require different skills from those necessary during communism. Needless to say, low-skilled workers are inexorably going to suffer more for the consequences of this transformation.

\textbf{Fig.1.1 Employment by Occupation \% (ISCO-88 regrouped)}

Also from the analysis of Figure 1.2, it becomes evident that lower social classes (workers in Major Group 3 and Major Group 4) have suffered more job losses than other groups, confirming the hypothesis

\textsuperscript{121} ISCO Group 0 “Armed Forces” and Additional Group X are excluded from the count.
that unemployment has hit workers in the lower occupations harder than in the higher. This result is particularly clear for Estonia, Latvia, Lithuania, Poland and Slovenia in Major Group 3, while in Czech Republic, Hungary and Slovakia the extent of the loss has primarily included Major Group 4 workers, that is, those people employed in the elementary occupations that required no advanced skill.

During communism, flexibility was an unknown concept. Employment was provided life-long in a single firm, responsible to take care of the citizen/worker. A research conducted by the ILO Subregional Office for Central and Eastern Europe in Budapest has shown that countries in transition are now moving towards an increase in labour flexibility, especially driven by the EU accession (Cazes and Nesporova 2001, 2003; Cazes 2002). Unfortunately, this has also been coupled to a growth in the number of informal workers (Musiolek 2002). This is not to say that the informal economy was not existent during communism. It did exist, especially in the form of undeclared labour such as in construction and maintenance of family houses, production and sale of agricultural products (see Szelényi 1988) and illegal activities (ILO 2002). Nonetheless, the number of informal workers and the impact of informal activities for the overall production of GDP did not reach contemporary levels. Possible reasons for the increase in the informal sector have been identified in the economic transformation (privatization, dismissal of workers from the state-owned enterprises, deterioration of economic situation, and so on) as well as in the increase in income inequality.
Trying to discover the real volume of these workers is not easy, above all due to the implicit illegal nature of some of these occupations. Applying “official” estimations reported by the ILO (2002), approximately 46 per cent of the unemployed persons surveyed in Romania engaged in some form of informal activity in 2000, of whom 28 per cent had more than two occupations in the “unofficial sector”. In Poland and in the Russian Federation, on the other hand, “official surveys” show that only about 5 per cent of the total of those employed worked informally (quoted in ILO 2002, p.19). More recent estimations (Schneider 2002), however, have suggested that the size of shadow labour force in East Central Europe should be, in reality, much higher than expected and equal to approximately one-fourth or one-third of total labour force. Without going into details on the analysis of repercussions of an informal economy on the economic and social issues, it is vital to remember that being an informal worker means for the person involved “being unprotected, unrecognized and unorganized and, therefore, being highly vulnerable and insecure” (ILO 2002, PowerPoint Presentation, Slide n. 5). These are all challenges that Central and Eastern European systems of protection against unemployment still need to deal with.

2. Country Overview

2.1 Bulgaria

Until 1989, there was no official unemployment in Bulgaria and, therefore, no legislation was required. The first legislation was emanated immediately in 1989, when the government admitted, for the first time, the necessity to guarantee protection for all those people who involuntarily had lost their job. State responsibility through the administration of the Ministry of Labour and Social Policy was the main characteristic of reforms. Although many efforts have been made, Bulgaria has still one of the highest unemployment rates in Central and Eastern Europe. The main causes for this result can be attributed to its economic structure, which remained, until very recently, highly dependent on the Soviet bloc and agriculture. At the beginning of 1989, Bulgaria was one of the poorest countries in East Central Europe. This situation has not changed yet.

The Constitution of 1991 is the basis for the Bulgarian sector of protection against unemployment. It defines basic citizens' rights, but also the obligation of the state to provide all necessary assistance in case of job loss. The first legislation started with the Ordinance no. 57 of the Council of Ministers for Redirection and Effective Use of the Labour Force Dismissed (1989). The current system, however, is based on the Unemployment Protection and Promotion of Employment Act of 1997 (entered into force in 1998), the Compulsory Public Insurance Code of 1999 and the Employment Promotion Act of 2002, which regulate the new unemployment insurance, as well as passive and active measures. These acts envisage two types of insurance: compulsory and voluntary. The principle of the voluntary unemployment insurance is the same of the voluntary health
insurance. Citizens may freely decide to sign contracts with joint stock companies in order to improve their income in case of job loss. Protection against unemployment concerns: a) unemployment benefits; b) unemployment allowances (when participating in forms of vocational training); c) allowances for long-term-unemployed; d) social unemployment pension; e) and various active measures (such as employment trainings and stipends; employment subsidies, public works, etc.). Entitlement conditions are quite strict and not all those registered unemployed receive benefits (Noncheva and Satcheva, 2003). Job seekers must have worked for a period of nine months during the last 15 months before having access to benefits, which cannot be granted for more than 4-12 months depending on age and period of service. The amount cannot be higher than 60 per cent of previous wage.

2.2 Czech Republic
The Czech Republic has a comprehensive system of re-allocation of labour. Every employer is forced by law to give notice of possible vacancies to the employment offices within 5 days. It is the responsibility of the Ministry of Labour and Social Affairs, through 77 District Labour Offices, to administrate and supervise the employment related policies. In theory, unemployment benefits are provided to all economic active persons who are involuntarily unable to find a job. The amount of unemployment benefits is determined by the average monthly earnings and is therefore based on the occupational status of the person seeking the benefit. The state is not only responsible to ensure functioning labour market policies, but also to provide a minimum subsistence level to all those unemployed who have expired the access to benefits.

Act No.1/1991 Coll. defines the citizens’ right to employment, regulates the conditions for placement services, re-qualification, unemployment benefits and recruitment of workers by the employers.

Employment promotion in the Czech Republic involves: a) socially useful works (Act. No. 1 /1991 Coll.); b) subsidies to employers offering vocational experience to jobseekers (Act. 324/1992 Coll.); c) creation of jobs for disables persons (Ministry Decree 232/1997); d) passive policies (social benefits); e) active policies (job creation); f) health insurance of the unemployed; and g) public employment offices administrative costs. Job seekers have access to benefits after one week since registering at the employment offices. The unemployed applying for unemployment compensation must have worked for a period of twelve months in the previous three years and benefits cannot exceed six months (depending on the period of service). The amount is equal to 50 per cent of previous earnings for the first three months, and 40 per cent during the remaining period. If the unemployed takes part in retraining measures, however, he or she will receive 60 per cent of previous earnings. The insufficient duration of unemployment benefits (only up to six months) is complemented by unemployment assistance under the general
minimum subsistence level. The law establishes indeed that every household is entitled to this subsistence level corresponding to the sum of all amounts necessary for food and other essential needs (see § Social Assistance: Czech Republic).

2.3 Estonia

Until January 2002, there was no unemployment insurance in Estonia. Protection against unemployment was financed through the state budget and was more close to social assistance rather than to unemployment insurance. Benefits were flat-rate and equal to 400 EEK for registered unemployed. Only a few people, however, were allowed to register as unemployed, even if they were actively seeking a job. The recent legislation has changed the old structure, with unemployment insurance now including: a) earnings-related unemployment insurance benefits financed from statutory unemployment insurance contributions; and b) flat-rate state unemployment allowances financed from the state budget (Leppik and Kruuda, 2003).

The Decree of the Government in 1991 defined for the first time the concept of ‘unemployed person’, until that moment unrecognized in Estonian society. The Social Protection of the Unemployed Act of 1994 was the practical implementation of the Decree of Government 1991, defining the terms for payment of the benefits. Unemployment insurance as defined by the Social Protection of the Unemployment Act of 2000 and Unemployment Insurance Act of 2001 now concerns: a) unemployment insurance benefits; b) unemployment allowance; c) labour market services (e.g. employment trainings and stipends; employment subsidies and community placement); and d) means-tested social assistance. Job seekers have access to benefits after eight days after registering at the employment offices, under the condition that they have worked for a period of twelve months in the previous two years. Benefits can last up to six to twelve months depending on the period of service. The amount is equal to 50 per cent of the average remuneration of the insured person for the first 100 days, and 40 per cent for the remaining period.

2.4 Hungary

In Hungary three stages of employment policies can be identified. During the first years of reforms (1990-1998), unemployment insurance was particularly generous. The unemployed were well protected, with easy access to benefits or early retirement policies being the favourite tool of politicians to repay the ex-state socialist workers for the dissolution of the communist social contract. In the second period, following the election of the Orbán government (1998-2002), there has been a shift to active measures and a systematically reduction of entitlement criteria. This change towards more neo-liberal policy-making has not produced the expected results and subsequently the Orbán administration has not been re-elected in
2002. A new government led by the ex-communists has set the reintroduction of more comprehensive unemployment insurance as a policy priority.

The Hungarian unemployment insurance is contributory and earnings-related. The National Labour Centre, through 180 Local County Employment Offices independent from the local authorities, is responsible for the payment of benefits. The implementation of labour market policies remains under the supervision of the Minister of Social and Family Affairs, which operates together with the Minister of Economic and the Minister of Education. The Act IV of 1991 (still in force) regulated for the first time the measures against unemployment in Hungary. These measures can be summarized as being passive (unemployment benefits, unemployment assistance, early retirement) and active (support of intensive job searching, of the unemployed persons to become entrepreneur, of creating new jobs, of preserving workplaces, public works, training activities). In brief, unemployment insurance in Hungary is based on a three-tier system, which consists of: a) unemployment benefit; b) unemployment allowance; and c) means-tested social assistance (Gál et al. 2003). The system covers all wage earners with the exclusion of the self-employed who are insured under the Civil Code Contract. Before having access to benefits, job seekers must have worked for at least for 12 months within the previous two years and benefits cannot be granted for more than nine months (depending on the period of service). The amount is equal to 65 per cent of previous earnings.

2.5 Latvia
Latvia has a comprehensive social security system, which is divided into five main areas: 1) state pension insurance; 2) unemployment insurance; 3) occupational accidents and diseases insurance; 4) disability insurance; 5) maternity and sickness insurance. The payments of these five main areas, since 1998, are divided according to four special budgets: a) pension budget; b) employment budget; c) occupational accident budget; and d) disability, maternity and illness budget. The State Social Insurance Agency is the organ responsible for regulating the unemployment insurance. Until 1996, unemployment benefits were equal for all citizens, regardless of the contributions paid. Since 1997, however, unemployment benefits depend on the amount of contributions paid and the length of insurance record. The flat-rate orientation was a clear expression of the politicians’ will to maintain old principles of universality and egalitarianism as long as possible. Nonetheless, the increasing pressure created by raising unemployment forced the government to accept less egalitarian policies by introducing a differentiated compensation of risks.

The Law on Employment (1991), Law on Compulsory Unemployment Insurance (1995), Law on State Social Insurance (1997) and Law Insurance against Unemployed (1999) can be seen as the basis of the current system. These acts defined the state
employment policy and the terms of payment with regards to the unemployment benefits (unemployment benefits and unemployment allowance). Protection against unemployment now concerns: a) unemployment benefits; b) unemployment allowance; and c) labour market services (e.g. employment trainings and stipends; employment subsidies, public works); and d) means-tested social assistance. In order to have access to benefits, job seekers must have worked one year and nine months over the last 12 months. The amount of benefits is equal to 50-65 per cent of gross wage depending on the length of service and cannot exceed nine months of duration.

2.6 Lithuania
As with other countries, the first years of transition in Lithuania were also characterized by a massive increase in unemployment. In this economic chaos, also worsened by the dependence of the country on the Russian economy, protection of the unemployed was unfortunately understood in a residual way. Entitlement criteria for access to unemployment benefits were strict and with little or no real benefits.

The most important legislative act is the Law on the Support of Unemployed of 1996. This legislation regulates the new unemployment insurance, as well as passive and active measures. This act envisages one type of unemployment benefit (excluding the access to social assistance benefits) and numerous “active measures”, which remain, however, under-developed. Active measures in Lithuania take the form of placement services, vocational training and retraining, public works, promotion of self-employment (start-up loans) and organization of supported jobs (subsidized employment). The registered unemployed must be fit for work, actively cooperate with the employment offices, and agree to take part in public works. Taking part in public works is an essential precondition, if the unemployed does not meet the requirement criteria for access to unemployment benefits. Before receiving unemployment compensation, job seekers must have worked 24 months in the last three years. Benefits can be granted for no longer than six months in every twelve months depending on the period of service and their amount depends on the Minimum Subsistence Level (MSL).

2.7 Poland
In Poland, one might distinguish two stages of unemployment policies. The first stage (1989-1993) regards the establishment of social safety nets in order to cope with the new emergent problem of unemployment. During this period, passive policies were the main tool. The second stage (1994 onwards) concerns the establishment of unemployment insurance and the first attempts to increase the role of active labour market policies. During the first stage of reforms, benefits were provided quite easily, but at a very low level. In addition,
persons who had never worked before could be registered as unemployed. Since 1994 things are changing in the opposite direction with the restriction of eligibility criteria and reduction of expenditures are the clearest outcomes (Consensus II, 1999, Poland).

The Law of 14 December 1994 on Employment and Counteracting Unemployment can be seen as the core of the new Polish employment strategy. This act establishes a new definition for unemployed persons, their rights and obligations. In addition, the new act announced a turning point towards an increase in active labour market policies and a drastic decrease in eligibility criteria. Retraining schemes, public works, and extended periods of unemployment benefits in underdeveloped regions are all main characteristics of the new employment policy. Job seekers must have worked at least 365 days within the previous 18 months. Benefits can be received up to 18 months in regions where unemployment is below the national average. In regions where unemployment is above the national average, unemployed persons can receive benefits for no longer than six months. The amount of benefits ranges from 80 to 120 per cent of basic amount according to the period of service.

2.8 Romania

Until 1989 unemployment was not recognized in Romania and, therefore, no legislation was in place. The first law was established in 1991, when the government admitted for the first time the necessity to guarantee protection for all those people who involuntarily had lost their job. State responsibility and administration via the Ministry of Labour and Social Protection was the main characteristic of reforms. Although many efforts have been made, Romania has still among the highest unemployment rate in Central and Eastern Europe. The main cause can be attributed to the persistent economic crisis.

The Constitution of 1991 (article 43) is the basis for the Romanian system of protection against unemployment. It defines basic citizens’ rights for access to unemployment benefits and other forms of social assistance. The first legislative act started very recently in Romania with the Law 1/1991 on social protection and vocational integration of unemployed (with many later amendments). The current legislation regulates the new unemployment insurance as well as passive and active measures. This act envisages numerous types of benefits: a) unemployment benefits; b) support allowance for unemployed with insufficient income); c) compensation payments for unemployed resulting from lay-off; and d) then, social assistance. Before receiving benefits, job seekers must have worked for a minimum of six months out of the last twelve. Benefits can be received up to 12 months, depending on the period of service, and is equal to 50-55 per cent of net average basic salary, according to the period of service.

2.9 Slovakia

The Slovak Republic has established an insurance system of protection against unemployment. In comparison to the reforms made
in the Czech Republic, Slovakia has opted for a more determined way to change the system towards an increase in individual involvement. The state, however, has still the main responsibility in regulating and allocating the work force in the labour market, while decentralization has only been partially implemented. A form of hidden centralization is, in fact, one of the main characteristics of the Slovak reform. The Ministry of Labour, Social Affairs and Family (MISAF), the National Labour Office and the Districts and Local Labour Offices are officially the authorities implementing the labour market policies. Their main responsibilities regard the implementation of the directives of the Ministry of Labour and Social Affairs. In reality, however, the MISAF has major control over all employment policies.

In Slovakia, two stages of employment policies can be distinguished. In the first period, protection against unemployment and promotion were financed through the state budget (1989 until the end of 1993), while in the second stage of reforms (1994 onwards) were financed from non-state source. The establishment of the Employment Fund (Employment Fund Act of 1993) was probably the biggest step towards decentralization. In this case, however, a high level of hidden centralization has been maintained. The employment fund has received very limited competencies, which have remained in the hands of the state. The Act on Employment (latest amendment 2004) defines the new employment objectives, which primarily aim to establish and to maintain the balance between the demand and supply of labour and to ensure an adequate subsistence level of citizens who have blamelessly lost their jobs.

Before receiving benefits, job seekers must have worked for at least 24 months over the last three years. Benefits can be received for 6-9 months depending on the period of service and their amount is equal to 40-50 per cent of the determined base of unemployment benefits according to the period of service. The unemployed will also qualify for unemployment benefits if he/she has taken “care for a child up to five years of age in cases when the person executing such care has been paying unemployment insurance contributions for at least 24 months over the last three years before commencement of such care”.

The registered unemployed receiving sickness insurance benefits, parental allowance or financial assistance in maternity is not entitled to unemployment benefits. The unemployment insurance can be also supplemented by an additional “voluntary unemployment insurance”, which aims to increase the level of benefits available. The Act on Employment also establishes the Guarantee Fund, which is

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122 Until 1993, however, the employment legislation was a copy of that present in the Czech Republic.
123 The Employment Act has been amended more than ten times in less than 8 years.
designed to cover the possible insolvency of employers. One of the most important peculiarities of the new employment strategy is its strong link with the social assistance sector. In January 2001, social assistance benefits were paid to 308 800 beneficiaries, of whom 283 000 (91.6 per cent) were registered as unemployed.

2.10 Slovenia
Slovenia has established an insurance system of protection against unemployment, which includes three levels: a) unemployment insurance; b) unemployment assistance; and c) non-contributory social assistance. These three levels are closely linked together. There are two main qualifying conditions for gaining access to the unemployment benefits; the period of insurance and the positive behaviour of the unemployed in actively seeking a job. The authorities implementing the labour market policies are the Ministry of Labour, Social and Family Affairs, the National Employment Office and the Regional (10) and Local Labour Offices (59). Their main responsibilities regard the implementation of the directives from the Ministry of Labour and Social Affairs.

The first legislation regarding unemployment insurance in Slovenia was in 1974, and copied the German pattern of social insurance. A decent level of social protection was one of the main characteristics of the old system. The Act on Employment and Unemployment Insurance (1991, amended 1998) introduces the new insurance model (adjustment of the legislation in force since 1974) and regulates: a) unemployment benefits; b) unemployment assistance; c) the link to social assistance and the entitlement conditions to access to welfare benefits; and d) the introduction of active labour market policies. Unemployment benefits are contributory and earnings-related, while unemployment assistance is non-contributory and flat-rate. Before receiving benefits, job seekers must have worked for at least 12 months in the last 18 months. Benefits can be received for 3-24 months, depending on the period of service. The amount received is equal to 70 per cent of gross wage for the first three-months, and thereafter is reduced to 60 per cent, according to the period of service.

3. The Systems of Protection against Unemployment in Comparison
The systems of protection against unemployment in East Central Europe are not homogeneous since they differ according to entitlement criteria, duration and level of benefits. As illustrated, minimum requirements for access to unemployment benefits (2003)

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range from 200 days of employment in the previous 4 years in Hungary to 24 months over the last three years in Lithuania and the Slovak Republic. The duration of benefits also greatly differ from country to country. In Czech Republic, it cannot be longer than 6 months, while in Bulgaria, Estonia, Hungary, Romania and Slovenia unemployment benefits can last up to a maximum of nine or twelve months. In Poland, the duration also depends on the level of regional development. In underdeveloped regions, it can be up to 18 months, while in districts with unemployment rates below the national average it is granted for no longer than 6 months. As far as the amount of benefits is concerned, the criteria for the calculation are usually earnings-related in Bulgaria, the Czech Republic, Hungary, Latvia, Romania and Slovenia, while a strong flat-rate component still exists in Lithuania, Poland and Slovakia.

This diversity of arrangements seems to be the result of three main factors. The first is linked to the differences in economic development and in unemployment rates among Central and Eastern European countries, which required a different intensity of efforts. As outlined by Meglena Kuneva (2002), not all CEECs started the transition under the same economic conditions, and, thus, have not had the same policy success, or orientation as expected for less fortunate applicants. For example, in the cases of Bulgaria and Hungary, there can be little doubt that state intervention was required more in Bulgaria, where the financial situation was less favourable, than in Hungary, where labour market institutions could more easily be deregulated due to a better economic performance. In fact, although the rule of one-size-fits-all has too often been prescribed (see, for instance, the OECD Employment Strategy discussed in chapter 2. §1.3.4 of this volume, which basically applies to all countries in the world), the implementation of reforms has fortunately taken very diverse directions. In more than one case, countries have reacted in different ways to the existent pressures in the labour market recombining the suggestions received from the international institutions to the needs originating from specific national circumstances. This has consequently resulted in a multitude of actions and of provisions.

126 In 2002, for instance, unemployment rates ranged from almost 20 per cent in Poland to less than 6 per cent in Hungary. More precisely, it was less than ten per cent in Hungary (5.6 per cent), Slovenia (6.0 per cent), Romania (7.0 per cent), Czech Republic (7.3 per cent) and Estonia (9.1 per cent), while it was well above in Latvia (12.8 per cent), Lithuania (13.1 per cent), Bulgaria (18.1 per cent), Slovakia (18.6 per cent) and Poland (19.9 per cent) (Source: DG Employment and Social Affairs 2003, pp.227-237).
127 Kuneva, Meglena, Bulgarian Minister of European Affairs, 'Bulgaria on the road to Copenhagen and beyond'. Conference at delegation of the EU Commission in Berlin (14.11.2002).
A second, but not less important, factor is the variety of privatization strategies implemented (see Stark 1992; Stark and Bruszt 1998), which led to different outcomes in terms of job losses and actions required. Privatization followed, for instance, the German model in Estonia, where a “privatization agency” gained large responsibilities in the decisions regarding what kind of state assets could be sold, to whom and under what circumstances. In the Czech Republic, privatization was above all conducted through the use of vouchers, which were coupons given to ordinary citizens to purchase shares of state property (Beyer and Wielgohs 2001). Unexpectedly, however, approximately 70 per cent of vouchers in the Czech Republic did not end up in the hands of citizens, but rather in those of large investment funds, the majority of which were still run by major state-owned banks (European Forum 1998). Despite the negative results of such dubious privatization programmes, citizens and employees of ex-state-owned enterprises in East Central Europe were to some extent repaid for the expropriation of property by the communists. As Beyer and Wielgohs (2001) have outlined, this has taken the form of a transfer of state property for special prices or free of charge (as in Poland); of special public loans or leasing opportunities in Hungary; of discounts on share prices of enterprises in Bulgaria and Romania; of acquisition of shares free of charge in Slovenia; of public bonds (used to buy not only state properties but also medical insurance and pension plans) in Slovakia; and of “citizens grants” in Lithuania. This variety of approaches resulted in different effects in the labour market and, consequently, in a multiplicity of schemes of protection against unemployment.

Finally, it is worth mentioning the diversity of attitudes towards the measures necessary to combat unemployment. Especially during the first years of transition, neo-liberal supporters in the Czech Republic, for instance, even claimed that “healthy” unemployment would have been useful for a faster economic development of countries in transition, fostering competition and helping to reassess the normality of the market for so many years artificially falsified by the central planned economy (Consensus II, 1999, Czech Republic, part 4, p. 150). Consequently, the use of active labour market policies was often limited and not coupled with a coherent strategy of employment promotion. Other countries, by contrast, have demonstrated to be less enthusiastic with using these very dubious economic theories and have developed more highly efficient provisions. Hungary has been, perhaps, one of the best examples of successful policy-making. The reasons for this success seem to be the broad use of active labour market policies (Interview no. 4), coupled with significant levels of state protection. Hungary has, indeed, one of the most comprehensive and generous systems of protection against unemployment in East Central Europe, which includes not only active measures, but also well-developed unemployment compensation benefits.
Conclusion
Labour markets in Eastern Europe faced numerous, serious challenges. Dissolution of the pre-existent economic structure, establishment of a new market mechanism and dismissal of millions of workers are only few examples of the most pressing issues that needed an immediate response. Unquestionably, a variety of policy options characterized this sector of social security. The multiplicity of privatization strategies, already emphasized by Stark and Bruszt (1998), has resulted in a multitude of systems for protection against unemployment, which differ in terms of entitlement criteria, duration and amount of benefits. Moreover, countries in transition did not only implement different measures to fight the new plague of unemployment, but also reacted in different manners to the requests coming from the international organizations. The fundamentalist approach proposed by many financial institutions (such as the OECD), according to which the market should be left alone to resolve the asymmetries between the offer and demand of labour, has only rarely been applied. This refusal provides further support for the thesis that any new institutional arrangement cannot so easily be implemented by dictation, but needs to find a mediation in the socio-political arena.
Introduction
Since the command economy regulated all prices (of foods, of housing, of clothing, of heating, and so on) in order to provide a minimum subsistence level to its citizens, state-socialist policy-makers did not give social assistance provisions the importance they deserved (Milanovic 1995). This does not mean that social assistance schemes were not necessary during communism. They were necessary, especially for the less integrated groups of the society, such as the Roma, or for all those people who were for some reason unable to work (for example, pensioners, people affected by disability or by chronic illnesses). As Milanovic (1995) has emphasized, the extreme importance that the state-socialist society gave to work-performance as a mean of freedom from the capitalist oppression resulted in an implicit social stigma for all those citizens that in some way did not or could not conform to the idea of the perfect communist worker. Subsequently, merits acquired through a workaholic attitude had to be distinguished from the implicit reactionary threat of non-workers. The “good communist workers” often received medals as a symbol of their excellent work-performance, while the “bad communist workers” were usually the ones who lived at the expense of society and, probably, were moved by fascist intentions. It goes unsaid that providing a comprehensive system of social assistance provisions to this kind of people was something that contradicted the communist political aims (Milanovic 1995).

In more practical terms, social assistance during communism consisted of a series of social services provided by local offices to people without stable jobs, vagabonds and the handicapped. These services could take the form of in-kind benefits (such as food, housing and so on) and/or income supplement in order to achieve a minimum level of consumption. Unfortunately, since economic planners set these minima on the basis of a supposedly perfect system, the benefits received only rarely corresponded to real needs and poverty continued to exist in state-socialist societies (Milanovic 1995).

With the fall of the Berlin Wall and the collapse of the command economy, new instruments to combat poverty were necessary. Regulation of prices could no longer be used to maintain the artificially low costs of foods. Ex state-owned enterprises now needed to cope with the concurrence of Western industries and could no longer be the source of social security. In brief, rationalization of production rather than full-employment were the new economic keywords.
1. Contemporary Social Assistance Schemes

After the shock of the first period of transition, most Central and Eastern European governments introduced generous social assistance schemes in order to cope with raising unemployment and inflation. Particularly during the first period of reforms, access to these benefits was relatively easy and used more as a means of compensation for the loss of job, brought about by the involuntary dissolution of the communist social contract. Strict means-testing was rarely applied, primarily because of feasibility problems.

Current social assistance schemes are usually funded through the state budget, while local authorities have often the duty to administer the payments and to decide which applicants are eligible. In some cases, such as in Poland, local authorities may also bear the responsibility for the collection of funds. However, due to the existence of huge regional differences, this strategy does not seem to be particularly efficient, because it causes serious problems for the redistribution of resources to municipalities that are more in need. In theory, the access to social assistance benefits is provided to all resident citizens who are involuntary unable earn sufficient income and are registered at the employment office. The right to a guaranteed minimum subsistence is defined by the Constitutions or by consequent laws of the respective countries. In some cases, however, the real access to benefits can be determined by less rational reasons, such as in the case of Poland, where payments are granted upon discretion of social assistance workers.

One of the key features of Central and Eastern European social assistance schemes is the establishment of a Minimum Income Level (also called Guaranteed Income Level) as a poverty threshold. All households and citizens that find themselves below the poverty line established by law have the right to social assistance benefits. These provisions can take the form of cash, in-kind benefits or services. The amount is calculated as the difference between the official subsistence level and the family or individual disposable income. Interestingly, this was not a new introduction. As mentioned, most communist regimes (Czechoslovakia, Hungary and the Soviet Union) had already established “socially desirable” levels of consumption for their citizens (Milanovic 1995) well before the concept of “social minima” was introduced in France in 1988 (in numerous other European countries it is still absent, as for example in Spain and in Italy).

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In the case of Slovenia, the amount depends on the Minimum Guaranteed Wage, which is the lowest possible salary for a full-time job. In Latvia, the law sets no guaranteed income threshold and the access to welfare benefits depends on strict means-testing. In Hungary, social assistance provisions have both a means-tested and a non-means-tested component.
2. Country Overview

2.1 Bulgaria

Social assistance benefits in Bulgaria are provided to all resident citizens (in need) who are registered at the employment office and who do not refuse a suitable job. The Constitution of the Republic of Bulgaria 1991 (article 51) guarantees the citizens' right to social assistance and, consequently, obligates the state to provide a minimum subsistence level. All social assistance benefits are financed through the state budget. The Ministry of Labour and Social Policy redistributes the resources accumulated in the “Social Assistance Fund” among the local municipalities, while the local governments administer the payment of benefits. The Guaranteed Minimum Income dictates the access to benefits. The subsistence benefit is based on the income of the individual, or the family composition, and is calculated as the difference between the “Differentiated Minimum Income” and the income of the individual, or the family, from the previous month. Without going into a detailed explanation of all coefficients used in the calculation, poverty is determined on an individual, and not on a national, basis. As a general rule, however, larger families are entitled to a higher income from benefits. Means-testing is also very strict. A beneficiary can only have an apartment with a determined number of rooms or limited bank deposits. The Social Assistance Act (1998) establishes and regulates monthly, earmarked and one-off payments. In addition to the cash granted to reach a differentiated minimum subsistence level, social assistance provisions may also include services, such as counselling, home services and so on.

2.2 Czech Republic

In the Czech Republic, social assistance benefits are provided to all resident citizens with an income below the minimum standard of living and who have no possibility to increase their revenue. The general Minimum Subsistence Level regulates the access to social assistance benefits, which are financed through the state budget.

The structure of the Czech social assistance sector cannot be fully understood without a brief description of the general social policy organization, which is very comprehensive and strongly interconnected. This includes: 1) social insurance which involves old-age, invalidity, unemployment, death of breadwinner, sickness insurance (providing cash) and health insurance (providing health services). This level is financed through contributions; 2) state social subsidy which involves income tested benefits (child allowance; social allowance; housing allowance; and transportation allowance) and non-tested benefits (such as parental allowance; maintenance allowance, foster care allowance and grants; maternity grants; death grants). This level is financed through the state budget; and 3) social assistance which involves allowances for citizens under the minimum subsistence level (allowance for child subsistence and for taking care of relatives or other persons in...
need). This level is also financed through the state budget. The Act No. 463/1991 determines the minimum subsistence level available to all citizens. This is the sum of all necessary expenditures for food and other essential needs. The Minimum Subsistence Level depends on the household structure and income, so it increases according to the number of family members or the age of dependent children under the age of 25. The government has the obligation to adjust the level of benefits to the increase of the cost of living.

2.3 Estonia
Also in Estonia, the Minimum Subsistence Level dictates the access to social assistance benefits, which are financed through state budget. The Ministry of Social Affairs divides the financial resources among the local municipalities through the county councils, while local governments administer the payment of benefits. The minimum income is available to all resident citizens registered as unemployed at the employment offices and is calculated as the difference between the subsistence level and the family disposable income. Social assistance provisions consist of: a) social need benefits (supplementary income to reach the minimum subsistence level); b) supplementary social benefits (protection of people with specific social needs, also elderly, children and so on); c) counselling; d) provision of prosthetic, orthopaedic and other appliances; e) home services; f) housing services; g) foster care; and h) care and rehabilitation in social care institutions. In addition, there is also the possibility of emergency social assistance, which comprises all measures with the aim to guarantee, in a very short period, at least food, clothes, and other essential needs.

2.4 Hungary
During the last years, continuous adjustments of the legislations have characterized the social assistance scheme of Hungary. The most famous action was the Bokros-package in 1995, which was a set of austerity measures named after Finance Minister Lajos Bokros’ dismissal. The family allowance was no longer universal and automatic. Most of flat-rate benefits became means-tested. Childcare assistance was reduced. In addition, employers rather than the social security organizations had to fund sick pay for the first 20 days. Tuition fees were also introduced for universities. The central budget contributions to local authorities, as well as Government employment, were strongly reduced. Despite the attempt to establish these painful measures, which led to a violent political debate and the subsequent dismissal of Bokros and the freezing of his reforms, the role of the state regarding social responsibility has only been temporarily diminished. In particular, the political agenda of the new government led by the ex-communists (elections April 2002) has been based on the re-
introduction of pre-existing benefits (for instance, school- and university aid).

In Hungary, there is no statutory Guaranteed Minimum Income available as such, but numerous similar provisions exist for certain groups. These benefits include: a) benefits for the elderly in order to reach the income limit (80 per cent of minimum old-age pension); b) income-supplement for the unemployed (ISU) which is a transfer for long-term unemployed who have expired the entitlement of unemployment benefit (an income supplement to reach 70 per cent of minimum old age pension); c) regular social assistance for disabled people (an income supplement to reach 80 per cent of minimum old age pension); d) housing assistance; e) a “fee for care” which is a benefit for those who help persons requiring long-term care; f) transitory assistance which is provided to people who have transitory financial problems (this benefit is usually provided in the form of loan without interest or at very low rate); and g) funeral grant which involves a subsidy between 10 and 100 per cent of the cost of the funeral.

2.5 Latvia
Social assistance provisions in Latvia include three main areas: 1) material help (social benefits: payments in cash or in kind); 2) social care (care services for persons in need); and 3) social rehabilitation (numerous activities in order to improve person’s integration in the society). The access to these schemes is dictated by the Act on Social Assistance of 1995 (see also Law on Social Services and Social Assistance of 2002) and the associated provisions are intended to act as a social safety net through a Guaranteed Minimum Income. Social assistance provisions and family benefits are complementary. The Act on Social Assistance also regulates family support policies, which are financed through the state and local authorities budget. The level of decentralization is high. This organization often causes serious problems when local authorities do not have sufficient resources to cover all persons in need. Social assistance provisions are means-tested, but family benefits are universal and characterized by a pro-natalist orientation. Social assistance benefits and services include: a) state social security benefit; b) allowance for the compensation of transportation expenses for disabled with mobility problems; c) funeral benefit, d) social assistance benefit to needy families; e) housing benefits; and f) care benefit. In order to have access to social assistance provisions, the person must be over 15 years of age, be registered as unemployed, and accept a suitable job or a retraining measure. The claimant of benefits must also fulfil other less common “social duties”, which may indirectly lead to social stigma, such as acceptance of medical examination, or participation in medical and social rehabilitation.
2.6 Lithuania
Lithuania has a broad, close universal scheme of social assistance provisions. Social assistance benefits are paid to Lithuanian citizens and all other permanent residents who are without work and are registered at the employment office and do not refuse a job offer or a retraining measure. The access to social assistance benefits is dictated by a set of laws\textsuperscript{129}. Benefits are mostly means-tested, although a set of non-contributory and non means-tested benefits do exist. Means-tested benefits are related to the Minimum Subsistence Level and include: a) social pension; b) families allowance; c) reimbursement for cost of house heating and of hot water; d) public transport subsidies; e) numerous benefits in kind (elderly or disabled people care houses, free of charge meals, lodging-for-the-night houses, services for the disabled and elderly and at home); and f) social benefits for families in need. Municipalities are responsible for financing these benefits.

The legislation\textsuperscript{130} guarantees the citizens’ right to social assistance provisions. These laws also oblige the local authorities to provide help for those citizens who involuntarily do not have sufficient income. The amount of social aid depends on the difference between the stated supported income and the income level of the family, or single person. All social assistance benefits are financed through the local budget, but since these benefits are strongly linked with the Minimum Subsistence Level, and the latter suffers from a low indexation, the impact of these benefits in the overall poverty reduction strategy has been relatively low\textsuperscript{131}.

2.7 Poland
Poland has a discretionary social assistance scheme. Almost all provisions and allowances can be granted on discretion of the social assistance workers of the local offices. All social assistance benefits are financed from the government or local resources, but the main decisions regarding the concession of benefits are taken at the local level (gmina). High decentralization remains one of the main peculiarities of Polish reforms.


\textsuperscript{131} Please note that social assistance beneficiaries in Lithuania are entitled to health care with no payment of the health social security contribution.
According to the current legislation, social assistance benefits should be granted to people in difficult situations trying to overcome unfavourable circumstances, under the condition that they are registered as unemployed and do not refuse any suitable job offer or retraining measure. Entitlement criteria, for access to benefits, regards people with insufficient income and people affected by “social dysfunctions”, such as orphanhood, homelessness, unemployed, disability, long-term illness, problems with motherhood, alcoholism, drug abuse and prisoners.

The Social Assistance Act of 1990 (see also Social Assistance Act of 2004) determines the minimum subsistence level necessary for all citizens resident in the territory of Poland. The grant of subsistence benefit is calculated as the difference between the subsistence level and the family or individual disposable income. Social assistance benefits are not easy to distinguish from other provisions, but, used with due caution, the legislation mentioned above establishes and regulates: a) temporary allowance (a benefit for single persons or families, who do not reach the minimum income threshold. This benefit is discretionary); b) special temporary allowance (granted to unemployed single parents, who lost the entitlement to unemployment benefits because of ending of duration; this benefit is not discretionary, but obligatory); c) various benefits for handicapped persons (such as social pension, housing, home care and payment of social insurance premiums. These benefits are generally non-discretionary and non-means tested); d) social welfare homes for people in need of permanent care; and e) social work for various groups of population. All these provisions are financed from the state or local budget.

2.8 Romania

Romania has a broad scheme of social assistance provisions. This also includes family benefits (please note that while social assistance benefits are non-contributory, family benefits are both contributory (e.g. maternal leave) and non-contributory). The access to social assistance benefits is dictated by the Act on Social Aid (Law 67/1995). This law obliges the state or local authorities to provide help for those citizens who have no possibility to increase their income if they are registered at the employment offices and do not refuse a job offer or a retraining measure. The reforms in this sector are based on three main principles: a) universality; b) public social integration; and c) means-testing. All social assistance benefits are financed through the state or local budget and the amount is subject to periodic indexation, depending on the price increase. The social assistance beneficiaries are entitled to health care with no payment of the health social security contribution.

Social assistance benefits and services concern: social aid in cash or in-kind; counselling; home services; earmarked supplementary cash benefits (such as cash for paying rent, heating,
travel and transport for disabled persons); social pension (for elderly above 70 years old); social unemployment benefits; payment of health insurance; and non-contributory family benefits. A new Law on Minimum Guaranteed Income (Act no. 416/2001) has set the monthly amounts for the minimum guaranteed in accordance with the family structure, exceeding by far the present income levels. The social aid size now depends on the income level of the family, or single person, and is based on the difference between the minimum granted income (established by law) and the monthly net income of the family, or the single person.

2.9 Slovakia

Social assistance in Slovakia is very similar to the scheme present in the Czech Republic. This can also be seen by the differentiation of the overall social security system, which is divided, such as in the Czech case, into: a) social insurance; b) state social support; and c) social care. The Ministry, regional and district state offices and the centre for international-right protection of children and youth take the main decisions regarding the implementation of social assistance policies, while the responsibility of financing the benefits is given to the National Budget, the budget of municipalities and of non-governmental subjects. Social assistance benefits are provided to all employed, retired or unemployed citizens resident in the territory of Slovakia, who are involuntarily unable to have sufficient income and are registered at the employment office (this gives access to benefits for “objective reasons”). According to the current legislation, social assistance involves: 1) social prevention; 2) resolution of material and social needs (in order to help people to obtain minimum living conditions); and 3) resolution of social needs caused by disability. This takes the form of: a) social counselling; b) protection of social rights, c) social services; d) social assistance benefits; and e) social services and cash support for disabled persons. Entitlement criteria basically regard all citizens with insufficient income or affected by disability. In addition to cash benefits, social assistance provisions may include: f) home care services; g) organization of public nourishment; h) transportation services; i) residential care of social services; l) and social loans. The level of benefits depends on the Minimum Living Standard and the amount changes if the material need is due to subjective or objective causes. The minimum living standard (Act on Minimum Living Standard no.125/1998; with later amendments) is calculated on a household basis and is equal to the difference between the net income of the household, from all other sources, and a “subsistence minimum level” that varies with the size and composition of the household. If the material need can be attributed to subjective reasons, social assistance benefits help to reach 50 per cent of the minimum living standard. In presence of objective causes and the beneficiary does not have any income from a job, social assistance benefits are set to reach the level of
100 per cent of the minimum living standard. If the citizens find themselves in a difficult situation due to objective causes, but do have an employment income, social assistance benefits could reach 120 per cent of the minimum living standard (this last provision, however, has been removed with effect from January 2001). From January 2003, however, a new amendment to the Act on Social Assistance (1998) has slightly lowered the amount of these benefits. Citizens applying for benefits for subjective reasons are now entitled to supplement their monthly income up to a fixed sum of SKK 1,450, while those who apply for objective reasons may supplement their income up to SKK 2,900 (the maximum social assistance benefit for a family is of SKK 10,500) (Vagac and Haulikova, 2003, p.37).

2.10 Slovenia
In Slovenia, social assistance benefits are provided to persons who are permanently incapable to work, over 60 years of age, or those who are temporarily unable to earn sufficient income but are actively seeking a job (for instance, they are taking part in active employment programmes or have signed a contract with the Centre for Social Work). Thus, the entitlement criteria basically regard all citizens with insufficient income, elderly or affected by disability. Benefits can be granted for a limited period, usually not more than 12 months, although there is the possibility of prolonged support for those who cannot permanently work (Stropnik et al. 2003). The Act on Social Assistance of 1992 (last amendments 2002) is the basis of the Slovenian social assistance sector. It defines the guaranteed minimum income necessary for all resident citizens, establishes relative provisions and financial means to reach this level and regulates the links to other sectors (such as family benefits, health, unemployment or pension insurance). The level of benefits depends on the guaranteed minimum income for a family, which is obtained by multiplying the basic amount by the weighted number of family members. This amount is adjusted once a year to allow for any increases in prices. In principle, the family, and not the individual, is the main beneficiary of social assistance provisions. According to the current legislation, social assistance involves cash benefits, in-kind benefits and social services. A mix of decentralization and centralization remains one of the main peculiarities in this sector. The National Budget and the budget of municipalities bear the responsibility of financing the social assistance provisions, while the Ministry and district offices are responsible for the implementation of policies.

3. Problems regarding the social assistance sector
The transition from a central planned economy to a market economy has put Eastern European social assistance schemes under great financial pressure. Although, during communism, means-testing was rarely implemented, primarily because the
communist regime indirectly subsidized poor families through its total control over market mechanisms, with the introduction of market-oriented reforms and the consequent increase in the number of poor people, the wide scope of social assistance benefits required better targeting in order to ensure basic help to those citizens who really need benefits. Milanovic (1998, p.118) has estimated, for instance, that in order to guarantee a minimum income level to these populations, it would be necessary to spend, on average, from 9 to 10 percent of GDP each year. Evidently, these are exceptionally high amounts that no country could afford.

In order to find an immediate response to this issue, numerous influential international institutions (in particular the World Bank, OECD and IMF) saw an increase in means-tested provisions as a necessary step for improving the effectiveness of this sector (Milanovic 1995, 1998; Standing 1996; Capucha 1999). There were three main expected positive consequences of better targeting: first, it was supposed to limit the drastic increase in expenditures which were slowly becoming unaffordable; second, it should have helped to target "real" poor citizens, avoiding any waste of money; third, it should have finally introduced the concept of individual responsibility, limiting the dependence from the state (a notion, which, for too many years, had been sponsored by the central planned economy).

Needless to say, these expectations have only, to a certain extent, been satisfied. The first thing to note here is that the introduction of severe austerity measures in the economy, as strongly requested by the IMF, World Bank and OECD, has resulted in an exponential growth in social assistance applicants. As a consequence of this, a decrease in expenditures has rarely taken place, because social assistance provisions have been called to limit the negative effects of reforms carried out in other sectors. This situation has been aggravated by the decentralization of tasks, another priority of many international institutions, which has resulted in a drastic increase in administrative costs and in difficulties in coordination between the different levels and local offices (Capucha 1999). Another point that needs to be elucidated involves the introduction of means-testing: a political decision which has not automatically produced the expected consequence of targeting "real poor people". In reality, this has simply meant the exclusion of numerous underprivileged citizens, who have seen their entitlement criteria being drastically reduced by the new rules. Finally, it has been demonstrated that the market alone is hardly able to cope with the more onerous costs of the economic transition, and so the concept of individual responsibility has only, in some measure, been launched (or, at least, in its positive connotations). In this context, the idea of a residual safety net, in which social assistance provisions should come into play only when the market has completely exhausted its capability of ensuring minimum living standard, has clearly resulted in a simplistic and
impracticable way of devolving those tasks, which were once the responsibility of the State.

Nevertheless, as chapter 9 shows, social assistance provisions have continued to play an enormous role in reducing the extreme negative consequences of the economic transition, helping to diminish the number of poor people. They have been crucial in not only facilitating the acceptance of market-oriented reforms, but have also helped to weaken the perception among Eastern citizens that the democratization process are too cumbersome and expensive in terms of social costs. Recent results of the EU sponsored public opinion survey “Eurobarometer” clearly show that while the number of Central and Eastern European citizens, who feel unsatisfied with the way in which democracy works in their country, remains, in all social groups, much higher than those who are satisfied (especially if compared with the results of Western Europeans), this percentage becomes even higher among the retired, the unemployed, and people with limited education (European Commission 2003a, p.20). These unequivocally represent the groups that have less benefited from the economic transition of their countries. From this perspective, it is also hardly surprising to note how the “fight against unemployment” and “poverty” are the first two priorities among Eastern citizens, while the “principles of democracy” score only seventh in the scale of key issues (European Commission 2003b, p.5).

Conclusion
Central and Eastern European social assistance schemes became key players in the process of transformation from a central planned economy to a market economy, recombining the principles based on solidarity in place during the communist period with the new emergent needs caused by the deterioration of the economic situation. If during communism, state responsibility was the leading moral principle put in place in order to ensure a basic subsistence level to all communist citizens, as well as promoting the leading communist ideology, then this conception has been re-implemented in the new post-communist environment. The existence of social assistance provisions established during the first years of transition has, in fact, played a dual role. On the one hand, it has fostered political support for economic reforms (Kramer 1997); whilst on the other, it has facilitated the stabilization of transition and the consolidation of democratic institutions.

Interestingly, social assistance provisions are not a new introduction of reforms, but are part of the communist heritage. Social minimum lines already existed in the central planned economy as “socially desirable” levels of consumption. These minima now represent the most notable legacy of the past, but are also important elements of innovation and modernization in the present.
The effect of the West on these schemes has been manifold, but primarily expressed by an increase in income-testing, which, however, has not produced the expected positive consequences. According to Milanovic (1998) and Capucha (1999), however, targeting has only rarely been implemented. Although international institutions tried to propose a residual welfare state, in which social assistance provisions could play the role of a residual safety net, the extreme social pressures caused by the economic transition has required that the scope of social assistance provisions remain necessarily extensive. The leading principle remained, as during communism, based on the necessity to guarantee a minimum subsistence level to all citizens. Unfortunately, social assistance provisions alone could hardly cope with the negative economic conditions caused by the transition to the new market economy. The negative economic performance has severely reduced the effectiveness of these provisions, which, as mentioned, have been called to cover the negative effects of reforms implemented in other sectors.
1. Family Policies

In attempting to define the main functions of welfare institutions, Esping-Andersen (1990) correctly outlined that the welfare state was a crucial institution in the reproduction of power relations. Nonetheless, the author has often been accused of paying little attention to the political role played by family policies as important elements in the transformation modern societies. For numerous observers, an essential feature of different welfare states has been precisely the variety of attitudes towards the preservation of traditional family patterns (Kamerman and Kahn 1978; Lewis 1992; Kaufmann 1993, 2002; Sainsbury 1994; Hantrais 1995; Lewis and Ostner 1995; Gauthier 1996; Orloff 1993, 2002). According to Kaufmann (1993, 2002; see also Lüscher, 1985, 1989) the “family rhetoric” that characterizes different welfare state models is distinct to each country and influenced by cultural traditions and existing institutional arrangements (Kaufmann 2002; see also Hantrais 1995; Gauthier 1996). By pursuing different political, economic and social objectives, family policies also acted as important systems of social stratifications. During their history, they aimed, for example, to increase birth rates (pro-natalist approach), to ensure social stability by preventing poverty (social reproduction), to promote gender equality, and to enhance human capital by supporting the healthy development of the child (Kaufmann 2002). The attitudes towards a determined family logic, obviously, depended on the functional necessities of the state to build a peculiar typology of society.

As a result, the most common classifications identify four, more or less, distinct welfare family regimes: a) the Corporatist model which reproduces labour relations according to the traditional ideal of family (as in the case of the German speaking countries); b) the Anglo-Saxon model which emphasizes the role of the market in social protection, thus, neglecting the family; c) the Scandinavian model which is supposed to promote gender equality through comprehensive family policies (Kamerman and Kahn 1978; Lewis 1992; Sainsbury 1994; Gauthier 1996); and d) the Southern European model in which the family plays a vital role to replace the deficit of state protection (Leibfried 1992; Ferrera 1996; Flaquer 2000). Needless to say, the classifications mentioned above do not consider the Central and Eastern European family regime. For Kaufmann (2002, p.439) “the experience with socialist family and population policies is now only of historical interest, and the actual process of transformation does not yet allow to draw conclusions about what finally their family policies will be”. In response to this rather provocative statement, which presupposes the Western family model(s) as the only one possible, there are now enough empirical evidences to trace some common characteristics in Eastern Central Europe.
2. Family Policies during Communism

Family policies are not a monopoly of Western countries. After a short period during which communist regimes strongly advocated the necessity to free the citizens from the reactionary influences of the family, family policies became a priority for ensuring social stability, but also to enhance the development of the socialist society. In almost all countries the first legislation started at the beginning of 1950s, but only in the 1970s was the family was openly seen as being functional to the development of state-socialism. Ferge (1978, p. 87) shows that in 1975, the Hungarian Ministry of Labour published its Directives for Family Policy Work, stating that

“by family policy we understand all the planned, intended effects which aim in a complex way at influencing the life conditions and attitudes of families, in order to assure that the functioning of the family will be in harmony with the requirements of socialist development. Family policy expresses, then, a system of interests relating the socialist state and its institutions to the functioning of the family”.

Also Sokolowska (1978, p. 241) has shown that in the same year, the First Secretary of the Polish United Workers Party emphasized that

"the family fulfils and will fulfil the irreplaceable function in the formation of the character of man. There is no socialist society without a stable, strong and spiritually healthy family".

Thus, the family was no more a reactionary force of capitalism, but could become a valuable source of innovation and modernization. But what kind of family was promoted and on what principles was it based? Of course, the communist support for the family was different to that of Western societies, which primarily promoted the idea of women as housewives. The conception of family advanced by communist regimes had to be based on egalitarian values in which men and women had the same rights. Furthermore, if there was a thing that family policies should not pursue it was precisely the reproduction of status differentials in labour force participation. The state-socialist system did not see women simply as housewives, but rather as wives-mothers-workers.\(^\text{132}\)

\(^{132}\) Nonetheless, Paci (2002) has emphasized that labour segregation persisted during communism, though in much lower percentages than in Western Europe. Women were much more concentrated in occupations such as teaching or medicine. The patriarchal role of the family was also never fully abolished and women were supposed to do both jobs: factory workers, and also mothers. During this period, however, the family benefit system was designed to compensate women for their activities as wives-mothers-workers (see also Pascall...
Universal birth grants, extensive maternity leaves and generous child-care were the new political science tools used to continue the Cultural Revolution initiated by the Bolsheviks. In public speeches, party members started to kiss children more frequently, while the absence of pregnant women from the factory was tolerated and no more addressed as capitalist sabotage. In brief, the new communist society was building itself on the family and not out it.

3. The Adaptation of the State Socialist Family Model

After the end of the Cold War, family policies shifted the responsibilities of the state not to the development of the socialist society, but rather to the creation of the post-communist citizen. The dissolution of communism meant something more than simply the collapse of a political or economic order; it also meant the redefinition of values in force for many decades. The communist nomenklatura was the source of economic subsistence, but also of moral and familial values. The state was the father, the mother, the brother and the sister of the communist worker. In brief, a negative form of state-paternalism characterized the socialist societies.

With the collapse of the communist order, new values had to be introduced. The state was no longer the only one responsible for the destiny of its citizens, and so new forms of protection were required. At the top of the political agenda was the issue of how to conduct the switch from public to private responsibility in a manner that did not catapult the citizens into the new risk society without substantial social protection. In other words, a way had to be found that made the communist citizens independent from the state and, finally, able to manage new risks without the help of a visible hand. As in the case of children who leave their parents’ home to start a new life with their partner, the family was seen as the natural target for redistribution and the best way to increase individual responsibility. As a ministry official pointed out during an interview, for this publication, in Budapest:

“during socialism, the state was responsible even if you had headache. What we’re trying to do now is to create a system - for example, like the Italian one, where the family will be able to increase the welfare of its members […]. In our case, however, we’re trying to maintain a sufficient level of state protection” (Interview no. 2).

4. Country Overview

The expected change in “family rhetoric”, which was path-dependent but also innovative, cannot be evaluated without some comparison involving family policies. An important part of how one country feels about the
task of the family concerns depends on the different understandings of gender roles, as well as the level of protection attributed to the household. Looking more specifically at the organization of family policies, it is important to focus not only on the ideals stated in public speeches or declared by the constitutions, but also on the policies implemented.

All Central and Eastern European countries have a well-developed family and maternity benefit system, which includes birth grants, child benefits, school and educational scholarships. These benefits are mostly financed through the state budget. In addition, there are short-term benefits under the sickness insurance, covering the traditional costs of sickness, maternity leave and work-accidents or occupational diseases. By contrast, these benefits are employment-related and, therefore, mostly financed by contributions. Family policies consist of three main provisions: 1) birth grants paid by the state to refund mothers for the expenses that they incur in the first months of child birth; 2) maternal/parental leave which provides the possibility for parents to stay away from work for a determined period, and 3) child benefit (also called “child care” or “family allowance”) which consists of a sum of money paid by the state each month to families who raise children. This sum increases with the number of children and is usually available until the completion of the secondary or university education.

4.1 Bulgaria
Until the new legislation of 2002, family policies in Bulgaria were determined by the Decrease for Encouragement of Child Birth of 1968, which provided allowances to families with children regardless of their income status. With the emanation of the new Family Child Benefit Act of 2002, income-testing was introduced as a basic principle for the access to these benefits. The reform had two main related objectives. The first one was to reduce the number of high-income beneficiaries, while the second one was to increase the amount of benefits available for poor families. Family policies in Bulgaria now consist of: 1) birth grant, which is a universal, lump-sum benefit; 2) maternity leave, granted for 135 days, whose amount is equal to 90 per cent of former

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133 The access to child benefit does not depend on family’s previous income in Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland and Romania, while it is income-tested in Bulgaria, Slovakia and Slovenia. Parental allowance is essentially linked to previous occupational status in Czech Republic, Estonia, Hungary, Latvia, Lithuania and Slovenia, while it is also necessary to carry out a screening of family’s income in Bulgaria, Poland and Slovakia.

134 Maternity leave is granted only to women for a maximum of 3-6 months, but parental leave (also parental allowance) may be up to 3/4 years and may involve both parents. During this time, the parent who decides to stay at home to take care of the child receives payments from the state and when he or she returns to the “normal” working life the previous job is guaranteed. These provisions, however, usually involve women rather than men.
income; 3) income-tested parental leave, which is granted until the child reaches its second birthday and is equal to the minimum wage; 4) income-tested child allowance, which can be received until the age of 18 if the child attends secondary school; 5) child allowance for disabled children; and 6) school grants.

4.2 Czech Republic
In Czech Republic, family benefits depend on the Minimum Subsistence Level and their access can be subjected to income and non-income testing. Non means-tested benefits are: 1) birth grant; 2) maternity leave, which is earnings-related and granted for 180 days; 3) parental allowance, which is a flat rate benefit granted to all working parents (non-working parents have access to social allowance) until the child reaches the age of 4; 4) maintenance benefits for families of soldiers; and 5) foster care allowance for children in institutions. Means-tested benefits are granted to low-income families and embrace: 6) social allowance, to help to raise the child until the age of 4; 7) child allowance, to cover the child raising expenditures until the end of compulsory education (usually 15 years or 26 if the child is enrolled in higher education); 8) housing benefits; and 9) transportation to school benefit.

4.3 Estonia
Family policies in Estonia are earnings-related but have also a strong flat rate component, which involves, with some exceptions (such as maternity leave and parental allowance), almost all provisions. Family benefits at disposal to Estonian citizens comprise of: 1) birth grant; 2) maternity leave, which is granted for 140 days and amounts to 100 per cent of previous earnings; 3) child care fee (parental allowance), paid to parents on parental leave until the child reaches the age of 3 (earnings-related); 4) child allowance, paid from the birth until the age of 16 (or 19 in case of enrolment in basic, secondary or vocational school); 5) single parent’s allowance, paid until 16 years of age (19 in case of studies); 6) conscript’s child allowance, for the children of conscripts in the Defence Force; 7) school grant; 8) foster care allowance, paid until the age of 16 (or 19 in case of studies) for children in foster care; and 9) start-in-independent life allowance, which is a one-off payment for children leaving parents’ home.

4.4 Hungary
Hungary has an extensive family support system, which consists of: 1) birth grant; 2) maternity allowance (maternity leave), granted for 170 days and equal to 70 per cent of the daily average earnings of the previous year; 3) child care fee (GYED) (ceased in 1995, but recently reintroduced), which provides a continuation of the maternity allowance to parents taking care of a child until the age of 2; 4) child care allowance (GYES) (parental allowance), a flat rate benefit paid to
parents who have exhausted their entitlement to child care fees\textsuperscript{135}; 5) 
\textit{child raising support allowance (GYET)}, an income-test benefit paid to 
mother with three or more children\textsuperscript{136}, and 6) \textit{family allowance (családi 
pótlék)}, paid to Hungarian citizens and permanent residents taking care 
of children below the age of 16 (or 20 in the case of students). In 
addition to these provisions, there are numerous other in-kind benefits 
(such as state care for orphans, homes for handicapped children) and 
short-term benefits (such as sick-leave, sickness cash benefit, sickness 
cash benefit on child nursing, pregnancy and confinement benefit, 
maternity subsidy and funeral aid), which enlarge the scope and 
coverage of Hungary family support policies.

4.5 Latvia
Immediately after its independence from the Soviet Union, Latvia has 
established a broad, non-income tested, family benefit system, which, 
as in other CEE countries, is formed by: 1) \textit{birth grant}; 2) \textit{maternity leave}, paid for 112 days and equal to 100 per cent average insurance 
contributions wage; 3) \textit{parental allowance}, granted until the child 
reaches the age of 3; 4) \textit{child care benefit} available until the age of 15-
20 years if the child is enrolled in secondary school; 5) \textit{compensation to 
the guardian for taking care of a child}; and 6) \textit{remuneration for fulfilling 
the function of a foster family}. In addition to these provisions, other local 
government benefits are at disposal for needy families. These include 
social assistance benefits, housing benefits and care benefits.

4.6 Lithuania
Lithuania has an extensive system of family benefits, which, with the 
exclusion of maternity leave and parental allowance, depends on the 
Minimum Subsistence Level. Family benefits include: 1) \textit{birth grant} 
(lump-sum); 2) \textit{maternity leave} paid for 196 days and equal to 100 per 
cent of the average compensatory wage of the beneficiary; 3) 
\textit{maternity/paternity benefit} (parental allowance), calculated as 70 
percent of the average compensatory wage of the beneficiary and 
granted until the child reaches the age of 1 (or, according to the criteria 
in force for the family benefit, until the age of 3); 4) \textit{maternity benefit for 
female students}; 5) \textit{family benefit}, granted until the child reaches the 
age of 3 to families that are not entitled to the social sickness or 
maternity insurance benefit; 6) \textit{benefit to families with three or more 
children}, paid until the age of 16); 7) \textit{child care benefit} paid to persons

\textsuperscript{135} GYES could be continued until the child reaches 3 years of age (or 
10 in the case of disabled children) under the condition that the 
beneficiary (usually the mother) stays out of the labour market for at 
least for 1 and half year after the birth of the child. Until 1995, this 
benefit was based on citizenship, but now it is income-tested and 
financed by the central budget.

\textsuperscript{136} GYET is flat rate at the level of the minimum old-age pension, 
administered by the local government, but fully financed from the 
central budget.
or non-state care institutions that bring up children left without the care of their parents; 8) benefit to the families of military conscripts; 9) orphans’ grant for orphans enrolled in higher, tertiary or vocational schools; and 10) settlement grant paid to orphans up to 18 years old.

4.7 Poland
Poland has recently introduced an income-tested, earnings-related system of family benefits, which has slowly replaced the more egalitarian scheme in force during communism. Family benefits now comprise: 1) birth grant (recently abolished); 2) maternity leave which is paid for 112 days for the first child and is equal to 100 per cent of previous wage; 3) parental leave paid for a fixed period of 24 months, which can be extended to 36 calendar months in case of more than one child or single parents; 4) family allowance paid from the birth until the age of 16 (or until 20 years in case of enrolment in higher education. The access to family allowance depends on the level of the family income, which should not be higher than 50 per cent of the average monthly wage); 5) nursing allowance paid to children under the age of 16, who need continuous care for handicapped (non income-tested); 6) alimony for abandoned children, in order that they have a means of becoming independent; and 7) grant-for-starting-an-independent life.

4.8 Romania
Romania has a universal, non income-tested system of family benefits, which include: 1) birth grant (lump-sum); 2) maternity leave, paid up to 126 days and equal to 85 per cent of the calculation basis established for other social insurance rights; 3) state allowances for children up to the age of 16 (or 26 in case of higher education); 4) supplementary allowance, for families with many children; 5) social aid for wives, whose husbands are called for military service; 6) allowances for family placement; and 7) scholarships (educational grant) for pupils. Interestingly, there is no special scheme for parental leave in Romania, but the right to financial help for raising their children is granted through the access to state and family allowances.

4.9 Slovakia
Family policies in Slovakia have a strong means-tested component and the amount of benefits is based on the guaranteed minimum income, established as poverty threshold. Family benefits consist of: 1) birth grant; 2) maternity leave, paid up to 196 days (260 in case of unemployed) and equal to 90 per cent of the net daily income; 3) parental allowance (income-tested), for parents taking care of a child under 3 years of age if the parent’s income is below 50 per cent of minimum wage; 4) child allowance, payable until 15 years of age (or 25 if the child is in full-time education) depending on guaranteed minimum income; 5) allowances for families of persons on military service; 6) foster care allowances; 7) benefits in support of care for a family member (part of the sickness insurance system); 8) one off grants to cover special life circumstances (such as the birth of 3 or more
children); 9) **social fellowship for university students** to cover accommodation and meals for university students (means-tested benefit); 10) **loans for young couples** under 30 years in their first marriage.

4.10 Slovenia

In Slovenia, the access to family benefits can be subjected to income and non-income testing. Non income-tested benefits are: 1) **birth grant**; 2) **maternity leave** which amounts to 100 per cent of the average monthly gross wage up to 105 days; and 3) **parental leave** granted for 260 days (520 days if combined with a part-time work) which remains earnings-related (a flat rate **parental allowance** is granted, however, for 365 days to those parents who do not qualify for parental leave); and 4) **childcare benefit** for severely ill child or physically or mentally handicapped. By contrast, means-tested benefits are formed by: 5) **child benefit**, which can be granted up to 26 years of age if the child is enrolled in higher education (income-tested); 6) **child care benefit for large families**; 7) **scholarships grant** for secondary education; and 8) numerous other educational benefits (cash and in-kind, such as school meals; free transfer to school etc.).

5. Problems regarding the family benefit sector

For the most part, the effectiveness of family policies depends on the amount of benefits granted. The economic performance of countries in transition is usually a good indicator of the efficiency in this sector. In Bulgaria and Romania, for instance, the dramatic economic crisis has negatively influenced the level of benefits at disposal for the population, which remains usually very low and does not permit sufficient protection. In Hungary, on the other hand, the situation seems to be slightly different with families having access to an extensive and relatively effective family benefit system.

Economic performance is the major indicator in predicting the effectiveness of family policies, but not the only one. Another potentially important element, in the understanding the family rhetoric proposed by a country, is the will of state to establish comprehensive and extensive benefits. In fact, if researchers simply analyse the impact of family policies in Eastern Europe without considering the dramatic economic crisis, which has resulted in an erosion of social benefits, they would probably conclude that family support in these countries is minimal. By contrast, the paragraphs above show the numerous provisions available for Central and Eastern European citizens, which often cover children if not “from the cradle to the grave”, then at least to the completion of secondary school or university.\(^{137}\)

\(^{137}\) Please note that, in the second half of 1990s, a shift towards means-testing in almost all countries can be observed. This decision is undoubtedly controversial. Fultz and Steinhilber (2003, pp. 25-26) affirm, for example, that an increase in means-testing in relation to the access to family benefits has the undesired effect “to reduce the
Of course, there are intra-region differences. Fodor et al. (2002), for example, emphasize, that despite the persistence of national similarities due to the communist heritage, Hungary, Poland and Romania show differences in terms of the ways how they handle parenthood and, thus, shape gender relations. In their three-cases study, Fodor et al. (2002, p. 477) affirm:

“Specifically, we find that the Polish welfare state is notable for restricting eligibility to family and maternity benefits. Doing so, the state forces women out of the labor force and encourages their dependence on their spouses for their well-being. The Hungarian state, on the other hand, is more accommodating to women seeking a balance between paid work and family. Policies encourage paid work for middle class, white women, creating important distinctions among women, not just between men and women. The Romanian model is different from the Polish one in that it allows more freedom for women to pursue work outside the home, yet it does not provide enough sustenance so women can establish independent households”.

Fodor et al. (2002) envisage, in conclusion, three different family regimes: one for each case study. In reality, the situation is more complex than this and cannot be explained by a method, which excessively emphasizes the technical differences in the nature of family provisions (such as entitlement criteria). In fact, if the number of countries used in the sample would have been twenty, the resulting family regimes would have probably been twenty\textsuperscript{138}. By contrast, if it is possible to confirm that different family policies in the post-socialist period have led to different “gendered” effects, then it can be shown that these policies have not been systematically linked to a “breadwinner” incentives for women to engage in economic activity, especially women with low skills [...] This change has shifted the nature of the support from wage replacement to poverty alleviation; and it has shifted the status of beneficiaries, mostly women, from holders of personal rights to petitioners of the state.” (See also Balcerzak-Paradowska et al. 2003; Kotýnková et al. 2003; Lukács and Frey, 2003). In some countries, such as Hungary, however, this kind of reform has been blocked and universal family benefits have been reintroduced.

\textsuperscript{138} Gough (2001) and Gough et al. (1997) have carried out a similar analysis on social assistance regimes using cluster analysis (indicators used in cluster analysis: Total SA Expenditures/GDP; SA Recipients/Total Population; Exclusion Index; Standardized Benefit Levels after housing costs; Relative Benefit Levels after Housing Costs). The results show the emergence of 8 (Gough et al. 1997) or 7 (Gough 2001) clusters comprising 20 Western European and non-European social assistance regimes. The main reason was due to the existence of numerous sub-regime differences.
ideology (see also Gal and Kligman 2000). It seems more plausible that different policy outcomes have been the result of the countries’ different economic performance, than the consequence of voluntary gender-segregating policy-making. What is certain, however, is that the (family) logic behind the post-communist policy-making is not dissimilar in Eastern Europe. In this region, the governments have clearly aimed to target the family in order to amortize the costs of transition, giving to this institution the important role of main engine of innovation.

Conclusion
Family policies mediated the way in which individuals conceive the environment. The analysis carried out in this chapter has provided ample evidence that family support in East Central Europe is still driven by the socio-political communist heritage, but that, again, the legacies of the past have not precluded factors of innovation. The family rhetoric proposed by communist regimes and, after the fall of the Berlin Wall, by post-communist regimes has moved the tasks attributed to the family from an individual to a country logic. If during communism, family policies were functional to the development of the state-socialist societies, after the end of the Cold War, family support became crucial for the consolidation of transition. In order to amortize its dramatic costs, governments have given the family the role of main social safety net\textsuperscript{139}, often understood as complementary to social assistance provisions\textsuperscript{140}. As a consequence, family policies have been useful both to the consolidation of the new political order, but also to the creation of the new “post-communist citizen”.

\textsuperscript{139} See also Fultz et al. (2003); Lukács and Frey (2003); Fultz and Steinhilber (2003).

\textsuperscript{140} Of particular relevance is that family benefits and social assistance provisions in East Central Europe are frequently seen as complementary. This is particularly true for Latvia, where there is no single legislation on family benefits. No country, however, is an exception. The complementary orientation of family and social assistance provisions is not a surprise. As mentioned before, since the 1970s the family became the centre of a “second” society” (see Hankiss 1991), forming an additional scheme of protection within the communist system. As a consequence, in politicians’ mind these two provisions were not easily distinguishable.
EXECUTIVE SUMMARY OF PART TWO

Eastern European welfare states developed in a specific industrialized context adapting to the characteristics of the environment in which they were growing. The character acquired by these early systems of social protection predisposed them to future developments, involving almost all welfare state sectors. Pension, health care, protection against unemployment, social assistance and family policies grew not only in the ruins of the past, but also became key institutions in the establishment of a new social order in the future, encouraging certain values instead of others. They promoted Bismarckian societies based on differentiation of provisions according to the professional activity, but also the communist egalitarianism through the introduction of universal benefits. Hence, welfare state sectors acted both as policy-takers, and also as policy-makers.

An important point that still needs to be elucidated is which pattern of transformation are Central and Eastern European welfare states really following. Are they silently acquiring the characteristics in force in the West? Or, are they successfully adapting and recombining characters valid during communism with the new emergent requirements of post-communist societies?

The palaeontologist Fleagle (1999, pp. 1, 571) provides a definition of “adaptive radiation” as “a group of closely related organisms that have evolved morphological and behavioural features enabling them to exploit different ecological niches”. For the author, adaptation to a new environment is not only a fundamental pre-requisite for success and survival of the individuals, but it also implies a metamorphosis, a morphological change, which results in the emergence of a new characteristic, and, over time, possibly a new species.

The analysis of five welfare state sectors (pension, health care, protection against unemployment, social assistance and family support) has demonstrated that governments implemented the welfare system already in place during the pre-Soviet period (Bismarck social insurance), tried to maintain most of the values in force during communism (universalism, corporatism and egalitarianism) and re-adjusted it to the new post-communist consensus (market-based schemes).

Contrary to the classical assumption of path dependency theory, however, it has been proven that Central and Eastern European welfare states remained by no means locked-in in their path of extrication from state-socialism, but were capable of highly innovative reforms, which took place also in later stages of development.

As a consequence of an evolutionary process, pension, health care, protection against unemployment, social assistance and family benefit systems have been subjected to pressures, that have caused mutations, which have drastically altered the characteristics introduced during the first stages of reforms, where a social policy vacuum required immediate actions. Although market fundamentalism was chosen as the leading principle of the Washington Consensus, this policy orientation has not been implemented as planned. As mentioned, the three-pillar scheme of pension insurance has turned into a four-pillar model, where a strong link to social assistance provisions ensures

coverage for those citizens whose income under the above scheme would not be sufficient (see Wagener 2002; conclusion chapter 3). Market-based health insurance, characterized by a strong link between contributions paid and services received, has been introduced, but coupled, in all countries, with the universal principles guaranteed by the state, which is still responsible to cover numerous uninsured citizens (see conclusion chapter 4). Finally, unemployment, social assistance and family benefits, introduced with the aim to reduce temporary poverty, have changed their nature and scope from residual safety nets into active democratization forces. A mix of market-orientation, targeting and universality has then become the new distinctive attribute of these areas. If analysed in their global context, the abovementioned characteristics are evidence for a significant degree of cohesion among these welfare states in transition and presuppose the emergence of a new and unique model of solidarity.
Part III
Chapter 8
Quantifying the Support for a Socially Responsible Welfare State

1.1 The Cultural-Civilization Approach

It has already been pointed out in previous chapters, that the dissolution of communism did not automatically coincide with the termination of forty years of state-socialist rules and attitudes, but most of the principles established during this period survived to the drastic transformation. Sztompka (1995) provides, perhaps, the most interesting insight into the role played by cultural heritage in the formation of the post-communist citizen and society. The cultural-civilization approach proposed by Sztompka (1995) explicitly recalls the sociological school of a) Tocqueville (1945) where the “soft intangibles factors of habits, mentalities, symbols, frameworks, rituals and routines” represent the true character of a nation and, consequently, of the citizen itself (see also Simmel 1971\textsuperscript{142}); b) of Durkheim (1964, 1966) where the importance of collective representations as socially shared universe of objects, beliefs, norms, values and institutions mediate the understanding of the society in which we live\textsuperscript{143}; c) of Elias (1978) and his notion of “civilising process” as a culture-and-society-generating phenomenon which cannot be isolated from its natural, historical flow; and f) of Bourdieu (1990) and “his central idea of “habitus” as the semi-automated and unconscious mode of acting and thinking, which influences our everyday conduct\textsuperscript{144a} (Sztompka 1995, pp. 237-241). What Sztompka (1995) emphasizes is, in brief, the necessity not to look at the developments of Eastern European societies as the mere creation of institutions and logics by design, but rather as the consequence of historical, cultural and civilising adjustments, which end up in the construction of a new organism. For Sztompka (1995, p. 238):

“what we are witnessing in the countries of Eastern-Central Europe in the aftermath of the collapse of communism is not merely the second birth of capitalist economy; nor is it merely the

\textsuperscript{142} For Simmel (1971), people live in the society and are forged by its rules, but people are also active actors in determining its evolution.

\textsuperscript{143} According to the French sociologist, Durkheim (1964), an individuals’ mind is formed by two consciences: an individual conscience, which reflects the individuals’ personality, and a “collective conscience”, which is the total of norms, cultural beliefs and social expectations. The “collective conscience” is crucial not only in the development of the individual’s personality, but also because it is the main source of the state’s authority (Durkheim 1964). The “conscience collective” is a social product, which finds its origin in what the author calls “social facts” (Durkheim 1966), that is every way of acting, thinking and feeling imposed by the society on the individual by means of written and unwritten social norms.

\textsuperscript{144} See also Weber’s classification of traditional action (Weber [1922] 1968).
reconstruction of democratic polity; nor is it merely the restitution of some earlier social order – a "return" to Europe, to the West, to normality, or whatever. Rather, it is the construction of a new social order out of a curious mixture of components of various historical origins. It involves the transformation of the most fundamental, deepest cultural-civilization fabric. This major cultural and civilization breakthrough is the core of post-communist transition"

In this context, it might be argued that the cultural-civilization fabric in force during communism has resulted in common attitudes towards the support for a socially responsible welfare state. Ash (1990) was, in fact, the first to note that, as a result of the communist habit, in most Eastern European countries there is still a widespread support for a strong welfare state and for highly redistributive policies (see also Slomczynski and Shabad 1997). More recently, Suhrcke (2001) and Redmond et al. (2002) have looked at the communist legacies as determinants for the orientation toward social inequality, re-affirming the persistence of clear preferences within Eastern Europe for more redistributive policy-making, as well as, also outlining that these orientations are likely to have significant repercussions for future welfare state reforms. In spite of the fact that these authors have carried out their research on the same ISSP dataset used here, their methods has left most of the questions concerning the connections among work-status, economic condition and political orientations unexplored145. This chapter has the scope to provide a better picture of these relations.

1.2 Methodology
The following section analyses the dataset Social Inequality III (1999) made available by the collaboration of the principal national research institutes of 26 nation members of the International Social Survey Programme (ISSP)146. For the purpose of this research, nine available Western European147 and seven Central and Eastern European countries148 have been included in the analysis149. The surveys were

145 While the investigation of Suhrcke (2001) was carried out primarily through multivariate analysis, Redmond et al.(2002) have preferred to test the factors determining social inequality through cluster analysis. In both cases, however, figures, presented as aggregates, do not allow an indepth examination of results within social groups.
146 Australia, Austria, Bulgaria, Canada, Chile, Cyprus, Czech Rep, France, Germany East, Germany West, Great Britain, Hungary, Israel, Japan, Latvia, New Zealand, North Ireland, Norway, Philippines, Poland, Portugal, Russia, Slovakia, Slovenia, Spain, Sweden, United States.
147 Austria, Cyprus, France, Germany, Great Britain, North Ireland, Norway, Portugal, Spain and Sweden.
148 Bulgaria, Czech Rep., Hungary, Latvia, Poland, Slovakia and Slovenia.
carried out in 1999 through face-to-face interviews. The sample size of the database involves: 1016 respondent’s for Austria; 1102 for Bulgaria, 1834 for the Czech Republic, 1889 for France, 1432 for Germany, 804 for Great Britain, 1208 for Hungary, 1100 for Latvia, 2200 for Northern Ireland, 1321 for Norway, 1135 for Poland, 1082 for Slovakia, 1006 for Slovenia, 1211 for Spain, and 1150 for Sweden. In order to correct for possible sample mistakes, all calculations have been made using the weight provided by the ISSP project. The analysis has primarily involved the variables V.11, V. 35, V. 36, V.39, V.40, which correspond to the following questions:

“
To what extent do you agree or disagree with each of the following statements:

• large differences in income are necessary for [country’s] prosperity (V.11);
• government should reduce the differences in income (V.35);
• people with high incomes should pay a large, the same or a smaller share of their income in taxes than those with low incomes (V.36);
• it is just or unjust [right or wrong] that people with higher incomes can buy better health care than people with lower incomes (V.39);
• it is just or unjust [right or wrong] that people with higher incomes can buy better education for their children than people with lower incomes (V40)"

The responses, based on a five point scale ranging from “strongly agree” to “strongly disagree”, were tested according to different independent variables such as income, work status and voting behaviour. In order to have a better picture of income clusters, the original 10 income deciles calculated according to the ISSP classification have been regrouped into three main deciles. The “First Decile” includes respondents belonging to the lowest income groups (deciles 1, 2 and 3). The “Second Decile” includes respondents belonging to the middle-income groups (deciles 4, 5, 6, and 7), while the “Third Decile” includes high-income respondents (deciles 8, 9 and 10). This partition is based upon the suggestions on data presentation provided by the Canberra Group (2001). In order to facilitate the presentation of the data, the ISCO-88 classification has been regrouped into four major groups as seen in chapter five (§1, p.153) of this work. These new major groups should provide a clearer representation of low and higher social classes.

2. The Data

2.1. Country focus

It is common wisdom among neo-liberal supporters to assume that differences in income are necessary for economic prosperity. One of the

149 Since East and West Germany display substantial internal differences, their analysis has been conducted separately.

150 In order to provide a better representation of East German attitudes, the ISSP research institution in charge of the survey has deliberately over-sampled the five eastern Federal states.
major complaints during communism was that the equalization of wages was not motivating the workers to produce beyond their possibilities. Thus, following the collapse of the communist order, it would not be surprising if Central and Eastern European respondents (CEE Rs) would choose the cause of wage differentiation as essential precondition for country’s prosperity. By contrast, Table 2.1 (V.11) reveals that CEE Rs tended to disagree more, than Western Europeans respondents (WE Rs), that differences in income are necessary. About three tenths of CEE Rs “strongly disagree” to this statement (29 per cent), where as only less than two-tenths of their Western neighbours (17 per cent) “strongly disagree”. However, differences among countries sampled do exist. Within Eastern Europe, for instance, Bulgaria and Slovakia more strongly disagreed, while East Germany and Poland show lower results. Noteworthy is also that Austria, France and Portugal tend to score similarly to their Eastern colleagues.

Do these attitudes change according to the individuals’ income? The refusal that large differences in income are necessary for country’s prosperity does not change in Eastern Europe if the economic position of the interviewees is considered (see Table 2.2, V.11). About three-tenths of Eastern respondents in all income deciles “strongly disagree” with this statement, while a similar result is reached in the West only in the highest-income decile. This last result is hard to explain. It should be expected that high-income earners would support more differentiation of income, since they might benefit more from such policy-making. In contrast, almost one in three high-income earners in Western Europe strongly disagree to the assertion that differences in income are necessary. The raise in post-materialist values might be a possible explanation. As Inglehart (1977) would put it, once people have fulfilled their more basic material needs, they can get involved in the defence of higher social values, such as the support for feminist or green-oriented policies, but also for a more equal society (Eatwell 2000, p. 415).

Given the widespread inference that the communist governments had on the economic structure, it might also be expected, that as a reaction CEE Rs would be more likely to refuse an active role of the government in reducing differences in income. The assumption would be that if an active state did not succeed in ensuring economic prosperity and equality during communism, there is no reason why this conception should work ten years later. Contrary to this assumption, the attitude towards the role of the government in reducing differences in income is evidence for a more substantially polarized Central and Eastern Europe towards a more active involvement of the state. In fact, four-tenths (40 per cent) of respondents, the average, “strongly agree” that the government should play an active role in East Europe, while it is less than three-tenths in the West (28 per cent). It is also important to note that the Western European average is particularly influenced by the responses of Portugal, which scores for more than 68 per cent (“strongly agree”), because without Portugal the average would be equal to only 23 per cent (see Table 2.1, V.35).
This trend is, to some extent, confirmed if the analysis is based on the respondents’ income. With the exception of the highest income deciles, citizens in Eastern Europe ask more, than their Western European neighbours, for an active involvement of the state (see Table 2.2, V.35). It should not be forgotten, however, that CEE Rs in the highest-income decile are more sceptical about this statement. Undoubtedly, those people in this category are the ones who have benefited more from the liberalization of the markets and from the deregulation of the state asset and, as a consequence, every state involvement would directly affect their final revenue.

How do Central and Eastern Europeans perform when it comes to paying taxes? Do they support redistributive policies or do individualistic values become predominant? As can be seen in Table 2.1 (V.36), the responses concerning the amount of taxes that rich and poor people should pay substantially differ between East and West Europe. In Central and Eastern Europe about one-third (34 per cent) of respondents affirm that rich people should pay a “much larger share” of taxes than poor people, while in Western Europe only about one-fifth (24 per cent) of interviewees agrees with this statement. Again, Portugal shows more redistributive attitudes than its Western neighbours.

Does this orientation change according to the economic position? Here, a proportional decrease of support from the bottom to the top of income deciles should be expected. The logic behind this is simple and guided by the principle that not only the more money one person earns, the more taxes he or she has to pays, but also that this share disproportionately increases with the increase in income. Thus, one would expect that rich people would agree less than poor people because by stating that they are ready to pay a much larger share of taxes would automatically mean taking a part of the responsibility for low-income citizens. Needles to say, this statement based on inter-class solidarity might end up being particularly painful for the revenues of healthy people.

Although this “rational choice” hypothesis is confirmed by the data (the percentage of those who agree that rich people should pay a much larger share of taxes proportionally diminishes with the increase in individuals' income, see Table 2.2, V.36), people in the lowest and middle income deciles in Eastern Europe tend more to agree, than their Western neighbours, that the tax burden should primarily rely on rich people. The difference between the two regions becomes closer only in the highest income deciles. Understandably, high-income earners in both regions would indeed prefer that their wage is not lowered by additional taxes (CEE average: 19 per cent; WE average: 19 per cent).

Despite clear differences regarding the attitude towards egalitarian values and the role of the state in social protection, both Eastern and Western European citizens show similar negative opinions about the possibility that rich people can buy better health care services and/or have access to better education. In both regions, the large majority of citizens find it “very unjust” that high-income earners can have access to
some form of differentiated treatment\textsuperscript{151} (see Table 2.1, V.39 and V.40). However, in the case of the health care sector, the Western European average seems to be artificially increased by the responses of France and the Mediterranean countries, which are close to a universal health care system. This might represent an important indicator of the existence of stronger differences in the West rather than in the East.

<table>
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<tr>
<th>% of respondents</th>
<th>Table 2.1 ISSP among countries</th>
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<td>V11</td>
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<td>(strongly disagree)</td>
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<tr>
<td>Bulgaria</td>
<td>51</td>
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<tr>
<td>Czech Rep.</td>
<td>28</td>
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<tr>
<td>Germany East</td>
<td>16</td>
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<tr>
<td>Hungary</td>
<td>31</td>
</tr>
<tr>
<td>Latvia</td>
<td>25</td>
</tr>
<tr>
<td>Poland</td>
<td>11</td>
</tr>
<tr>
<td>Slovakia</td>
<td>51</td>
</tr>
<tr>
<td>Slovenia</td>
<td>21</td>
</tr>
<tr>
<td>CEE average</td>
<td>29</td>
</tr>
<tr>
<td>Austria</td>
<td>26</td>
</tr>
<tr>
<td>France</td>
<td>26</td>
</tr>
<tr>
<td>Germany West</td>
<td>10</td>
</tr>
<tr>
<td>Great Britain</td>
<td>9</td>
</tr>
<tr>
<td>North Ireland</td>
<td>10</td>
</tr>
<tr>
<td>Norway</td>
<td>11</td>
</tr>
<tr>
<td>Portugal</td>
<td>35</td>
</tr>
<tr>
<td>Spain</td>
<td>13</td>
</tr>
<tr>
<td>WE average</td>
<td>17</td>
</tr>
</tbody>
</table>

Source: ISSP 1999. Author's calculation.

As it might be expected, similarities between these two regions also exist with respect to income distribution (see Table 2.2, V.39 and V.40). In this case, people in the lowest income deciles tend to find inequality in treatments “more” unjust than high-income earners. Interestingly, one-third (32 per cent) of high-income individuals in Western Europe find it very unjust that rich people can buy better health care, while less than one-fifth (19 per cent) of their Eastern European counterparts express the same opinion. This result might be explained by the negative performance of equalized welfare provisions in force during communism, which did not produce an efficient welfare state. Thus, it

\textsuperscript{151} In Great Britain and Northern Ireland, however, respondents show a greater justification for differentiation of provisions.
might be comprehensible that people in the highest-income decile in Eastern Europe are more sceptical about the effectiveness of a single unified system, since they might be able to afford the access to the second “best” one.

<table>
<thead>
<tr>
<th>% of respondents</th>
<th>Table 2.2 ISSP among decile groups</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eastern Europe</td>
<td>V11 (strongly disagree) V35 (strongly agree) V36 (much larger share) V39 (very unjust) V40 (very unjust)</td>
</tr>
<tr>
<td>Decile 1-3</td>
<td>32 47 38 46 50</td>
</tr>
<tr>
<td>Decile 4-7</td>
<td>31 37 30 33 39</td>
</tr>
<tr>
<td>Decile 8-10</td>
<td>34 23 19 19 24</td>
</tr>
<tr>
<td>Western Europe</td>
<td>20 35 26 48 44</td>
</tr>
<tr>
<td>Decile 1-3</td>
<td>18 28 24 38 34</td>
</tr>
<tr>
<td>Decile 4-7</td>
<td>29 26 19 32 29</td>
</tr>
</tbody>
</table>

Source: ISSP 1999. Author’s calculation.

2.2 Vote Last Election

In order to see whether the orientation towards a more active involvement of the state, in promoting social solidarity, depends on political affiliation, the attitudes of respondents according to their vote in the last election are tested. The main assumption is that there should be a clear differentiation towards values based on solidarity among the various political orientations. People who voted for a conservative or right-wing party should be more prone to support the ideas proposed by Thatcher and Reagan. For this group of voters, politicians should leave the market to work free and the negative influences of the welfare state should be drastically limited. By contrast, citizens who voted for a left-wing party should be more willing to support redistributive policies and values based on social solidarity (Taylor-Gooby 1993).

What do European voters really think about differences in income as a necessity for economic prosperity? If the voting behaviour corresponds to the classical economic orientations, as stated above, people on the right of the political spectrum (the bourgeoisie) should agree that differences in income are essential to boost country’s economy, while people on the left (the working class) should be less tolerant of this statement. If, however, the voting behaviour in the post-industrial societies does not follow this pattern anymore, then the responses might be less clear-cut. Needless to say, the latter seems to be the most appropriate explanatory model. It is possible to confirm that far left voters in Western Europe tend to support more strongly values based on social solidarity (approximately 24 per cent of far left voters strongly disagree that differences in income are necessary for economic
prosperity\textsuperscript{152}, whilst a similar result (23 per cent) can be found among far right voters in Eastern Europe (see Table 2.3, V.11). This value is undoubtedly of interest because it might explain the support for right-wing parties in this region. Basically right-wing parties have gained support as a result of the new social cleavages, caused by the transition (see Minkenberg (2000) for Eastern Europe; Ignazi (1992) and Betz (1994) for Western Europe).

Returning to the theme of government intervention in the reduction of income difference, it should be expected that different political factions correspond to different interests and, thus, the promotion of different degrees of “statism”. Left-wing voters should strongly call for state intervention, while centre, liberal and conservative voters should be less enthusiastic about this orientation. Once again, CEE Rs show a clearer preference for public responsibility regardless of political affiliation. In fact, CEE Rs tend more strongly to agree that the government should reduce differences in income, while Western European right/conservative voters seem to support more the classical neo-liberal idea that the state should avoid any type of interference. Approximately one-fifth (25 per cent) of right/conservative respondents in the West Europe “strongly” agreed with an active role of the state in reducing differences in income. In East Europe, the ratio is almost double (45 per cent, see Table 2.3, V.35). This result is certainly intriguing. On the one hand, it confirms the hypothesis that right-wing or conservative Western Europeans are still affected by “Thatcherism” preferring \textit{lasses-faire} to state intervention; on the other hand, it does not confirm the successful introduction of a similar ideology in Eastern Europe. Here, four decades of communist civilization has proven to be the most efficient vaccine.

It is common wisdom to assume that people on the left are also more likely to support the statement that rich people should pay a larger share of taxes, while people on the right should be less prone to agree to this possibility. It might be argued, for instance, that left-minded individuals tend to be more inclined for redistribution of welfare, because this kind of policy direction would diminish differences in income between the rich and the poor. By contrast, right-oriented people should focus more on individual achievements and, thus, any disproportionate redistribution of merits would alter fair competition. Although this pattern seems to apply to Western Europe, CEE Rs tend to support more strong values based on social solidarity. More than one-fourth (27 per cent) of centre and liberal voters seem to have formed a consensus on a system where high income earners pay a “much larger share” of taxes, while only less than one-fifth (19 per cent) of their Western counterparts seems to share the same point of view (see Table 2.3, V.36). This trend becomes clearer if right voters are considered. In this case, the percentage increases up to 38 per cent (35 per cent far right) in East Europe, against less than 20 per cent in West Europe (see Table 2.3, V. 36).

\textsuperscript{152} Please note that the ISSP dataset does not provide any result for far left supporters in Eastern Europe.
In theory, we might expect even clearer results where opinions on the access to welfare provisions are concerned. In this case, left- and right-wing individuals should be clearly divided. The majority of left-wing voters should find the existence of differentiated welfare provisions “very unjust”, while the majority of right-wing supporters should be more tolerant on this issue. Unexpectedly, the result disconfirms this hypothesis. Although it is possible to state that CEE Rs find “very unjust” that rich people can buy or have access to better health care services or education, it is not the majority of respondents who show strong egalitarian feelings, but rather a minority (in the best case no higher than 12 per cent). This result becomes a bit clearer, if conservative, right or far right voters are compared. The ratio of respondents who found a differentiated access to health care “very unjust” is 6 per cent and 12 per cent for right and far right voters in Eastern Europe against only 3 per cent for the same groups in Western Europe. With respect to a differentiated access to education, the percentage is approximately 5 per cent for right and far right voters in the East against 2 per cent for right-wing voters in the West.

<table>
<thead>
<tr>
<th>% of respondents</th>
<th>TABLE 2.3 ISSP among voters</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>V11 (strongly disagree)</td>
</tr>
<tr>
<td>Eastern Europe</td>
<td></td>
</tr>
<tr>
<td>Left, centre left</td>
<td>14</td>
</tr>
<tr>
<td>Centre, liberal</td>
<td>19</td>
</tr>
<tr>
<td>Right, conservative</td>
<td>16</td>
</tr>
<tr>
<td>Far right, etc.</td>
<td>23</td>
</tr>
<tr>
<td>Western Europe</td>
<td></td>
</tr>
<tr>
<td>Far left</td>
<td>24</td>
</tr>
<tr>
<td>Left, centre</td>
<td>16</td>
</tr>
<tr>
<td>Centre, liberal</td>
<td>13</td>
</tr>
<tr>
<td>Right, conservative</td>
<td>9</td>
</tr>
</tbody>
</table>

Source: ISSP 1999. Author’s calculation.

2.3. Opinions according to the professional activity

Another important aspect for the personal inclination for public responsibility is often belonging to a determined professional group. As it has been broadly described elsewhere, different groups of workers tend to have different interests and, therefore, are likely to support different values according to their current needs and future expectations (Giddens 1973; Evans 1993). In examining the effect of class membership on the psychological orientation and function toward systemic change in Poland, Czech Republic and Hungary, Slomczynski and Shabad (1997) have confirmed this hypothesis, demonstrating that individuals’ preferences for continuity versus change in pro-welfarist policies in Eastern Europe are starting to differ according to the professional group. Farmers and factory workers are the strongest
advocates for continuity, while managers, employers and experts, the professional groups who benefited more from the privatization of state assets, exhibit the most support for change in the direction of a reduced role of the state (Slomczynski and Shabad 1997).

To what extent does an individual's class position affect their attitudes towards income differentiation? In other words, do people in the best-paid professional groups still support equalization of wages or do they tend to promote those values which best maximize their future remuneration? Here, the main question is whether individualistic principles have successfully been introduced by design, or whether attitudes towards social justice are characterized by path dependency. As it might be expected, Table 2.4 (V.11) reveals that in Central and Eastern Europe all four Major Groups more intensively tend to disagree with the statement that income differences are necessary for country’s economic prosperity. The percentage of CEE Rs who “strongly disagree” is about three-times higher of their Western colleagues for Major Group 1 (35 per cent of CEE R’s vs. 10 per cent of WE R’s) and Major Group 4 (38 per cent vs. 13 per cent), and more than double for Major Group 2 (31 per cent vs. 14 per cent) and Major Group 3 (32 per cent vs. 12 per cent). Not surprisingly, this result is a further indicator of the importance of the communist legacies, which influence individuals’ orientations even though the person involved has completely changed his or her work status. Stated another way, the professional activity may have changed as a result of the reorganization of state-socialist class structure, but the attitudes connected to the new work status still predominantly depend on the orientations acquired in the previous communist orientated work place.

It is now tempting to state that no clear distinction among professional groups exists in Eastern Europe. This statement, however, would be extremely misleading. If it is possible to affirm that similar patterns can be witnessed with respect to the question of whether the government should reduce differences in income (all Major Groups in Eastern Europe tend, again, to support an active involvement of the state more strongly than their counterparts in Western Europe, see Table 2.4, V.35, “strongly agree”), then WE and CEE Rs should show an increase in egalitarian values particularly when descending the social class. In Western Europe, 14 per cent of Major Group 1 members “strongly agree” that the government must reduce differences in income. This value raises up to 22 per cent for Major Group members 2, up to 26 per cent for Major Group 3 members and, finally, up to 31 per cent for Major Group 4 members. In Eastern Europe, this trend is similar, but the score within professional groups is more than double (35 per cent) for Major Group 1, almost double for Major Group 2 (42 per cent), and about three-fourths higher for Major Group 3 (46 per cent) and Major Group 4 (53 per cent). In brief, this result shows that belonging to a determined professional group is not irrelevant to the attitudes towards the role of the government. It also demonstrates that the inter-class orientations in Central and Eastern Europe still emphasize state responsibility as the leading principle.
At this stage, what people in different professional groups think about the division of tax burdens should be examined. Do communist legacies influence an individuals’ orientation, even though these have a negative impact on respondents’ pockets? Also with regard to the issue concerning who should pay more taxes, all Major Groups in Central and Eastern Europe demonstrate more support for solidaristic values than Western European counterparts (Table 2.4, V.36). In Major Group 1, the number of respondents who affirm that rich people should pay a “much larger share” of taxes than poor people is three-fourths more than in Western Europe (27 per cent vs. 15 per cent); while for Major Group 2, Major Group 3 and Major Group 4, this percentage is about one-third more than Western European colleagues (Major Group 2: 32 per cent from CEE R’s vs. 22 per cent from We R’s; Major Group 3: 37 per cent vs. 23 per cent; Major Group 4: 45 per cent vs. 29 per cent). However, this is not to say that differences among professional groups do not exist in Central and Eastern Europe. CEE Rs do support solidarity, but this moral value tends to loose some of its intensity when translated into tax payments. In this context, there is a clear increasing trend for redistributive policies from the top to the bottom of the Major Groups. In Major Group 1 about 27 per cent of CEE Rs agree that rich people should pay a “much larger share” of taxes. This percentage increases up to 32 per cent in Major Group 2, up to 37 per cent in Major Group 3, and, finally, up to 45 per cent for Major Group 4 (representative of those workers involved in elementary occupations who should benefit more from such a tax system).

As expected, in all professional groups in Eastern Europe, respondents also tend to refute, more strongly, the fact that rich people can buy better health care or education. This is also particularly clear when the Major Group 3 and Major Group 4 are analysed. In this case, the gap between Central and Eastern Europe and Western Europe becomes bigger. In fact, about 42 per cent of Major Group 3 respondents in Central and Eastern Europe find a differentiated access to health care services “very unjust”, while the percentage of Western Europeans who share a similar belief is about 34 per cent. This difference increases for those respondents involved in elementary occupations (Major Group 4). In Central and Eastern Europe about a half of interviewees in this group (51 per cent) find it very unjust, while in Western Europe only about one-third (37 per cent) strongly disagree to differentiated health care provisions (Table 2.4, V.39). The same pattern applies with regard to the access to better education (Table 2.4, V.40). In this case, 46 per cent of Central and Eastern Europeans belonging to Major Group 3 find it very unjust, versus 35 per cent of their Western colleagues; and 53 per cent of CEE workers in elementary occupations (Major Group 4) find it “very unjust”, versus 37 per cent of Western Europeans. Noteworthy is, however, that the support for redistributive policies in Eastern Europe increases with the diminution of the professional status, in almost all variables taken into account so far (see V35, V36, V39, V40, Table 2.4).
Table 2.4 ISSP within professional activity

<table>
<thead>
<tr>
<th>% of respondents</th>
<th>V11 (strongly disagree)</th>
<th>V35 (strongly agree)</th>
<th>V36 (much larger share)</th>
<th>V39 (very unjust)</th>
<th>V40 (very unjust)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eastern Europe</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Major Group 1 (ISCO-88 1-2-3)</td>
<td>35</td>
<td>35</td>
<td>27</td>
<td>32</td>
<td>38</td>
</tr>
<tr>
<td>Major Group 2 (ISCO-88 4-5)</td>
<td>31</td>
<td>42</td>
<td>32</td>
<td>39</td>
<td>45</td>
</tr>
<tr>
<td>Major Group 3 (ISCO-88 6-7-8)</td>
<td>32</td>
<td>46</td>
<td>37</td>
<td>42</td>
<td>46</td>
</tr>
<tr>
<td>Major Group 4 (ISCO-88 9)</td>
<td>38</td>
<td>53</td>
<td>45</td>
<td>51</td>
<td>53</td>
</tr>
<tr>
<td>Western Europe</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Major Group 1 (ISCO-88 1-2-3)</td>
<td>10</td>
<td>14</td>
<td>15</td>
<td>30</td>
<td>32</td>
</tr>
<tr>
<td>Major Group 2 (ISCO-88 4-5)</td>
<td>14</td>
<td>22</td>
<td>22</td>
<td>37</td>
<td>37</td>
</tr>
<tr>
<td>Major Group 3 (ISCO-88 6-7-8)</td>
<td>12</td>
<td>26</td>
<td>23</td>
<td>34</td>
<td>35</td>
</tr>
<tr>
<td>Major Group 4 (ISCO-88 9)</td>
<td>13</td>
<td>31</td>
<td>29</td>
<td>37</td>
<td>37</td>
</tr>
</tbody>
</table>

Source: ISSP 1999. Author’s calculation.

Conclusion

The analysis carried out in this chapter has confirmed the main hypothesis, that economic condition, work status and political orientation in Central Eastern Europe does not drastically alter the support for a socially responsible welfare state. However, it would be wrong to conclude that this support does not change according to socio-economic variables. It does change, but the extent of the change still shows a clearer inclination for a stronger welfare state.

It has been demonstrated that although Eastern Europeans support more the idea that differences in income are not an essential prerequisite for country’s prosperity, actual differences within the region do exist. These differences, however, have not modified the general result. In all income deciles, and in all professional groups, Eastern Europeans are more strongly inclined to agree on such issues than their Western counterparts. Interestingly, it has been found that Central and Eastern European far right voters “strongly disagree” that differences in income are necessary for economic prosperity, providing empirical evidence concerning the support for right-extreme parties as a result of the economic deterioration that is occurring in these countries.

Eastern Europeans have also expressed greater support for an active involvement of the government in reducing differences in income. With the exception of the highest income decile, CEE Rs have asked more for government intervention, than their Western European neighbours. This result has been achieved, to some extent, regardless of political affiliation. In all Major Groups, Eastern European workers have more strongly supported an active involvement of the state, than their respondents in Western Europe. Nevertheless, it is worth mentioning that WE Rs and CEE Rs, the lower the social class, have shown an increase in egalitarian values.

Although the percentage of those who agree that rich people should pay a much larger share of taxes proportionally diminishes with the increase in an individuals’ income, people in the lowest- and middle-income deciles in Eastern Europe have tended more strongly to agree...
on this issue than, their Western European neighbours. Again, despite the fact that the preference for redistributive policies in Central and Eastern Europe has not been irrelevant to political affiliation, there is still a wider consensus among political factions that the rich should pay a much larger share of taxes. Interestingly, right-wing voters have seem to be more in favour of a system where high-income earners pay a “much larger share” of taxes, while their Western counterparts do not appear to agree on this issue with the same intensity. All Major Groups in Eastern Europe also show a clear support for solidaristic values, than Western European colleagues. In both regions, however, this support diminishes with the increase of the professional status.

Eastern and Western European citizens have also shown similar negative opinions about the possibility that rich people can buy better health care services or access to better education. As a rule, people in the lowest income deciles have usually tended to find inequality in treatments “more” unjust than high-income earners. As far as political affiliation is concerned CEE Rs are more inclined to find it “very unjust” that rich people can buy, or have access to, better health care services and/or education. A stronger support for a socially responsible welfare state is also observable in all professional groups in Eastern Europe. This orientation becomes particularly evident when the members of Major Group 3 and Major Group 4 are taken into account.

The conclusion for policy-makers and politicians is that, despite intra-country and intra-group differences, the support for a redistributive welfare state is much higher in Eastern Europe, than in West Europe (see also Ash 1990; Slomczynski and Shabad 1997; Suhrcke 2001; Redmond et al. 2002). Also politicians in the Central and Eastern European region have the possibility to emanate socially oriented reforms without the risk of loosing important segments of the electorate.

This chapter has also provided further empirical evidence for the hypothesis that a common cultural-civilization fabric, produced by forty years of communism, still plays the major role in rejecting ideas introduced by design.
Chapter 9
The Impact of Social Transfers

Introduction
It has long been assumed that after a short, but painful economic transition, Central and Eastern European societies would share the same well-being and economic prosperity of the western world. More than a decade after the fall of the Berlin Wall, scholars and politicians are now forced to admit that something went wrong or, at least, not as planned. Raising unemployment, income inequality and poverty not only have implied insecurity and unsatisfied needs for the persons involved (Ferge and Tausz 2002), but have also meant a redefinition of democratic institutions. How will Central and Eastern European governments ensure democratic stability if the number of poor people is increasing under the new economic order? Despite the importance of this question, however, the relationship of economic development, democratization and social stability will not be discussed here because there is already an extensive academic debate on this topic (see § Introduction). Instead, the intention of this chapter is to provide an overview of the change in social inequality in Central and Eastern Europe and to quantify the impact of social transfers in reducing poverty. This chapter is divided into four sections. Section 1 is intended to describe the Luxembourg Income Study micro data and the method used, whilst Section 2 summarizes the main findings of previous research. Finally, Section three illustrates the data, while Section 4 will discuss the main results.

1. Method
This chapter involves the analysis of 16 datasets provided by the Luxembourg Income Study (LIS). The LIS dataset is a collection of household income surveys, which provide demographic, income and expenditure information on three different levels: household, person and child. The 16 datasets involved in this study concern seven Central and Eastern European countries during the period 1986-2000 (Czech Republic 1992, 1996; Estonia 2000; Hungary 1991, 1994, 1999; Poland 1986, 1992, 1995, 1999; Romania 1995, 1997, Slovakia 1992, 1996; Slovenia 1997, 1999. see Table A 1.). For the purpose of this investigation, the analysis has been carried out on the household level. In other words, the overall household income, not the single income, has been taken into account. The assumption is that dependent spouses might share an important amount of their partner’s revenue and, thus, they should not be considered as poor solely on the basis that they do not have regular earnings (The Canberra Group 2001). Following the same logic, in the course of this chapter, welfare benefits recipients will be considered as not only those who materially receive the benefits, but also those members of the households who share the recipients’ income. One problem using income surveys is that households may vary in size and this influences the purchase power of single members. In order

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to cope with these distortions, all calculations have been made according to the suggestions provided by the Luxembourg Income Study. This involves the use of an equivalence scale calculated as the square root of the number of persons in the household (Atkinson et al. 1995) and, as a general rule, a weight calculated by multiplying the household weight (HWEIGHT) by the number of units involved in the analysis. Although the use of an equivalence scale can reduce the distortion caused by the comparison of different disposable incomes in different countries, it has been necessary to limit the effect of extreme values at the bottom or at the top of the distribution. The results presented in the following tables are bottom-coded at 1 per cent of equivalized mean income and top-coded at 10 times the median of non-equivalized income. All records with zero disposable income or not applicable values have also been excluded from the count (see also LIS Methods; Atkinson et al. 1995; Förster et al. 2002; Smeeding 2002;).

The core of the analysis concerns the Net Disposable Income (DPI) available for single households. Here, the definition of disposable income provided by The Canberra Group of Income Statistics (2001, p.15) is used, and is defined as:

“…the maximum amount that a household or other unit can afford to spend on consumption of goods or services during the accounting period without having to finance its expenditure by reducing its cash, by disposing of other financial or non-financial assets or by increasing its liabilities”.

In more concrete terms, the variable DPI can be displayed as the sum of the income either generated by employment, or pensions and social transfers minus taxes and mandatory contributions.

154 This weighting procedure is consistent to the recommendations provided by Atkinson (2002) and Eurostat Task Force (1998).

155 The following variables are not present in the LIS datasets: a) Unemployment Compensation in Poland 1986; b) Means-tested benefits in Poland 1986, 1992 and in Romania 1995 and 1997; c) Family Benefits: Alimony and Child Support in Czech Republic 1992, Poland 1986, Poland 1992, Slovakia 1992, Slovakia 1996, Romania 1995 and Romania 1997. Maternity Pay in Estonia 2000. In the LIS summary, “Alimony or Child Support” is not included in the variable Social Transfers (Soctrans). In the course of this paper, however, “Social Transfers” refer to all social benefits with the exclusion of private and public sector pensions. In the LIS summary, “Alimony or Child Support” is not included in the variable Social Transfers (Soctrans). In the course of this paper, however, “Social Transfers” refer to all social benefits with the exclusion of private and public sector pensions.
The first stage of analysis involves examining the data for changes in social inequality among the population. In order to do this the percentage of net disposable income according to ten income deciles (1st decile=bottom, 10th decile=top) was computed. To facilitate the data presentation, these deciles were then regrouped into three groups (see The Canberra Group 2001, section Data Presentation). This should provide a clearer idea of low, middle and high-income earners. As alternative measures of income inequality, the percentiles and the Gini coefficient are also given. The latter calculated on net disposable income and on net disposable income minus social transfers. The purpose of this first part is to see to what extent the absence of social transfers would affect social inequality.

The second stage examines the impact of welfare provisions in reducing poverty among the population and among targeted groups. The main issue here
is concerned with how resources (inputs) are turned into results (outputs) and whether reforms have had a positive impact on the population and on the beneficiaries. In order to have a clearer picture, the poverty rates among the population before and after the disbursement of social transfers were calculated. In addition, an indepth analysis on unemployment compensation, means-tested and family benefits recipients, subtracting from their net disposable income the amount coming from these provisions, was carried out. The main question of this second part is what would have happened if a determined benefit would not be in place. Would, in this case, poverty rates become higher? By what percentage would they increase or diminish? The following table shows the main components of the welfare benefits mentioned above:

<table>
<thead>
<tr>
<th>Table 3.2 LIS Summary of Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Unemployment Compensation</strong></td>
</tr>
<tr>
<td>- Unemployment insurance</td>
</tr>
<tr>
<td>- Training or retraining allowance</td>
</tr>
<tr>
<td>- Placement/Resettlement Benefits</td>
</tr>
<tr>
<td>- Other Unemployment Benefits</td>
</tr>
<tr>
<td><strong>Total Means-tested benefits</strong></td>
</tr>
<tr>
<td>- Means-Tested Cash-benefits</td>
</tr>
<tr>
<td>- Social assistance</td>
</tr>
<tr>
<td>- Old age assistance</td>
</tr>
<tr>
<td>- Unemployment assistance</td>
</tr>
<tr>
<td>- Unmarried mother’s allowance</td>
</tr>
<tr>
<td>- Other means-tested allowance</td>
</tr>
<tr>
<td>- Means-Tested Near-cash benefits</td>
</tr>
</tbody>
</table>
  (near cash food benefits; near cash housing benefits; near cash medical benefits; near cash heating benefits; near cash education benefits; near cash child care benefits; other near cash means-tested benefits) |
| **Family oriented policy**        |
| - Child or Family Allowances      |
| - Maternity pay                   |
| - Alimony or Child Support        |

Before going into a detailed analysis of poverty rates in Eastern Europe, it is necessary to define what kind of poverty we want to measure. The literature on this topic is broad and a brief overview is available in almost all manuals of sociology. In brief, poverty can be described according to the axis of relative versus absolute poverty (Smeeding 2002). Relative poverty is understood in terms of the lack of material resources and usually calculated as 40 per cent, 50 per cent or 60 per cent of average income/expenditure of the population. By contrast, the term absolute poverty is more ambiguous. Carmel (1999) defines it
as a “chimera”, since its measurement strongly depends on the definition of basic needs that we give, so that it may exist when or where a person is unable to buy enough food, water, or clothing, but it may also exist in absence of these extreme situations. In the course of this chapter, the analysis will primarily concern all those people who find themselves below 60 per cent of the median. This is the official poverty line proposed by the European Union for comparisons among member states (Eurostat 2000). Nonetheless, the reader can also find calculations at 40 per cent and 50 per cent of the median in the appendix.

2. Previous Research and Possible Methodological Problems
Over the past decade, the study of income inequality has experienced numerous stages of evolution. Beginning with the description of how this phenomenon developed across countries and over time, researchers are now able to investigate and to quantify the determinant factors of poverty and social inequality. By exploring trends in income inequality in fifteen European countries (plus the United States), Atkinson et al. (1995) demonstrated that the majority of these nations showed a rise in inequality, but this was by no means universal and the extent of the increase differed significantly. Very frequently, it was found that the United States had an exceptionally large gap between the rich and the poor, while, in comparison, the Scandinavian countries were less unequal societies (Smeeding 2002). The reasons for the good performance of the Scandinavian countries have often been attributed to the effectiveness of welfare provisions (Esping-Andersen 1990), which have made these societies capable of responding to the rise in market income differences (Ritakallio 2001). In other words, it was demonstrated that although the position in the labour market is a determinant factor for enhancing differences between the rich and the poor, welfare regimes could still play an important role to reduce these differences (Tsakloglou and Papadopoulos 2002). Recent studies, on Central and Eastern Europe and other countries, have demonstrated that children (Förster and Tóth 2001), women (Fultz and Steinhilber 2003; Balcerzak-Paradowska et al. 2003; Kotýnková et al. 2003; Lukács and Frey 2003), unemployed (Ferge et al. 2002; Stanovnik and Stropnik 2002), persons who live far from major urban areas (Förster and Smeeding 2002), persons who live in households with more than three children, persons who are single parents (Chambaz 2001), persons who are members of the Roma community (Emigh et al. 1999; Barany 2000; World Bank 2001; Szelényi 2002; Zhelyazkova et al. 2002; Orenstein et al. 2003) and, in general, ex-state sector employees (World Bank 2002) remain the most vulnerable groups. Needless to say, without

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156 The median is usually preferred to the arithmetic mean since it is not affected by extreme values in the tails of the distribution (for further information see The Canberra Group 2001; Atkinson et al. 2002).
157 The issue on feminization of poverty is, however, still controversial. For more information on this topic see AA.VV. (2002); Szelényi (2002) and Schnepf (2004).
158 For a comprehensive study on the developments of income inequality in Central and Eastern Europe during the transition from planned economy to
efficient welfare institutions and, of course, the political will to improve such institutions (Ferge and Tausz 2002), their situation would dramatically worsen.

In order to measure the impact of welfare provisions and, thus, to have a better idea of what can be done to prevent poverty, particular attention has recently been given to the effectiveness of means-tested benefits across the European region (Behrendt 1999; Sainsbury and Morissens 2002). The investigation by Behrendt (1999) involved Germany, Sweden and the United Kingdom and has demonstrated that although the receipt of means-tested benefits is no guarantee for leaving poverty, the incidence of these benefits on poverty alleviation considerably varies across nations and across poverty brackets. In Great Britain, for instance, means-tested provisions are very successful in reducing “strong” or “extreme” poverty (calculated as less than 60 per cent of the median), but less effective if poverty was calculated at 60 per cent of the median. Sainsbury and Morissens (2002) conducted a similar analysis, on previous datasets of the Luxembourg Income Study, involving almost all European countries available at that date (this survey included, however, only three Central and Eastern European countries from older datasets). The two authors calculated poverty rates for the entire population and vulnerable groups, such as the unemployed, solo mothers, large families, and the elderly. This approach was concerned more with the impact of means-tested benefits on people “at risk of poverty”, that is “potential recipients”, rather than on the real beneficiaries. Their results, however, reconfirmed the diversity in basic safety nets across the European Union and their importance to alleviate poverty.

The choice of a determined method in comparative research is always painful and never free of procedural mistakes. This is particularly true with respect to household income surveys. The necessities of researchers rarely correspond to the possibilities given by the data and the distortion of results is not rare. Although the method used here matches the requests of the European Commission concerning the necessity of producing indicators of poverty before and after transfers (Social Protection Committee 2001), this procedure has also its negative sides. Atkinson et al. (2002) argue, for instance, that simply subtracting transfers from disposable income is something that should be considered very carefully, if not directly avoided. According to Atkinson et al. (2002, p.109), “if benefits did not exist, then people would change their decisions. For example, unemployed young people would live with their parents”. Following this logic, however, the unpredictability of human actions would block further research and the impact of welfare provisions would remain unexplored.

As mentioned, the method used in this paper has its weaknesses, as described above, but also its strengths. The strength of this method concerns the possibility to explore the impact of a determined welfare provision, not on “potential beneficiaries” (such as the “unemployed”), but on “real beneficiaries” (all those who receive the benefit). In fact, it should be made clear that NOT all the unemployed receive unemployment compensation, NOT all potential means-tested beneficiaries receive some form of assistance, and NOT all families with

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market economy see also Milanovic (1998) and UNDPAD’s *World Economic and Social Survey* (2003).
children receive family support. Thus, the impact of a welfare provision does not only depend on the amount of benefits, but also on the entitlement criteria. If, on the one hand, the analysis carried out here neglects all those potential beneficiaries who have not received the benefit, it allows a closer investigation of the real performance of welfare benefits, limiting possible distortions. In addition, not only means-tested benefits are taken into account, but also other fundamental provisions such as unemployment compensation and family support policies.

3. Monitoring the Impact of Social Transfers

3.1 Monitoring the Change in Social Inequality in Central and Eastern Europe

Figure 2.1 and Table A2.1 show the share equivalent disposable income within decile groups in seven Central and Eastern European countries. Decile shares are commonly used not only to demonstrate how unequal income distribution can be in one country or among many countries, but also used to display where changes occur. Lower-income groups are the three bottom deciles, middle-income groups are the four middle deciles, while high-income groups are the top three deciles (The Canberra Group 2001). Taking as example the Czech Republic in 1992, Figure 2.1 can be read as follows: a) the lowest income individuals (Decile 1-3) received 19 per cent of total net disposable income; b) the middle-income individuals (Decile 4-7) received approximately 37 per cent, c) while the highest income individuals received about 44 per cent. From a brief comparison, we can conclude that inequality in income distribution drastically increased in all countries since the first years of transition. The percentage of total net disposable income also moved from the bottom to the top of income deciles. This means that the proportion of total disposable income decreased for lower income individuals, while high-income earners had access to a bigger fraction. In 1999, however, the net disposable income in the lowest income deciles slowly increased in Hungary and Poland, showing a slow reduction of income inequality (in Hungary from 13.7 per cent in 1994 to 15.1 per cent in 1999, while in Poland from 11.9 per cent in 1995 to 14.7 per cent in 1999).

In many respects, the reproduction of economic mechanisms in place in Western Europe meant also for those societies in transition a shift to a capitalist-based social structure. The distance among income groups was accentuated and, accordingly, the differences among individuals became more evident. Moreover, the fact that the diminution in income at disposal for households particularly affected lower income groups indicates that the costs of transition were not uniformly distributed. If all citizens would have equally paid the price necessary to transform their economies, then the analysis of decile shares should have shown an equal distribution of income across time. By contrast, as it has been argued elsewhere (see, World Bank 2002), there have been clear winners and losers from the period of transition. Unfortunately, the majority of losers were those citizens who found themselves in the lowest income groups, paying the highest social costs, while the winners were those citizens who, for some reason, succeeded in earning profits from the economic transformation (mostly those oligarchs and insiders who had substantial control rights over state assets; see Eyal et al. 1997, 1998; World Bank 2002).
Another way to display income inequality is through the use of percentiles of the distribution as percentages of the median. The $10^{th}$ percentile ($P_{10}$) represents, for example, a household in the bottom decile, while the $90^{th}$ percentile ($P_{90}$) represents a household in the highest income decile. The difference between the $10^{th}$ and the $90^{th}$ percentile corresponds to the distance between lowest and highest income groups, while the ratio between the incomes of those at the $90^{th}$ and $10^{th}$ percentiles (the so-called “Decile Ratio”; $P_{90}/P_{10}$) quantifies the gap between the richest and the poorest. The percentiles can be, therefore, seen as a measure of social distance (for a detailed explanation see Atkinson et al. 1995; Smeeding 2002). To clarify, taking as example the Czech Republic in 1992 (see Figure 2.2 and Table A 2.2), it might be affirmed that a low-income citizen ($P_{10}$) had an income equal to 65 per cent of the median, while a high-income citizen ($P_{90}$) had an income equal to 155 per cent of the median. In other words, high-income individuals had 2.4 times ($P_{90}/P_{10}=$ Decile Ratio) the income of low-income individuals.

As mentioned, Figure 2.2 shows the distance between low- and high-income individuals (for detailed statistics see Table A 2.2). The gap is bigger in Estonia (2000), in Hungary (1994, 1999), in Poland (1995, 1999) and in Romania (1995, 1997). In 2000, the Estonian lowest-income individuals had only 46 per cent of the median net disposable income, while the richest Estonians had 230 per cent of the median (five times more). In Hungary (1994), this proportion was equal to 50 per cent of the median for low-income individuals and approximately 210 per
cent for high-income citizens (four times more). The decile ratio decreased, however, to 3.5 times in 1999, showing a reduction in income inequality. In Poland (1999), the share was 52 per cent of median for low-income and 187 per cent for high-income individuals (3.6 times more). Compared to the previous survey, however, income inequality in Poland slightly decreased (1995: 4 times). In Romania, low-income individuals had access to 50 per cent of the median (1995, 1997), while high-income individuals to approximately 180 per cent (about 3.3 times more). The lowest social distance can be found in the Czech Republic (1992, 1996), Slovakia (1992, 1996) and Slovenia (1997, 1999) with high-income individuals having access between 2 and 3 times more disposable income than low-income citizens.

Unsurprisingly, the use of percentiles has reconfirmed the results obtained through the analysis of deciles shares. However, Figure 2.2 highlights clearly not only the social distance that separates one country from the other, but also its eventual reduction across time. In a virtual classification, the greater social distance has been found in Estonia, followed by Hungary, Poland, Romania, Slovenia, Czech Republic and Slovakia. However, it is worth noting that a drastic increase took place in all countries in the first half of the 1990s, and, as a result, the position of the Czech Republic, Romania and Slovakia (nations for which no recent data is available) might drastically be changed in the last years.
How would social inequality change in Central and Eastern Europe if social transfers would not be in place? In other words, what kind of scenario would prevail if less fortunate citizens would not have access to some form of income replacement? In order to achieve this aim, the redistribution factor of all the most important welfare provisions, with the exclusion of pension benefits coming from social insurance contributions, was deducted from the equivalent net disposable income (see also recommendations of the Social Protection Committee 2001). The reason why pension insurance payments are not counted here depends on the fact that these benefits can be seen as a replacement of the previous wage at the end of the work-career and, thus, their redistribution role is not always automatic. These calculations, however, include old-age allowance, which is a basic income available for all those elderly who have no access to contributory pensions and, thus, would fall into absolute poverty.

Figure 2.3 and Table A 2.3 show the Gini coefficient before and after disbursement of social transfers. The Gini coefficient measures the concentration of income and ranges from 0 in case of extreme equality (all households have the same income) to 1 in case of extreme inequality (one household has the total income at disposal for all households).\textsuperscript{159} From the analysis of this figure, it is immediately clear that a society without social transfers would be a more unequal society. The degree of inequality would dramatically increase at the expenses of lower social classes if some form of

\textsuperscript{159} For more information on the Gini coefficient, see The Canberra Group 2001.
redistribution was not in place. Estonia, Hungary and Poland, especially, would be particularly vulnerable to income inequality, but no country would be an exception.

Ironically, a closer examination shows that the distribution of income was less unequal in those countries which were economically less developed. This is of interest because if the growth of inequality was strictly linked to the economic potential, then there would have been less inequality in Romania, Slovakia and Slovenia visible, precisely because these countries had less developed economies. By contrast, it is possible to see that income inequality grew more rapidly and drastically in Hungary and Poland primarily because of a political decision. These two countries deregulated their markets more quickly, thus leaving the door opened for an increase in income differences. Romania,
Slovakia and Slovenia, on the other hand, were less determined to implement such reforms, especially in the first years of transition\textsuperscript{160}.

Another important point that needs to be clarified is whether there have been variations in the impact of social transfers in income concentration among countries and across time. As it has been demonstrated, the presence of social transfers has strongly limited the possibility that income inequality would excessively increase. Without the existence of welfare provisions, the Gini coefficient would increment approximately between 30 and 50 per cent in Estonia (2000), Poland (1986, 1991) and Romania (1995, 1997); and between 50 and 70 per cent in Czech Republic (1996), Hungary (1991, 1994, 1999), Poland (1995, 1999), Slovakia (1996) and Slovenia (1997, 1999) (see Table A 2.3 in the Appendix)\textsuperscript{161}.

3.2 Monitoring the Impact of Social Transfers

The second part of this analysis deals with the impact of welfare provisions among the population and among the beneficiaries. This section analyses the change in poverty rates among the total population before and after the disbursement of social transfers, and the impact of unemployment compensation, means-tested and family benefits on targeted groups. The aim is to have a better description of the effectiveness of such provisions, both at national level, as part of the general poverty reduction strategy, and also at local level, monitoring the impact on those groups of citizens who materially depend on these provisions.

Figure 3.1 shows the poverty rate among the total population (all members of households) in seven Central and Eastern European countries with and without social transfers. This figure is to be read as follows, the first segment of the bar represents the poverty rate with social transfers, while the second segment represents the ratio without social transfers. The longer the bar, the higher is the ratio. As a general conclusion, it can be affirmed that poverty rates greatly vary from country to country and according to how poverty is measured. A country may display a low level of poverty when measured at 40 per cent of the median, but high if measured at 60 per cent of the median (for detailed statistics see Table A 3.1).

Estonia (2000) is the country that displays the highest poverty rate, followed by Poland (1995,1999), Romania (1995, 1997) and Slovenia (1997,1999). The situation becomes even worse if we exclude from the net disposable income the

\begin{footnotesize}
\textsuperscript{160} The situation of the Czech Republic is controversial. Despite the strong neo-liberal rhetoric, which privileged drastic liberalization and privatization of the economy, Václav Klaus has often been accused of never fully implementing shock therapy in the way it was promoted in his electoral propaganda. Rather, the Czech government maintained the major control over the economy by acquiring the dominant share of the largest banks in charge of the privatization of state assets and by artificially maintaining a high rate of employment (Cox 1998). Estonia, by contrast, was more determined to implement shock therapy and, consequently, the highest rate of income inequality does not come as a particular surprise.

\textsuperscript{161} In 1992, the Gini coefficient without social transfers of the Czech and Slovak Republic would have been almost double (respectively 93 per cent and 105 per cent higher).
\end{footnotesize}
revenues from social transfers. In this case, overall poverty rates in Central and Eastern Europe would be much higher. Poverty would change from 10 per cent to 29 per cent in Czech Republic (1996); from 20 per cent to 34 per cent in Estonia (2000); from 13 per cent to 33 per cent in Hungary (1999); from 15 per cent to 33 per cent in Poland (1999); from 14 per cent to 24 per cent in Romania (1997); from 12 per cent to 30 per cent in Slovakia (1996); and from 14 per cent to 29 per cent in Slovenia (1999). These results demonstrate the great importance of social transfers in the poverty reduction strategy at national level. All countries, indeed, seem to rely primarily on social transfers in order to artificially lower the number of poor people (calculated at 60 per cent of median). This is particularly evident in the Czech Republic (1996=+19), Hungary (1999=+20), Poland (1999=+18) and Slovakia (1996=+18) (see RPR Table A 3.1).

However, in order to see whether a determined policy is continuing to produce the expected positive results, it is also important to measure the ratio of poverty reduction (RPR\textsuperscript{162}) within countries across time. The RPR diminishes in Czech Republic from +20 points in 1992 to +19 in 1996; from +21 in Slovakia in 1992 to +18 in 1996; it remains stable in Slovenia (approximately +14), but it increases in Hungary from +19 in 1991 to +20 in 1999; in Romania from +9 in 1995 to +10 in 1997; and, finally, in Poland from +15 in 1992 (+8 in 1986) to +18 in 1999 (see Table A 3.1). In other words, this means that, particularly in Slovenia, Hungary, Poland and Romania, social transfers have maintained or increased the level of effectiveness in poverty reduction, which existed when the first income survey was conducted. For the Czech Republic and Slovakia, the situation seems to be a bit different, but even in these countries, no drastic decline can be observed.

\textsuperscript{162} The RPR is calculated subtracting the poverty rate without transfers from the poverty rate with transfers. Example: If the poverty rate in Czech Republic in 1992 was equal to 7 per cent with social transfers and 27 per cent without social transfers, the RPR will be equal to +20.
Figure 3.2 and Table A 3.2 show the poverty rates among the beneficiaries of unemployment compensation (all members of households) before and after the disbursement of unemployment benefits. As it can be immediately seen, unemployment compensation benefits had a huge impact on reducing poverty among this group of citizens. The percentage of beneficiary households which find themselves below 60 per cent of median would increase without transfers from approximately 25 per cent to 32 per cent in Czech Republic (1996), from 39 per cent to 46 per cent in Estonia (2000), from 22 per cent to 36 per cent in Hungary (1999), from 27 per cent to 55 per cent in Poland (1999), from 16 per cent to 29 per cent in Romania (1997), from 16 per cent to 28 per cent in Slovakia (1996) and from 24 per cent to 40 per cent in Slovenia (1999). This is undoubtedly a remarkable result. If, on the one hand, it is possible to prove that access to these provisions is no guarantee for leaving poverty (see also the results of Behrendt mentioned above), then, on the other hand, unemployment compensation benefits do improve the economic conditions of families in need\(^\text{163}\).

As far as the ratio of poverty reduction across time is concerned, the RPR diminishes in Czech Republic from +11 points in 1992 to +7 in 1996 and in Hungary from +15 in 1991 to +14 in 1999; it remains almost unchanged in Slovenia (approximately +16) and Romania (+13), but it increases in Poland from +10 in 1992 up to +28 in 1999 and in Slovakia from +11 in 1992 to +12 in

\(^{163}\) Only in Czech Republic and Estonia, the ratio of improvement is less than ten per cent.
1996. Stated another way, in Czech Republic, Hungary, Romania and Slovenia these provisions have lost a bit of effectiveness if compared to the first wave of surveys, while in Poland and Slovakia they have improved. Again, the success of Poland is clear. This might be explained by the generous access to these benefits provided until 1999, which has resulted in a significant improvement in the economic condition of beneficiary households.

Fig. 3.2 Poverty rates with and without unemployment compensation among UC beneficiaries

![Bar chart showing poverty rates with and without unemployment compensation among UC beneficiaries](chart)

Source: Author's calculations using LIS

(see also Table A 3.2 in the Appendix)

Figure 3.3 and Table A 3.3 show the poverty rates among means-tested beneficiaries (all members of households) before and after transfers. Also in this case, the results clearly show that poverty rates among these groups of citizens would be much higher in all poverty brackets. Without benefits, the percentage of beneficiary households who would find themselves below 60 per cent of the median would increase from 17 per cent to 22 per cent in Czech Republic (1996), from 29 per cent to 40 per cent in Estonia (2000), from 31 per cent to 40 per cent in Hungary (1999), from 20 per cent to 26 per cent in Poland (1999), from 32 per cent to 56 per cent in Slovakia (1996), and from 52 per cent to 56 per cent in Slovenia (1999)\(^{164}\). The extreme positive result of the Slovak Republic is undoubtedly remarkable (+24 in 1996). Here, it is clear that Slovak policy-makers have particularly used means-tested benefits as the main tool in lowering the negative impact of economic transition. Unfortunately, the data considered in this study only comes from years prior to 1996, as there is no recent data available.

\(^{164}\) Please note that no data is available for Romania (1995 and 1997).
A more indepth analysis on the ratio of poverty reduction across time shows that the RPR diminished in the Czech Republic from +20 points in 1992 to +5 in 1996; in Hungary from +10 in 1991 to +9 in 1999; in Slovenia from +7 in 1997 to +4 in 1999; it remained stable in Poland with approximately +5; but it increased from +21 in Slovakia in 1992 to +24 in 1996. Interestingly, while in almost all countries the RPR has remained almost unchanged, that is to say, there has been no clear decline in its power to prevent the fall of beneficiary households into poverty, this has not been the case in the Czech Republic. Indeed, while approximately 20 per cent of beneficiary households in 1992 were not at risk of poverty thanks to the existence of means-tested benefits, this ratio is declined up to 5 per cent in 1996.

Figure 3.4 and Table A 3.4 show the poverty rates among family benefits beneficiaries (all members of households) before and after receiving some kind of family support. In absence of these benefits, the number of current beneficiaries who find themselves below 60 per cent of the median would increase from 10 per cent to 17 per cent in Czech Republic (1996), from 19 per cent to 24 per cent in Estonia (2000), from 15 per cent to 24 per cent in Hungary (1999), from 24 per cent to 41 per cent in Poland (1999), from 15 per cent to 20 per cent in Romania (1997), from 13 per cent to 22 per cent in Slovakia (1996) and from 11 per cent to 17 per cent in Slovenia (1999).

The RPR diminished only in Hungary from +14 in 1991 to +9 in 1999, but it increased in Czech Republic from +6 points in 1992 to +7 in 1996; in Poland from +5 in 1992 (+9 in 1986) to +18 in 1999; in Romania from +2 in 1995 to +5
in 1997; in Slovakia from +8 in 1992 to +9 in 1996; and in Slovenia from +4 in 1997 to +6 in 1999. Again, Poland is the country in which family support policies seem to have achieved the best results. Nevertheless, it should also be remembered that this positive outcome also indicates that the decision to transform the economy through shock therapy has required additional help from state through social transfers. Without the existence of family benefits, Polish households could not rely sufficiently on resources coming from market income. This situation seems to be a bit better in the other countries, where the ratio of poverty reduction is smaller, but also the poverty rates among beneficiary households without benefits.

4. Discussion
Since the 1960s, there has been a clear and increasing interest for the evaluation of social policies. The Bureau of Applied Social Research of Merton and Lazarsfeld at the Columbia University was probably the first and most famous attempt to respond to the necessity of finding standard and rational methods to evaluate the effectiveness of social programs. Especially in the United States, where there is no strong tradition of state intervention in the economy, the money spent on social policies had to be well spent. Too many times, however, policy evaluation has focused on the inefficiencies, on what has

Abb. 21: Fig. 3.4: Poverty rates with and without family benefits among FB beneficiaries

(see also Table A 3.4 in the Appendix)
not worked, rather than emphasising on what has worked, on what has been successful in a determined policy-making. As a response to this negative attitude, some author has recently begun to focus on the positive consequences, both expected and unexpected, of the implementation of social policies: “on what has been successful in an ocean of normal inefficiency” (Tendler 1992 quoted in Stame 2000, p.154; translated from Italian). This was not only a reaction to the difficulties in funding created by Reagan and Thatcher, but it was necessary to improve the effectiveness of the poverty reduction strategy on the basis of what had worked, rather than focusing on what had not worked.

Similarly to their American colleagues, social policy analysts in Europe have developed the predisposition, even more accentuated, to exaggerate what the welfare state has not been able to do, rather than to emphasize what it has achieved. Of course, there are good reasons for this attitude. An amplification of the positive results might lead policy-makers and politicians to reduce future funds, instead of increasing the efforts. This approach, however, has led to the belief that social policies are in essence inefficient and subsequently the welfare state itself has been accused of incapacity: no matter how much effort was invested. In brief, what social policy analysts have often forgotten is an adequate response to the key questions of any evaluation, which Stame (2000, p.126) correctly identifies as:

a) What has happened exactly? Have the objects been achieved? And if not, what has been achieved?

b) Was what has been achieved positive (good)?

c) Was it worthwhile to implement those policies?

d) How could policy-makers improve them?

These very simple questions does not hide the reason for the existence of the welfare state, in that it is there to improve the living conditions of less fortunate citizens, and not to resolve all problems arising from the economic transition.

As indicated earlier, Central and Eastern European countries have witnessed a huge increase in income inequality primarily due to the shock of the economic transition (Cox 1998, 2003; Ringold 1999). The huge decline in household income, for the most part caused by the loss of numerous jobs, has created new vulnerable groups, such as the unemployed, the Roma, children, and so on (see above, §2). These new vulnerable groups have survived the collapse of the command economy thanks to the existence of welfare provisions, rather than market resources. Poland is a good example of how the situation of households with welfare beneficiaries might dramatically worsen if social transfers would not be in place.

If the main objective of policy-makers was the complete evaporation of poverty, then this objective has not been achieved, or, at least, only achieved in part. Nevertheless, what has been possible to achieve was a significant reduction of poverty through the access to generous welfare benefits, such as unemployment compensation, means-tested and family benefits (generosity was a key characteristic of these welfare states especially during the first years of
transition). Unfortunately, most of the data presented by the Luxembourg Income Study consider the reforms prior to 1999. Numerous countries, such as Poland, have only recently restricted the access to these provisions (see Consensus II: Country Reports, 1999) and, at present, there is still no possibility to monitor the latest trends. Nevertheless, the analysis of the data available demonstrates how important the existence of welfare benefits has been in reducing poverty.

To those who insist on the necessity to cut welfare expenditures in order not to compromise the efficiency of the market, there is now enough empirical evidence to point out the inconsistency of such statement. Especially the data concerning Poland, the first country to implement shock therapy, reconfirms the incapacity of the market to resolve alone the problems arising from the change in economic alignment. Even though it is possible to prove that social transfers are no guarantee for leaving poverty, they have greatly helped to lower its negative effects and to diminish the costs of economic transition. In other words, shock therapy would have been even more disastrous, or could not have been implemented without the existence of strong social transfers. In this context, the welfare state achieved great results in reducing economic deprivation and, thus, it was good and worthwhile implementing such policies.

The last question should now focus on what can policy-makers do to improve the lack and inefficiencies of the welfare state, which, of course, have been numerous and not always unavoidable, in Central and Eastern Europe? Needless to say, a response to this question is extremely difficult and any attempt at finding a single, homogenising solution suitable for all countries is inevitably problematic. Nevertheless, a general rule can be expressed: the more the countries in transition have moved towards a market economic system, the more social transfers were required to reduce the negative effects of the change in economic alignment.

In brief, the analysis shows that Eastern Europe needs a more active welfare state rather than a diminished welfare state, as neo-liberal supporters would recommend. Nevertheless, forty years of communism have made the point clear that excessive state paternalism will not be a successful strategy for improving the living conditions of citizens. As János Ladányi and Iván Szelényi (1996) have pointed out, Central and Eastern Europe has a desperate need for an “empowerment state”: a welfare state, which actively invests in the material, human and social capital of its citizens. This final objective may be achieved by means of social programs, which aim to support the citizens and not only allow them to recover, as it has been done so far, from the negative effects of market mechanisms.
Conclusion
There can be little doubt that welfare institutions have played, and will probably continue to play, a crucial role in limiting the negative effects in income and social inequality. They have helped to reduce not only the negative repercussions of the economic shock, but have also helped to maintain a sense of public responsibility and solidarity, which has reinforced social cohesion during these difficult times. Without efficient welfare institutions, Central and Eastern European societies would not only be more unequal societies, but would be also more atomized and disaggregated societies. In the long run, this might seriously damage further reforms or the democratization process itself.

Despite the existence of numerous inefficiencies, partly due to budget constraints but also due to wrong political decisions (such as those concerning cuts in welfare expenditures in the hope that the market would resolve all economic problems), social transfers have achieved most of the objectives, for which they had been created: reducing the negative impacts of economic transition. What is required now is, however, a change in mentality: from a cushioning welfare state, Central and Eastern European policy-makers and politicians should turn into an “empowerment state”. This will be the key of success for future social policies.
Conclusion
The New Welfare Consensus
Since the advent of Thatcher and Reagan, the welfare state has come under great political pressure (Pierson, 1994). There are many reasons that explain this change in welfare “Weltanschauung165: 1) welfare expenditures have exceeded the tolerability threshold of most countries; 2) it is supposed to produce negative or distorted effects in the economy; 3) it creates dependency; 4) it has failed to promote social equality; 5) it is no more sustainable because of the new changing society (ageing population, gender issue and globalization). What many economists have proposed is to dismantle the old welfare system by allowing access to private organizations and by decentralising the old structure. Private and public responsibilities would also become more differentiated and, if misfortune happens, then the free game of the market will resolve it.

The New Right has not only emphasized the failure of the welfare state, but also the New Left has put its basis into discussion. In “The Third Way”, defined as the “Manifesto” of the “New” Labour Party in the United Kingdom, Giddens (1998) has affirmed that the old welfare organization has now ended as it no longer has a reason to be. “The end of the welfare state as we know it” has become the catch phrase for a new form of social solidarity based on the concept of “positive welfare state”, which clearly aims at separating itself from the old “negative” one (Giddens 1998, 2001). This semantic fascinating “positive welfare state” can be reduced with the word “workfare”, sometimes formulated as “work for your welfare” or “welfare for work”166. At the core of “workfare” lies the notion that no right should be granted without responsibility (Giddens 1998, p. 66). Active labour market policies should replace passive employment measures, while the new welfare organization should witness an increase in decentralization167 and in subventions to companies. In Third Way experts’ opinion, this will improve the effectiveness of welfare provisions and reduce costs. Employers will be facilitated in taking workers on, and the engine of the economy will restart (Giddens 1998, 2000).

Hence, reformers would not only aim to stop “welfare addiction” and to block the development of a paternalistic welfare state, which has now expired its capacity to accomplish the more basic social functions, but also to create a new welfare consensus around which the New Left can combine old socialist ideals with the emergent challenges caused by the new changing society. Of course, a “positive” welfare state is certainly better than a “negative” one; an “active” labour market policy sounds undoubtedly more interesting than a “passive” one and a “responsible” welfare state is obviously to be preferred to an “irresponsible” one.

165 “Weltanschauung” literally means “the way of looking at the world”.
166 For more information on this topic see Kildal (2001).
167 See also Finn (2000).
Nevertheless, it is still an open question whether this “positive” welfare state is really as good as it sounds.

Indeed, doubts about the difficulties in meeting the standards set by Third Way politics have often been emphasized (for a detailed list of critics see Giddens 2000). In particular, it is still unclear whether “workfare” will create less dependency than the welfare state and whether it will cost less. Moreover, as it has become increasingly clear, an excessive devolution of responsibilities to the individual might not ensure basic social security and might create stigmatization of the beneficiaries. In this scenario, one of the major risks is that, instead of finding a new welfare consensus, reformers might simply destroy the old welfare organization without having the possibility to replace it with a new, more efficient one.

Without any doubt, however, modern welfare states are urgently asked to redefine their functions and, in this specific context, a process of restructuring would not only be necessary because of endogenous factors, as stressed above, but also because of new exogenous challenges, such as those connected to the globalization or the Europeanization of national social policies.

Globalization and the Issue of “Social Dumping”

Globalization has now become an important issue with regards to the economic, social and political sphere. In very few words, ‘globalization’ means that modern nation states are strictly linked to a wider global political and economic environment. A decision made in Japan produces more consequences in the German economy now than it was thinkable three decades before. International relations are thus no more simply a matter of “good neighbourhood”, but they are fully part of “national politics”. Globalization has meant an improved interaction among national economies, but it has also involved more dependence on decisions made abroad. On the one hand, it has facilitated the interactions among countries improving the chances for a successful business, whilst on the other, it has reproduced power relations built for more than one century, dividing the richest from the poorest part of the world. The restriction (or enlargement) of the world economies to a single economy is also produces other distorted effects: 1) limited freedom in national politics may create the basis for dependence from not well-identified cross-national entities (see discussion in chapter two on the institutions shaping post-communist social policy); 2) national decision-making is now forced to deal with multiple environments simultaneously, increasing the possibility of not effective policies.

Trying to identify the administrative centre, where economic decisions take place, is not an easy task. The “global market”, and the companies therein, will very unlikely open an office in Brussels or in Washington D.C., where they can send politicians, members of interest groups or delegates of trade unions to. The headquarters will, therefore, continue to be identified in the office of an American multinational as well as in a Chinese farm. Both, to differing extents, will have a limited power in the global decision-making. This implies, however, by no means that this
limited power will be distributed more equally. For example, it is reasonable to state that an American multi-national will continue to have substantially more power concerning future decisions, with regards to its own situation, than the Chinese farm. This is what the main issue of globalization is all about.

With respect to the implications of globalization for the social security systems, a major debate has confronted those researchers who deal with the internationalization of social policies and the associated question of “social dumping” or “race to the bottom”. As Alber and Standing (2000, pp. 99-101) describe:

“The term trade dumping [...] implies situations in which standards in one country are lowered relative to what they would have been because of external pressure from all or part of the global economic system. If the analogy to trade dumping is to apply, there ought to be a sense in which policies or practices in one country or part of the world are used to erode levels of institutions of social protection elsewhere [...] A feature of both types of state-induced social dumping is that the cost of obtaining social protection is shifted from the state and from employers onto workers and communities in which workers live. [...] Public spending is switched from social protection and services to training measures for the workforce in a residual welfare state. [...] In more general terms, social dumping could be interpreted as a process of “labour re-commodification”

As expected, scholars are strongly divided on the issue of globalization, with on one side of the spectrum, those who support the “classic” or “strong globalization thesis”, arguing that the global market is, in effect, causing a “race to the bottom” (Strange 1988, 1996, 1997; OECD 1994; Rodrik 1997; Sengenberger and Campbell 1994; Woods 2000) and, those on the other end of the spectrum, who are more sceptical about the effective constraints that globalization may produce on national economic and welfare structures (Alber and Standing 2000; Beyeler 2003; Garret and Lange 1995; Huber and Stephens 2001; Keohane and Milner 1996; Kuhnle 2000; Mishra 1999; Leibfried 2001; Pierson 2000a, 2000b; Rieger and Leibfried 1998, 2003; Scharpf 2000; Scharpf and Schmidt 2000; Teeple 1995; Weiss 1997, 1998; Yeates 2001a, 2001b). While the former group, supporting the “race to the bottom”, tend more to emphasize the inevitability of “social dumping”, the latter group sees political and welfare institutions as stable entities, which can constrain the governments’ capacity for drastic changes, even with presence of significant pressures from the global market.

As often happens, the truth lies probably in the middle of these two opposites, even though the temptation “to adopt a happy medium” might be misleading (Vobruba 2003). In fact, if it is true that national

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168 On globalization and social policy, see Deacon et al. (1997), Mishra (1999), Yeates (2001) and George and Wilding (2002).
governments still retain a special power in lowering the negative effects of globalization, then market openness might also cause welfare state expansion (see Rodrik 1997; Garret 1998; Rieger and Leibfried 1998, 2003; Kapstein 1999; Vobruba 2003; Mau 2004), instead of welfare state retrenchment (Scharpf 1991; Mishra 1996; Greider 1997; Gray 2002).

What cannot be denied, however, is that a form of labour re-commodification exists in modern European societies, where the privatization of provisions and the reconstruction of the welfare state are redefining the boundaries of private and public responsibility toward an increase in personal involvement. Individuals are, in fact, called not only to accept the radical change of the social contract signed in the post-war period, which unequivocally linked citizenship and employment to a guaranteed basic social security, but also to take private actions in response to 1) the withdrawal of the state in areas which were once under full jurisdiction of governments; and 2) to find adequate defensive strategies to the constraints caused by increasing competition attributable to the pressures of the global market. In other words, what citizens seem to be urgently required are private solutions to what, some time ago, were seen as public problems.

In the context of EU enlargement, worries have often been expressed about the possibility that Western European industries might decide to transfer their production facilities to Eastern Europe in order to take advantage of lower labour costs, and about the prospect that Central and Eastern European citizens might decide to emigrate in mass to the richest part of Europe. The issue of social dumping has thus come to the attention of European mass media and has opened a violent debate, which has seen political leaders and also unions of Western workers uniting to defend their interests from what has been seen as an imminent attack of the newly emergent economies.

With a certain inclination to forget the privileges that they gained in the antecedent waves of EU affiliation, older EU member states have frequently used the “race to the bottom” issue to limit the aspirations of Eastern European candidates. While the worries of Southern European countries (Greece, Italy and Spain) have primarily involved possible limitations in the amount of financial aid they already received to subsidize their agricultural products or the diminishment of their regional disparities under, respectively, the Common Agricultural Policy (CAP) and Structural Funds, the Northern European countries (principally Germany and Austria) are opposed to the rules concerning the free movement of workers within the European borders being immediately applicable to Eastern European citizens.

After the never-ending, and sometimes tedious, negotiations, which risked reducing the EU enlargement simply as a matter of economic transaction\footnote{All CEE officials interviewed have made similar comments on the excessive fears expressed by EU member states during the accession, EU}, current and future Member States found an official
compromise at the Copenhagen European Council in December 2002. Despite all observers pragmatically agreeing on the most crucial issues, most of the questions associated to the problem of how will European citizens cohabit in the new risk society remained mostly unresolved. In many respects, an important element that might limit the negative effects of the “race to the bottom”, while amalgamating, at the same time, the disparities among European national welfare systems, might be connected to the emergence of a common welfare regime, which might also represent the first step toward a wider social Europe.

The Europeanization of National Social Policies
Since the Treaty of Rome, the process of European Integration\textsuperscript{170} is slowly revolutionizing the geographical map of the old continent. In Rokkanian terms, this has been described as a process of unfreezing\textsuperscript{171}, or unlocking\textsuperscript{172}, the boundaries of the old nation states. This “unfreezing”, or “unlocking”, of the borders, however, does not implicitly mean a complete removal of barriers. At the EU level, for instance, there is a process of removal associated to a process of redrawing in the political-institutional sphere. Furthermore, the EU seems to be building new barriers, namely outside the territorial borders of the member states, and re-assessing the relations between centre-periphery. What it can virtually be witnessed is the emergence of two separate forces acting at the EU level: a centrifugal force (mainly owned by the EU), which tends to push the countries out of the centre of the European decision-making; and a centripetal force (mainly owned by

process. The following are two interesting insights of feelings following the conclusion of EU negotiations: 1) “More fairness from the EU side would not be a bad thing. The EU asymmetric regulation regarding trade, for which we must open our borders while the EU member states can still close them to our products, is, of course, not fair. But this is part of the game. [...] The worries of Germany concerning CEE immigrants are unrealistic. Once that borders will be opened, it will certainly not happen that all Slovenians emigrate to Germany. This might have happened 50 years ago, but now it’s unrealistic. At the end, we have more Italians and Austrians in our country, than Slovenians abroad. These are political decisions not based on empirical evidences. Also with regard to CAP (Common Agricultural Policy), we must talk about a political decision and not about a decision based on real empirical evidences” (Source: Interview 12); 2) “As one of my colleagues said, we are joining the EU, it is not the EU that is joining us. So it will be easier once we will be part of the EU. As a Polish colleague of mine told me laughing: “Sure, now we have a difficult moment, but wait until we will be part of the EU. Then, we’ll show them”. (Post Scriptum: this sentence was not meant to have any negative connotation” (Source: Interview 10).

\textsuperscript{170} For a brief introduction to the debate over European Integration see O’Neill (1996), Tsoukalis and Rhodes (1997) and Dehousse (1997).

\textsuperscript{171} See Rokkan (1999).

\textsuperscript{172} see Bartolini (1998, 2001). A similar analysis based on Rokkan’s theory on boundary building can also be found in Ferrera (2000, 2003).
the member countries) tending to push the states toward the centre. The position achieved by a country in this peripheral-peripheral struggle clearly depends on the magnitude of the centripetal force owned, identified in terms of economic and political power for the biggest member states, but also of bargaining capacity for the smallest ones.

The question of whether EU institutions are acquiring enough political power to efficiently reduce national sovereignty is one of the most controversial issues encountered in comparative European politics. According to the “multi-level governance” approach, European institutions are succeeding in overlapping national autonomy through a form of “multi-level governance”, in which sovereignty is shared by national and supranational actors (Marks 1992, 1993; Hooghe 1996; Marks et al. 1996a,b; Hooghe and Marks 1997, 2001; Benz and Eberlein 1999; Graziano 2003). As Stone Sweet and Sandholtz (1998) have correctly pointed out, the European Union is, in effect, increasing its influences in different policy areas through the emanation of binding directives (see also Peterson and Bomberg 1999; Stone Sweet et al. 2001). In the area of cohesion policy, Conzelmann (1995) states, for instance, that the European Commission has direct influence on policy formulation and implementation, while others scholars have focused their attention on the crucial role played by the Commission in the stages of agenda-setting and management (Allen 1996; Pollack 1995, 2003). Other examples of external pressures can be seen by the activities of the European Court of Justice (ECJ), one of the most crucial actors in the EU decision-making process, which blocks those national laws that are not in line with the rules established at the EU level (Weiler 1994; Alter 1999; Mattli and Slaughter 1995; Peterson and Bomberg 1999; Leibfried and Pierson 2000; Pollack 2003).

In a similar multi-level pattern, Leibfried and Pierson (1995) have affirmed that the current “European” welfare state can be understood in terms of a “multi-tiered” system with a shared responsibility for individual social policies. According to Leibfried and Pierson (1995, pp. 24, 31), this “multi-tiered” welfare structure:

“often generates complex designs to incorporate the design of each tier as well as complex decision rules or policy reforms to ensure that these interests continue to be met. […] The EU policy-making becomes in part a process of comparative state building […] produc(ing) decisions according to the lowest-common denominator and “packaged” policies”.

Unquestionably, the idea of a “European” welfare state has attracted many supporters, but also numerous enemies. Europe does not constitute a “single political community”, but “many political communities” with different strategic interests. The emergence of a common European welfare state might therefore be in contrast to national legislations, as well as to national political objectives. At the moment, however, there seems to be no clear consensus among
scholars on this issue. Ferrera (2000), for instance, has argued that the member states are still able to manipulate the normative of minimum requirements of access to welfare benefits. According to Ferrera (2000), this is a clear example of how nations still make the major decisions on questions related to the implementation of their own social policies (see also Ferrera 2003). Similarly, Hantrais (1995) has emphasized how the problem of harmonization of EU social policy has been effectively abandoned, at least temporarily, in favour of the principle of “convergence” that has been expressed in the 1994 White Paper, which sought to affirm that future developments on EU social policy should be premised on respect of national differences.

The most recent debate on the “open method of coordination”, according to which the common objectives set at the European level in respect of national situations must be translated by appropriate national policies (NAPs)\(^\text{173}\), has let some authors affirm that EU institutions will be able, in the near future, to increase their role in coordinating national social policies (Begg and Berghman 2002; Carmel 2003; De la Porte and Pochet 2002, 2004; Ferrera \textit{et al.} 2002). At this stage, it seems plausible that a new form of supra-national organization is increasing important over the existing national welfare states that would leave, however, a decent level of freedom for national decision-making. According to Scharpf (2002, §6), national welfare states are “constitutionally constrained by the “supremacy” of all European rules of economic integration, liberalization, and competition law, and they must operate under the fiscal rules of the Monetary Union”. Nonetheless, he does not forget to outline that the attempts to “Europeanize” national welfare systems “are politically constrained by the diversity of national welfare states, differing not only in levels of economic development and hence in their ability to pay for social transfers and services but, even more significantly, in their normative aspirations and institutional structures” (Scharpf 2002, §6). As a consequence, the emergence of a two-tier system can be proposed: a “European Model” common to all member states based on the single market principle and regulated by EU directives associated with a second-tier established on distinct forms of social solidarity and synchronized by national decision-making in accordance to historical and cultural backgrounds (see Table 4.1).

\(^{173}\) In the European Council of Lisbon (March 2000), “the Head of States [...] agreed that policies for combating social exclusion should be based on an open method of coordination combining national action plans and a programme presented by the Commission to encourage cooperation in this field”. Quoted in Social Protection Committee (2002, p.4).
Table 4.1 The EU Two-Tier System: The Single Market Oriented Model

<table>
<thead>
<tr>
<th>First-Tier</th>
<th>Second-Tier</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>- Differentiated according to national peculiarities</td>
</tr>
<tr>
<td></td>
<td>- Semi-legal/tolerated</td>
</tr>
<tr>
<td>- Common to all countries: Single-Market oriented with some universal aspiration</td>
<td>- Optional</td>
</tr>
<tr>
<td>- Legal</td>
<td>- Political sphere</td>
</tr>
<tr>
<td>- Compulsory</td>
<td>- Decisions made by national governments on the basis of the requests coming from the electorate</td>
</tr>
<tr>
<td>- Economic sphere</td>
<td></td>
</tr>
<tr>
<td>- Decisions made by the European Commission on the basis of the criteria regulating the Single Market</td>
<td></td>
</tr>
</tbody>
</table>

In the scheme presented above, the first tier, common to all countries, is based on those principles that constitute the foundation of the single market (such as the priority for economic stability, market competition, and so on) coupled with some universal aspirations promoted in the so-called “European Social Model”. This first tier has also a legitimate strong legal framework, provided by the superiority of the EU Court of Justice, on national decisions, is compulsory, and primarily involves the economic sphere through decisions taken by the European Commission. The second tier, is differentiated according to national peculiarities; is semi-legal in the sense that it is tolerated by EU institutions as long as it does not compromise the stability of the Single Market; and, is optional in that it is not essential for EU membership and primarily involves the political sphere since decisions are taken by national governments on the basis of the requests coming from their electorate.

As far as the role of the EU in reforming Central and European welfare states is concerned, there can be little doubt that, despite the existence of serious ambiguities in the EU policy-making, primarily due to the incapacity of proposing a clear agenda different from that proposed by the most influential international financial institutions (see Ferge 2002; also chapter 2 in this book), the prospects of enlargement and the existence of numerous financial assistance programmes (such as PHARE) have reinforced values based on solidarity, which otherwise would have been sacrificed to the reasons of the market\textsuperscript{174}. To this extent, the reforms’ objectives proposed at national level on the basis of

\textsuperscript{174} For a recent debate on the role played by the EU “soft regulation” in influencing Eastern European social policies see Ferge and Juhász (2004) and Lendvai (2004). For more information on the concept of “cognitive Europeanization” see Guillén and Álvarez (2004).
the requests coming from international organizations were forced to find a compromise to the reforms' objectives and priorities relevant at EU level, resulting in hybrid social policies.

Conclusion
The first part of this book has discussed the most debated theories on welfare state dynamics (chapter one) and on institution building (chapter two), attempting to elucidate the factors responsible for the development of new welfare institutions in East Central Europe. In order to develop a clearer conceptual framework, this part has proposed a synthetic theory, which has been called “neoclassical social policy”. The neoclassical social policy approach looks at the development of welfare institutions as the outcome of complex negotiations among historical legacies, political and institutional settings, and also views the development of welfare institutions as the consequence of strategic interactions of national and international actors. In this difficult process of welfare state building, neoclassical social policy also calls attention to the set of formal and informal rules, which have governed and still continue to govern social behaviour. Part II has shown that institutions, political organizations and individuals created, sustained and reinvented the welfare state around the social world in which they were embedded.

To respond to the central question of this book, it should be clarified whether the post-communist capitalism (or capitalisms) will: 1) reproduce the welfare state already in place in Western Europe; 2) result in a common peculiar Eastern European welfare state; or 3) create so many welfare states as there are economies in transition. This research identifies the emergence of a peculiar Eastern European model of solidarity coming from the fusion of pre-communist (Bismarck social insurance), communist (universalism, corporatism and egalitarianism) and post-communist features (market-based schemes), and maintained together by a strong support for redistributive policies (see part two and chapter eight).

This statement, which above all concerns the emergence of a new and distinct model, is clearly in contrast to the common assumption that sees Central and Eastern European welfare states as inexorably doomed to disappear under the pressures of globalizing forces. The fact that these welfare systems in transition are assuming some characteristics of the new environment (western world) is not a sufficient indicator to affirm that a “welfare state transfer” is occurring. Sharing similarities with the western world (for example, the privatization of provisions) by no means implies being identical. Rather, a more important observation involves the issue of whether Central and Eastern European welfare states are successfully adaptive radiations into a new organism.

It can be seen that the social policy vacuum required Central and Eastern European welfare states to adapt to the new environment, recombining and re-arranging previous characteristics (or pre-adaptations) into a new social organism (see Part II). As Parsons (1966) would put it, this continuous process of upgrading previous sub-
structures, in which differentiation and integration are synthesized in a new, more complex scheme, has been at the heart of the creation of a unique Central and Eastern European model of solidarity.

In making such a claim, one last important point needs to be made, that is in which manner will this new European model of solidarity fit into the future EU welfare regime (assuming it will take the form illustrated). In recalling the term “divergence convergence” introduced by Laszlo Bruszt (2002) to define the transformation of Eastern European markets, it is argued that although these welfare states in transition display substantial variations within the region, this does not preclude the alignment towards a common, European-friendly welfare system. The “path of creation”, described in previous chapters, allows East Central Europe to resist the unifying forces of a single, Europeanized welfare regime, and maintain most of its characteristics, even with increasing requests coming from EU institutions. The final version might take the form of, as illustrated above, a two-tier model, where a “single market-oriented welfare regime” is placed side by side to a “unique” Eastern European model. As the analysis of the impact of social transfers has called attention to, however, rather than reducing the role of the welfare state, Central and Eastern European policy-makers and politicians should now turn towards an “empowerment state”. This will be the key of success for future social policies.
## Appendix

### Table A 1. LIS Datasets used

<table>
<thead>
<tr>
<th>Country and Year</th>
<th>LIS unweighted households</th>
<th>Source</th>
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</thead>
<tbody>
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<td>Household Budget Survey</td>
</tr>
<tr>
<td>Hungary 1991</td>
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<td>Hungarian Household Panel Survey</td>
</tr>
<tr>
<td>Hungary 1994</td>
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<td>Hungarian Household Panel Survey</td>
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<td>Hungarian Household Panel Survey</td>
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<td>Romania Integrated Household</td>
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<td>Romania 1997</td>
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<td>Survey</td>
</tr>
<tr>
<td>Slovakia 1992</td>
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<td>Romania Integrated Household</td>
</tr>
<tr>
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<td>Survey</td>
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### Table A 2.1 Decile Shares

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Source: Author’s calculations using LIS.
### Table A 2.2 Percentiles DPI

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<th>Source</th>
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<th>Percentile 90th (DPI)</th>
<th>Percentile Distance 90th-10th (DPI)</th>
<th>P90/P10 (DPI)</th>
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Source: Author’s calculations using LIS.

### Table A 3 Gini Coefficient

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Source: Author’s calculations using LIS.
### Table A 3.1 Change in Overall Poverty Rates DPI & DPI minus Social Transfers

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Source: Author’s calculations using LIS.

### Table A 3.2 Change in Poverty Rates among unemployment compensation beneficiaries with and without benefits

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Source: Author’s calculations using LIS.
### Table A 3.3 Change in Poverty Rates among means-tested beneficiaries with and without benefits

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Source: Author’s calculations using LIS.

### Table A 3.4 Change in Poverty Rates among family support beneficiaries with and without benefits

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Source: Author’s calculations using LIS.


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List of Useful Web Sites

Web sites of Ministries of Labour, Social and Family Affairs

**Bulgaria**
Bulgarian Ministry of Labour and Social Policy  
http://www.mlsp.government.bg/  
Bulgarian National Social Security Institute  
http://www.noi.bg/

**Czech Republic**
Ministry of Health  
http://www.mzcr.cz/  
Ministry of Labour and Social Affairs  
http://www.mpsv.cz/  
Research Institute for Labour and Social Affairs  
http://www.vupsv.cz/

**Estonia**
Estonian Ministry of Social Affairs  
http://www.sm.ee/

**Hungary**
Hungarian Ministry of Health  
http://www.eum.hu/  
Hungarian Ministry of Social and Family Affairs  
http://www.szcsm.gov.hu/

**Latvia**
Ministry of Welfare  
http://www.lm.gov.lv/

**Lithuania**
Ministry of Health  
http://www.sam.lt/  
Ministry of Social Protection and Labour  
http://www.socmin.lt/

**Poland**
Ministry of Labour and Social Policy  
http://www.mpips.gov.pl/  
ZUS –Zaktat Ubezpieczen Spotecznych- (Social Insurance Institution)  
http://www.zus.pl/

**Romania**
Ministry of Labour and Social Protection  
http://www.mmps.ro/
Slovak Republic
Ministry of Labour, Social Affairs and Family of the Slovak Republic
(MISAF SR)
Social Insurance Agency:
http://www.socpoist.sk/

Slovenia
Ministry of Labour, Family and Social Affairs
http://www.sigov.si/mddsz/

Other Useful web sites
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Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania. Poland,
Romania, Slovakia, Slovenia, History Section, Auswärtiges Amt: Bonn.

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Estonia, Hungary, Latvia, Lithuania. Poland, Romania, Slovakia,
Slovenia.
http://www.electionworld.org

EU DG-Employment and Social Affairs Directorate General official
web site
http://europa.eu.int/comm/dgs/employment_social/index_en.htm

EU DG-Enlargement official web site
http://europa.eu.int/comm/enlargement/index.htm

EU -EuropeAid-Evaluation Unit-
http://europa.eu.int/comm/europeaid/evaluation/index.htm

Governments on the WWW

ILO –International Labour Organization-
http://www.ilo.org/

ILO Subregional Office for Central and Eastern Europe
http://www.ilo-ceet.hu/

MISSCEEC –Mutual Information System on the Candidate
Countries –
http://europa.eu.int/comm/employment_social/missceec/index_en.htm

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OECD -Organisation for Economic Co-operation and Development-  
http://www.oecd.org/

Social Policy Virtual Library  
http://www.bath.ac.uk/~hsstt/world3.htm

SOSIG -Social Sciences Information Gateway –  
http://www.sosig.ac.uk/

UNDP –United Nations Development Reports–  
http://hdr.undp.org/reports/default.cfm

Virtual Library  
http://vlib.org/

World Bank  
http://www.worldbank.org

World Bank - PovertyNet –  

World Health Organization (WHO)  
http://www.who.int/home-page/

WHO -The European Observatory on Health Care Systems –  
http://www.euro.who.int/observatory/toppage

WWW Virtual Library: Evaluation  
http://www.policy-evaluation.org
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Curriculum Vitae
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Erklärung
Ich erkläre hiermit ehrenwörtlich, dass ich die vorliegende Arbeit ohne unzulässige Hilfe Dritter und ohne Benutzung anderer als der angegebenen Hilfsmittel angefertigt habe; die aus fremden Quellen direkt oder indirekt übernommenen Gedanken sind als solche kenntlich gemacht. Bei der Auswahl und Auswertung des Materials sowie bei der Herstellung des Manuskripts habe ich Unterstützungsleistung von folgenden Personen erhalten:

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