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Welfare and 'ill-fare' systems in Central-Eastern Europe

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There are huge variations in the political structure and in the public policies of the post-state-socialist countries called hereafter 'transition' countries. The view widely shared in the early 1990s that all of them would pass in a relatively short time from dictatorship to democracy and from state planning to a market system proved to be oversimplified for all, and widely off the mark for quite a few of them. The countries in the 'western belt' of the East, in the region called (for varied historical reasons) Central Eastern Europe have come the closest to the coveted model. The paper takes into account the whole region, but focuses particularly on the Central-Eastern European group, which consists of the Czech Republic, Hungary, Poland, Slovenia, and Slovakia.

The paper's aim is to describe the forces that have shaped the social policy of the 'transition countries'. It starts by looking for general characteristics of the welfare regimes of the region. It suggests that the new global ideology, conservative and populist endeavours, historical inertia and path dependency all play a part resulting in producing faceless or mixed systems, some of them close to 'ill-fare'. The second part describes the welfare reform agendas of the countries in the region. Out of the various projects those of the IMF and the World Bank seem to have been the most elaborated. They meant to serve the economic competitiveness of the transition countries in a globalising world, simultaneously pushing them towards a residual social policy. The third part gives an overview about the main changes in the welfare arrangements of the CEE countries in which despite path-dependency and institutional inertia the monetarist pressures were rather successful. The last part attempts to explain why the resistance to the globalising pressures for state retrenchment was weaker in Central-Eastern Europe than in most of Western Europe. It suggests that the impact of 'globalisation' as a powerful ideology rooted in transnational economic interests is strongly mitigated by the economic vulnerability of the given country, by the political orientation of its government, and by the strength of its civil society.

A preliminary characterisation of east-european welfare regimes

Gosta Esping-Andersen's work on welfare state regimes created a new intellectual fashion. The classification into 'ideal types' of modern welfare regimes becomes relevant only, though, when the *logic* behind it is made clear (as it is in the original work). Thus before labelling one had to analyse the political or economic factors shaping the welfare regimes; the ways a regime impacts on social stratification, on ethnic and gender issues; on the strength of social rights; on the emancipatory potential of the welfare system; and also on its outcome, whether it assures a basic minimum preventing deep poverty, or an adequate standard promoting social integration for all. Notwithstanding the limitations of using labels, this paper will also start by characterising the 'transition' countries with the help of former labels, and will turn to some of the 'real' questions later.

The understanding of current welfare structures may be helped by some reference to their immediate past. Interestingly enough, the social policy of the 'second world' attracted hardly any interest in the West while the former political regimes were in place. Within the countries themselves the political and ideological climate was not conducive for a very long time to any critical analysis of national social policies.

When the discourse of welfare regimes first emerged in the early 1990s, some authors characterised the former system as relatively close to a social democratic model. Deacon (1992) described it as a 'state bureaucratic collectivist system', while in Götting's view it was 'state-paternalistic' (Götting 1998:84). My own approach in those early days was less clear-cut. I thought that the understanding of the past and the future may be best served by acknowledging the lack of uniformity between the countries, and the mixed character of 'state socialist' social policy within each of them.

> (D)espite formal similarities, the liberal and emancipating dimensions of the Scandinavian model were entirely absent from the state-socialist model of welfare. It had even less in common with the other regime types in Europe. If one wants to label it, it could be described as an anti-liberal, statist, hierarchical, socialist mix, with conservative elements thrown in (Ferge 1992:207).

In the early years of the transition it seemed as if the liberated countries could choose a future for themselves depending also on their pre-socialist and socialist past. Deacon could muse that

> Czechoslovakia is the best bet for a type of social democratic welfare regime, and Hungary is set to develop liberal welfare policies... In Bulgaria, Albania and Serbia … more of the old regime looks likely to remain in place... A new type of post-communist conservative corporatism might emerge here with the old state continuing to play a major role… A Latin-American authoritarian populism may be the only solution in Poland and elsewhere…(Deacon et al*.,* 1992: 12-13)

At that time I thought that the welfare regime of the coming years would consist of a minimal safety net – along with corporatist, private, and semi-private solutions, some kind of mixture of conservative and liberal elements (Ferge 1992: 220). In a later book (1997) Deacon distinguished in the region

> … the existing welfare model of Bismarckian conservative corporatism and the new post-communist conservatism, which is always in danger of giving way to welfare collapse. A new social liberalism (liberalism with safety nets) is also evident' (Deacon 1997:52)

These assessments are all fragile because all the countries are continuously in flux. Lelkes (1999) takes this into account when she concludes that the Hungarian welfare state is rather 'faceless' at the moment. Yet she adds that it 'may still be closest to the social-democratic regime type (of Esping-Andersen) due to its inherited structures'.

Ten years after the regime-change, one can talk hypothetically at least about four trends in the welfare politics of the region. The dominant one is a practically ubiquitous *neo-liberal* tendency that seems to be dictated by concerns allegedly related to the globalisation process. Its hallmarks are the will to deregulate all markets, the labour market included; the drive to lower direct and indirect labour costs; and the privatisation and marketization of former public goods and services resulting in a smaller state. These endeavours are underpinned by a forceful rhetoric about the need to end 'state paternalism', and to strengthen self-reliance and self-provisions. Neo-liberalism is often combined with a more country-specific and government-specific *conservative trend,* with the Church, the family, and the nation as central values. The corollaries include the revival of nationalism (with fatal consequences); hidden or open ethnic prejudices; the emphasis on protecting 'healthy' families and on boosting fertility, occasionally by banning abortion; and some privileges assured for the middle and upper strata. The *third* tendency may be termed *path-dependency*. Some of the former schemes represent state commitments hard to remodel fundamentally in one stroke in a legitimate way. Therefore a genuine residual, neo-liberal model is unlikely to appear quickly even if the neo-liberal rhetoric is here and there extremely strong. The *fourth* trend is the most tragic one. It is related to a *near-collapse of the state*. If the state is losing its power of taxation (income-centralisation), then most public expenditure, welfare outlays included, will undoubtedly evaporate. On the basis of available data on budget revenues this seems to be the case in Russia, Albania, and some of the countries of the former Soviet Union (FSU countries), Armenia for instance. The IMF statistics show that in Russia the government revenues dropped to about 10 per cent of the GDP from the mid-nineties on contrasting with 30 to 50 per cent in most other European countries (World Bank 1999:286-288, IMF 1998.). Public social expenditures, which are between 20 and 30 percent all over Europe dropped in Russia to 7,7 percent in 1995 (Deacon 1999).

The countries close to become '*ill-fare states'* are apparently losing the potential to become in the foreseable future modern welfare states. This may be due partly to the collapse of a repressive and ineffective system. Yet, some ask now the question whether state collapse was an inevitable outcome of the transition in those countries (Holmes 1997). It is possible that the supranational monetarist agencies were too relentlessly promoting the recipes of the 'Washington consensus'. This consensus defined an economic policy agreed upon 'in the 1980s by US economic officials, the International Monetary Fund, and the World Bank. It emphasised liberalized trade, macro-economic stability, and getting prices right. Once the government got out of the way, private markets would produce growth' (Stiglitz 1998). This policy was uniform but its impact was not. Because of the specific history of the Soviet Union (and some other countries of the region) it was particularly ill adapted to them so that, I would suggest, it probably precipitated the collapse of the state. (The examples of China and, perhaps, Vietnam suggest that there may be alternatives to the rigid adaptation of the monetarist recipes.)

Out of the other countries of the region some have hardly started on the road towards the market and political democracy and try to stick to the former welfare system (Belarus is an example). Among the countries of CEE the post-Klaus Czech social democratic government and perhaps some Baltic state close to Scandinavia seem to look for a compromise between the pressures of globalisation and the concern with the 'public good'. Others are open to the neo-liberal reforms promoted by the Washington consensus, albeit the speed of the reforms may be slowed down by the 'inertia' of former arrangements. Hungary has become a curious mix of policies that bear the marks of three successive governments. The first tried to change nothing. The second introduced a type of neo-liberal shock therapy. The third, without giving up neo-liberal endeavours, uses social policy for the most conservative purposes.

One has to conclude that there is no unique label to describe these countries, and none of the relatively clear-cut ideal-typical labels applies to them. They differ from each other, and they are all changing constantly, influenced by home and foreign social forces. Most of them seem to share just one feature: the *absence* of a project for a welfare system which would significantly mitigate the costs of the transition on the short run, and would promote the emancipatory dimension of social policy as well as the formation of an integrated society on the longer run.

The agenda and ideology of the welfare reforms

At the time of the collapse of the former system the citizens expected that the new regime will produce a combination of a market economy, a free society, and much improved social security. The political programs and the politicians seemed to answer this expectation by the promise of a 'social market economy'. (Vaclav Klaus was the noted exception by committing himself to a market economy 'without adjectives'.) The meaning of the 'social market economy' was never made clear and the slogan slowly disappeared.

In the early years of the transition 'reforms in social programs and services were minor parts of the adjustment agenda' (Nelson 1998:7). Inasmuch as the diagnosis is true, it should not be explained mainly – as is often done – by the vested interests of former bureaucracies or 'stake-holders', and by institutional inertia. Many social policy arrangements of the former system were – formally at least – similar to the western models so that their reform looked less urgent than that of politics or the economy. More importantly in contrast to the other subsystems they had relatively strong legitimacy. (For instance even the World Bank realised when criticising Hungary for the postponement of public finance reforms that the government was slow because it hesitated 'to implement *unpopular* measures'.) Indeed despite grave economic difficulties no democratically elected government which came to power directly after the regime change dared to increase the burden of the transition by a radical cutback of social benefits.

Meanwhile fundamental reforms may have been absent but lots of smaller-scales reform steps were taken. They may have been ad hoc reforms, incremental changes, or efforts to manage imminent crises without a coherent reform pattern.

After a decade it appears, though, that in most countries the sum of the reform steps amount to - knowingly or not and with due variation between the countries - the 'reform agenda' formulated by the IMF and World Bank.

Both monetarist agencies saw as a first priority privatisation and liberalisation in the economy. They were both concerned, though, with some social issues, too (World Bank 1991, IMF 1990). The IMF and particularly the World Bank were advocating the rapid introduction of provisions for the unemployed whose number was increasing. The World Bank was also strongly recommending in its reports then as well as later the regular indexation of benefits, a correct system of social assistance, and in the early days (1991) it also looked for ways to assure that 'no household are put at risk of poverty and undue hardship' (1991:iv). This concern did not return later.

The recommendations about a benefit system for the unemployed were implemented in most countries. (In some countries the creation of the necessary institutions preceded the outside advice.) The handling of poverty remained extremely defective though with the exception of the Czech Republic (OECD 1998). The reason was not only the lack of resources. There seems to persist in these countries a deep-lying aversion against assistance firmly based on rights instead of discretion together with strong prejudices against the 'undeserving poor'. It has to be added that the recommendations for a European-style assistance or for the *prevention of poverty never figured among the loan conditions*. Their neglect was never considered therefore a serious failure inviting sanction.

The early documents of the supranational agencies outline also a broader reform framework. The most important elements may be divided into short-term and medium term priorities. On the short run the emphasis was on saving. It was recommended to keep labour costs low, ('the total cost of labour should be distinctly lower if Hungary is to compete effectively with other middle-income countries' (1991:iii)); to make short-term economies by reducing the number on disability pension, by introducing user's fees, or by shifting the first 30 days of sick-pay to the employer instead of the health fund. (The IMF suggested 6 weeks – IMF 1990:9). A more far-reaching measure was the rapid withdrawal of price subsidies without compensation. According to the terms of the first Hungarian Structural Adjustment Loan (SAL1) signed in 1990 'Consumer and housing subsidies will be reduced from about 8,2 of GDP in 1989 to no more than 6 percent of GDP in 1990, 5 percent in 1991 and 3,5 percent of GDP by 1992.' According to the UNICEF (1997:138) the ratio of consumer price subsidies went down between 1989 and 1993 in Hungary from 7 to 1,5 percent and in Poland from 8,2 to 0,7 percent.

The medium or long term overall priorities in the social sphere consisted of the withdrawal of the state, and the improvement of efficiency by the privatisation and marketization of the services. These steps were to be completed by the reduction of the coverage and standards of all social benefits except social assistance, that is a well-targeted safety net for the poor. According to the Hungarian loan agreement of SAL1 signed in 1990: 'The development of a market economy is not possible without a significant reduction in the role of the state budget in redistributing resources within the economy through taxes and subsidies.' In a report about Hungary published in 1994 it was stated that:

> Social cash transfers in a market economy need to have the right incentive structure to encourage individuals to work, save, pay taxes, take risks, and fend for themselves as much as possible, turning to the sate only as a last resort. This underlying philosophy differs from the past where the state was an integral part of the income security of the family (World Bank 1994a: 4).

The 1996 World Development Report prescribed the 'minimal state' not for one country but in a general way:

> State intervention is justified only where market fails - in such areas as defence, primary education, rural roads, and some special insurance - and then only to the extent it improves upon the market. (World Bank 1996:110).

The Post-Washington consensus seemed to offer a radical alternative to the 'Washington Consensus' by redefining the role of the nation-state and of civil society. The post-Washington Consensus

> ... must be owned by the developing countries… it cannot be based on Washington... [The new consensus means that] we also have broader goals: ensuring that development is environmentally sustainable, equitable, and democratic... Investing in education to build human capital is an example of a policy, which promotes the achievement of all these broad goals (Stiglitz 1998).

The rhetoric about empowerment and participation as well as about the independence and the growing functions of the nation-states is really new and welcome. They are substantiated by such democratising initiatives of the Bank as its Speakers' corner on the Web. Yet there are some catches. The increased participation of the citizens cannot well be assessed. Also the citizens may have a public voice without having institutional means to control the impact of their voice. Moreover the redefinition of the role of the state seems to be more apparent than real. The details of the new outlook reveal that the building in human capital is restricted to financing primary education and to some preventive health measures excluding all curative care (World Bank 1997). All in all, the concrete and measurable targets of social policy are not radically different in the new and in the old agenda.

A recent World Bank document on the Internet (ECA 1999) reconfirms this allegation. Despite recognising that there may be several reform agendas in the social protection field, it declares that 'they have two shared aims'. First, they have to empower the population to make informed choices about the handling of social risks. Second, they have to operate in *'a common fiscal context of sharply reduced real public expenditures'.* The common objectives may be reached by common instruments on the reform agenda. These include a 'fundamental systemic pension reform, mainly through the introduction of mandatory and voluntary funded pension schemes'; 'moving social assistance from universal coverage to more targeted protection'; 'promoting more efficient labour markets including less rigid wage determination processes…' as well as the strengthening of the safety net and community participation.

The similarity of aims and means allows for a common yardstick in the measurement of the progress of the reforms. The four dimensions of the overall assessment are 'liberalization, property rights and private ownership, institutions, and social policies' (World Bank 1996:13). Each dimension is portrayed by several indicators compounded in one index. 'The social policy index measures progress in pension reform, reduction of subsidies, streamlining and targeting of income transfers, and divestiture of social assets' (idem:17). The social assets may refer to the social infrastructure of firms like workers' hostels or holiday homes, but also to state-owned large public utilities (infrastructure, energy, water), or even the collectively owned funds of public social insurance. Based on such measurements the World Bank distinguishes four groups of countries. The group most 'advanced' in terms of these reforms comprises Poland, Slovenia, Hungary, Croatia, FYR Macedonia, Czech Republic, and Slovakia – by and large Central-Eastern Europe.

The dimensions of empowerment and democratisation have not yet been included in the measurement of progress. 'Extensive progress' or 'substantial reform' do not take into account the social outcome of the reforms such as the failure of the original aim to assure that 'no household are put at risk of poverty and undue hardship'. Also, some traditional components of social policy never crop up in any of the IMF or World Bank documents consulted.

Social integration, social exclusion, the containment or reduction of income inequalities, labour rights, a living wage and such like do not form part of the reform agendas. These are more characteristic of the ILO's outlook. However, the ILO – despite its long presence in the region – had only a very sporadic and weak impact after the transition. The efforts of the OECD (often wavering between the 'European' and the 'monetarist' outlook) were similarly weak (Deacon 1997).

The assessment of the complex impact of the above agendas on Central-Eastern and Eastern Europe is an empirical question not easy to answer. Things are in flux, data are controversial, and value-loaded preconceptions will colour the answers. Even if one may show that one of the agendas had an impact on the region a *caveat* has to be born in mind. The region has become politically free. *No outside agency could force any reform on the countries without the co-operation and agreement of inside political actors, more precisely of the governments*. Thus the responsibility for any decision ultimately stays with the governments.

The welfare reforms

(An overview) One of the basic aims of the transition was to change fundamentally the role of the state and of the market among others also in social policy. This aim was quite closely observed.

The *state* as owner, as financing agent, and as service provider is withdrawing from the welfare sector - sometimes slowly and sometimes more rapidly. There are positive aspects of this withdrawal, such as the abolition of top-heavy monopolies; the pluralisation of service providers; an increase in freedom of choice; and most importantly administrative decentralisation. Meanwhile the unreflected nature of the change is disquieting. The future role of the state has never been thought through. This results in erratic, inconsistent and frequently arbitrary state policies. The lack of accountability and transparency of public administration breeds corruption all over the region. A further difficulty is the ongoing ambiguous situation of local authorities in practically all the countries. Their new independence is mobilising local resources, and this often produces local renewal. However their power and responsibility was enlarged without adequate funds, administrative capacity, or professional know-how to fulfil their role.

One indicator of state retrenchment is the changing role of redistribution through the state. The data of the OECD on social and total state expenditures of western countries (some presented elsewhere in this volume, see Daly) do not point to dramatic changes. The ratio of social expenditures within the GDP remained by and large stable. It decreased with the biggest spenders (e.g. the Netherlands), and increased in case of some former laggards (e.g. Greece) producing some convergence. Since the GDP increased everywhere almost continuously in the West, even decreasing ratios do not necessarily mean decreasing expenses in real terms.

The situation is very different in the transition countries. Significantly decreasing ratios are more frequent than expanding ones. Even when the ratios are increasing, the expenditure in real terms is usually declining because of the huge drops in the GDP (see Table 1 and 2.). Meanwhile the per capita GDP in Central Eastern Europe is about five to eight times lower than in Western Europe so that similar percentages mean significantly lower provisions.

Insert Table 1 about here -- SEE TABLES BELOW
Insert Table 2 about here

Detailed data on social expenditure were available only for Hungary. Table 3a shows the continuous decrease in the real value of expenditures even when the ratio within the GDP increased. Table 3b presents some details. Unemployment benefits and social assistance are the only items that increased in real terms albeit their overall weight is still rather low. The real value of all the other benefits and services declined. Price and housing subsidies, sick pay and family benefits lost most, but health and education also fare badly. On the face of it pensions did not deteriorate too much. Yet the number of pensioners increased so much (because of disability pensions and early retirement) that the real value of *individual* pensions declined by about 30 per cent – more than the real wages.

Insert Table 3 about here

The *pluralisation* of welfare made important headway. The rebirth of 'civil society', of voluntary and NGO sectors is a major gain. The new opportunity is widely used everywhere. In Hungary in 1997, there existed 48000 foundations and associations, and almost one fourth of them were active in the social sector. The third sector makes an important contribution in completing the statutory services, and in introducing flexible and innovative welfare practices. Difficulties arise when the state expects the third sector to *replace* it, but it does not assure the necessary *funds* and/or professional standards.

One of the consequences of state retrenchment and a poorly funded third sector is the serious and harmful overburdening of families, particularly women. The problem is compounded by the conservative and natalist (nationalist) stream to be found in many countries. The socially accepted dual role of women as workers and mothers was often criticised in the old days as 'gendered citizenship' created by a patriarchal state. There is by now a shift to a new model in which the most legitimate female roles are that of the mother and housewife (Funk-Mueller 1993, Moghadam 1996).

The void created by state retrenchment and a weak third sector is meant to be filled by the market. The revival of the market is an obvious gain. The question is its proper domain. As in case of the state, this issue was never reflected upon – 'spontaneity', or the free play of interests led the changes. At present privatisation and marketisation invade fields in which economic efficiency was for long a secondary consideration to social equity or the 'public interests'. More or less important inroads are made in health and education by the market. The privatisation of social insurance (pensions, sick pay, unemployment) has started as well as that of all public services. The role of the market has become almost exclusive in housing. No doubt similar trends may be observed in Western Europe. However (with the exception of the Netherlands) they seem to be less rapid; more attention is paid to the failures of the market; and the neoliberal trends seem to encounter more resistance than in the eastern parts of the continent.

(Some details) Universal benefits (price subsidies, the health service, family benefits) were curtailed all over the region. They may have been simply withdrawn, or transformed into public or private insurance, or into means-tested benefits. A further – less conspicuous – strategy was to let the value of the benefits erode. The consequences of all of these changes are – to say the least - controversial. Child care services are shrinking or their cost increasing (UNICEF 1997). The withdrawal of universal subsidies combined with the privatisation of all public works (public transport, energy, water, sewage, garbage

collection) are leading to the exclusion from the market of large segments of the population, or to the accumulation of debts, which could lead not only to cuts in energy or water provision, but also to eviction. One of the consequences is a marked increase in child poverty. These changes are illustrated by the data relating to family benefits. Means-testing and erosion has reduced their value significantly, in some cases leaving them only a symbolic relevance (Table 4).

Insert Table 4 here

Throughout the countries of Central Eastern Europe *social insurance* schemes are undergoing various alterations. The reforms have political, social and economic implications. From a *political perspective* it has to be noted that albeit 'empowerment' and 'community participation' form now part of the World Bank discourse, the democratic control of the public insurance schemes has never become an issue. Hungary was (as far as I know) the only country where the tradition of elected independent boards was revived in 1992. However, the conservative government elected in 1998 abolished this 'corporative' institution, and simply included the pension fund in the budget, following the practice of 'state socialism'. Vaclav Klaus did not allow at all the creation of the independent boards (Rys 1995). The civil or participatory control over public funds is, therefore, missing leaving ample room for illiberal practices in the reforms of the public insurance scheme.

Economic-wise the greatest concern was sustainability. While the concern was fully justified, the measures taken were to say the least haphazard, and they are creating undue hardship for many. The *standards* of most benefits (pensions, sick pay, health services, and unemployment insurance) have been continuously lowered in all the countries, and the conditions *of access* or eligibility have been toughened. The public health funds operating now mostly as public insurance schemes severely limit the services they pay for. Many types of prevention, screening, and medical interventions, dentistry, and a long list of pharmaceuticals have been excluded from public funding. The competitive health funds in the Czech Republic do not seem to function in a satisfactory way.

The privatisation of the pension system is the most advanced. The influence of the World Bank is the most visible in this case. The 'new pension orthodoxy' (Müller and al. 1999) was introduced by the Bank in the region around 1992 and was pushed relentlessly ever since. The original proposal was the three-or four-pillar scheme of the World Bank (1994b). It consists of a remodelled 'first', public, PAYG pillar, with higher age limits (a justifiable move) and lower and flatter benefits. The 'second' pillar is the mandatory privately funded pension, no more and no less than a compulsory individual money-saving scheme. The third pillar consists of voluntary funds accompanied usually by substantial tax incentives. The fourth pillar, or rather a 'zero' pillar, is a means-tested assistance scheme for those who do not accumulate enough pension rights. Some variant of the multi-pillar model is the most widespread but *Kazakhstan* – despite its underdeveloped banking sector – adopted the Chilean system completely privatising the public scheme. The changing pension legislation is shown in Table 5. The Bank is continuing its efforts: Estonia seems to be the next to join the 'mainstream'.

Insert Table 5 about here

The alleged advantage of the private schemes is increased saving benefiting the economy; the development of the private banking sector; and the gains of the future pensioners who are promised safer and higher benefits. All these advantages are strongly questioned by an increasing number of experts (Müller et al.1999, Barr 1999). The Chilean experiences also suggest that the private pillar is sure to increase inequality among the pensioners, and particularly female poverty. The first negative consequence in the transition countries is that the contributions accruing now to the funded pillar are sorely missing from the public PAYG pillar. This leads to the increase of state debts, and the decrease of existing pensions.

The new uncertainties surrounding the public schemes in health and pension and their worsening standards undermine the legitimacy of public insurance schemes. They stimulate the better off to opt out from the public schemes altogether. The private insurers – most of them international or foreign firms – are extremely active in attracting the potential clients.

Means-tested social assistance - 'targeting the truly needy' - is rapidly gaining ground everywhere. It can be used either to replace part of the universal or insurance-based benefits, or as a new instrument to deal with new needs such as long-term unemployment or the inordinate and disproportionate escalation of housing or medical costs. The rapid increase in the numbers of people claiming regular or occasional assistance as well as their varying ratios is portrayed in Table 6.

Insert Table 6 about here

Few countries have adopted the 'good' (European) practices of social assistance despite the efforts of local experts since before the transition, and the recommendations of the IMF (1990), the World Bank (World Bank 1991), or the OECD (1995) from the early years of the transition. With very few exceptions (probably the Czech Republic is the only one) there is no attempt to define an adequate subsistence minimum. This objective seems to have been deliberately ignored largely because the statutory minimum wage or the minimum pension are usually below the subsistence minimum. If a poverty line approaching the subsistence minimum were adopted it would be seen as a strong disincentive to work. For the same reason, the right to assistance is usually weak. In most countries local discretion, combined sometimes with humiliating practices like home visits plays a significant role. The levels of assistance are inadequate not only in Russia or the poor countries on the Balkan but also in Hungary or Slovakia. The sums are so low that they do not represent any real help. In Poland the rules of eligibility are so strict as to leave out the majority of the poor (Barr 1999). However, one must acknowledge that local authorities face a very difficult task when administering social assistance. The central state has downloaded benefit responsibilities to them without adequate resources, and allowed them a large margin of freedom in bending the law when they adopt the rules of assistance to the local conditions.

The expansion of social assistance results (as in the West) in the increasingly vigorous attack on the able-bodied poor. The ideology that they should not get ‘something for nothing’ but should reciprocate at least by taking up low-paid compulsory public work is increasingly popular. The difficulties involved are almost insurmountable. There is never enough public money for the public works. Even when the public work is paid for the wages are so low that they produce large numbers of working poor. The attack on the able-bodied poor is disproportionately harming ethnic minorities, particularly the Romas (Gypsies) in the Czech Republic, Hungary, Romania, and Slovakia.

Despite the expansion of social assistance poverty and social exclusion are seldom on the political agenda. Many governments are unwilling to face what seems to be an intractable problem. Also, in the context of the new globalising ideology, poverty is no longer seen as a scandal. The lack of concern is, to some extent, portrayed in Table 7. Most countries have signed the Copenhagen commitment in 1995 to eradicate or at least to reduce poverty. Yet, most of them neglected this commitment and did not work out or implement the necessary measures. The majority did not even reflect on possible steps - only Moldavia, one of the countries facing the greatest difficulties seems to have a fully-fledged ‘plan’. The politics of the Hungarian government elected in 1998 openly favours the middle-and upper strata. Its measures may neglect poverty alleviation, or may even increase the burden of the poor (for instance by new discriminatory assistance schemes.)

In sum: as a consequence of economic scarcity, bad administrative practices and occasionally an anti-poor atmosphere poverty, including deep poverty is only very partially alleviated in the transition countries.

Insert Table 7 about here

It is time to attempt to draw at least preliminary conclusions. A debate has unfolded in the last years about the present and the possible future of the transition countries. In a recent paper Deacon (1999) expresses doubts about the dominance of the neoliberal model. He reiterates that most of the 'eastern' part of the region tries to conserve the old benefit schemes even at the price of facing collapse. The CEE countries and some others are meanwhile 'developing into one or another variant of a West European Welfare state combining a mix of Bismarckian style insurance and Scandinavian style state financing' (p.40). Yet he perceives a tension 'between the aspiration towards a European-style social-market economy (or conservative corporatism) and a budget-induced and IMF-World Bank backed residualism' within the 'reforming' countries (p.45). He also thinks – not without reservations - that more recently 'the influence of the Bank is countermanded for those countries who are candidates to join the Union by the Social Democratic and Christian Democratic ideals within the EU' (idem:48).

I wish he were right in his last assessment. I don't think he is. The evidence does not support that 'there was remarkable continuity and stability in the provision of state social-security, health and education services although in some countries some private provision was appearing on the margins' (idem: 45). The stability is, at best, apparent. The standards deteriorated practically everywhere at least in line with the economic downturn. There are no mechanisms in place and (as far as I see) no political will to bring them close at least to the former low levels once the economy recovers. Deacon sees the *structural changes* - privatisation, marketization, weaker social insurance and the attraction of the safety-net –as marginal. In my reading they are not. Rather, they signal a trend rooted in increasing income and wealth inequalities as well as in the global pressure on reducing both payroll and income taxes. Inequalities are likely to widen further in the absence of political will and politically acceptable means to contain them. As a consequence I assume that the structural changes will become ever more pronounced. They will almost inevitably lead to (already emerging) two-tier systems in most fields, from income maintenance to health and education.

There may remain formal similarities with Bismarckian insurance and Swedish public financing. However the essence of the European model – an attempt to control inequalities, to pay increasing attention to ethnic and gender issues, to strengthen social rights so as to assure the emancipatory potential of the welfare system, to underpin social rights by labour rights, to put social integration on the agenda – is almost totally absent. In addition the European Union is not particularly keen in enforcing the 'European model'.

The interests behind the neoliberal agenda inasmuch as it was implemented are manifold. The new propertied strata, the managers of the private sector and foreign capital had relatively high stakes. The interests of international capital should not be forgotten if the links with the process of (economic) globalisation is to be highlighted. These interests seldom become visible. It may therefore be interesting to note incidences when they are. Thus it was considered a major achievement by the Bank that the deadlock preventing for long the privatisation of large public utilities in Hungary was overcome with the help and advice of the Bank.

> (B)y early 1996 … only one third of initial State equity remained to be privatized, and *foreign private participation in utility companies and the banking sector exceeded 40% and 50 percent of capital respectively* (Implementation ...1996:i).

It seems to me that the hypothesis at the beginning of this paper about the four trends of welfare politics may be considered to be substantiated. The dominant one is residualisation. It has not yet fully unfolded. But one may paraphrase Esping-Andersen. He concluded in 1996 after having reviewed the existing trends that in the West 'the cards are very much stacked in favour of the welfare state status quo' (Esping-Andersen 1996:267). I would venture to say that in the East of Europe the cards are very much stacked in favour of a neoliberal, residualist solution.

The reception of the 'globalising' forces in the East and the West of Europe

There seems to be indeed a significantly higher degree of compliance with the new ideology in the transition countries than in most developed democracies of Western Europe. The more assertive neoliberal ideological style as well as weaker home resistance have many causes. Let me mention some of them.

(i) The *transition countries are mostly poor*. They all belonged to the middle-income countries with an average per capita GDP of around USD 4000 in the mid-nineties as against USD 23000 of the high-income countries. Their economic situation deteriorated further with the transformation crisis. Only the CEE countries are recovering from it after a decade – but they are still among the middle-income countries (see Table 2). State revenues have dwindled more rapidly than output. The willingness to pay taxes and contributions is caught in a vicious spiral with deteriorating services and also because the relationship between the government and the citizens is not based on mutual trust.

(ii) Cutbacks in state spending on the short run are an economic must. This does not fully explain, though, *why the welfare system had become the main target* of the cutbacks, and why *the cuts are implemented in a way as to affect the long-term commitment* in all matters of public well-being.

One tentative explanation is that the governments yield more easily than elsewhere to the globalising pressures. They desperately need the 'goodwill' of foreign capital and supranational agencies. The countries heavily in debt are particularly vulnerable because of this 'need'. The political leaders especially when they have a 'socialist' past have also a strong political will to prove that they have made a clean break with the 'tainted' political past of the country. In short, the *cutbacks have political and ideological reasons over and above the most emphasised economic ones.*

(iii) There may be also structural reasons. The totalitarian systems (even in their later, less dictatorial period) had a *stifled social structure*. The ideological and political system prevented the realisation of capitalist inclinations (competitiveness, search for ownership and for profit-making activities). These inclinations existed, though, and emerge now in an amazingly uninhibited way. Increasing wealth and income inequalities are seen not only as 'natural' in a capitalist economy or salutary for incentive purposes. They are also seen as a justified 'correction' of former politically enforced 'egalitarianism', or rather, of the *ban on private ownership*. The new 'upper class' shares the interests and ideologies that are attacking the public responsibility for social welfare.

(iv) One of the fundamental reasons might be that the practices of socialist dictatorships *delegitimated* or corrupted *the values underpinning social policy more* than in the Western liberal democracies. In most former 'socialist' countries it is almost impossible to support traditional social democratic ideals: one is immediately suspected of nostalgia for a statist, communist or paternalistic past.

Responsible (even socialist) politicians argue against the 'bogus enforced solidarity' embodied for instance in the big systems of pension or health that 'has already become a major obstacle of economic growth' (Békesi 1996). Others simply redefine the old terms to fit they purpose if they realise that citizens still value them. Thus the economist János Kornai defined two 'ethical principles' governing his social reform recommendations. One of them is autonomy interpreted as freedom of choice. The other one is solidarity interpreted only as charity. 'The solidarity principle suggests that apart from individual and collective charitable work, communities should help the suffering, the troubled, and disadvantaged through a system of state redistribution… Implementation of solidarity requires only *targeted* state assistance, not universal entitlements…' (Kornai 1997, 277).

The function of this new discourse is to present the neo-liberal agenda as belonging to the European tradition and to assure thereby public acceptance for it. A series of public opinion surveys show indeed that the majority of CEE citizens are very much in favour of the fully-fledged 'European model' and would like to see not only a regulatory and disciplinary, but also a citizen-friendly, public-good minded state (Svallfors and Taylor-Gooby, 1999).

(v) Civil society as a political force is still weak. One of the most important and most positive results of the change of the system is the advent of political democracy, and the (re-) emergence of civil society. However, the servicing function of the third sector is more prevalent than its political or 'voice' function. It will take some time until civil society becomes strong enough to be able to defend itself and the rights, social rights included, it considers essential. Also, most new democracies are still '*illiberal democracies'* (Zakaria 1997), that is 'political regimes, in which *democratically elected governments are routinely ignoring the constitutional limits on their powers'* (Rüb 1999). To use Ulrich Beck's expression, once in power, the politicians are 'virtually immune' to the will and voice of the electorate (Beck 1996:184). Thus civil society should first bring pressure on the government to let it freely develop its 'voice potential', and then should press for a better social policy. It is not up to this dual task yet.

(vi) The enlargement of the European Union may indeed awake some hope (as with Deacon) for the improvement of the social policy of the CEE countries. The conditions of access relating to public or state responsibility for public well being are, however, not very stringent. At present, the Union requires as membership condition legal dispositions in the labour and social field concerning the equal treatment of men and women, and the endorsement of certain health and safety standards. The various programs of the Union (including

Phare, CONSENSUS, etc.) were never well used to promote the European social model (Deacon 1997, 1999). The unconcern of the Union and the absence of public discourse relating to the European integration in CEE contribute to relegate social policy issues to the background. *The consequence may be that the countries that would like to join the Union* may destroy institutions, which can ultimately become conditions of admittance. I do not know about any instance when this dilemma would have been pointed out by responsible agents of the Union to those aspiring to admittance.

To sum up: The balance sheet of the transition at present reflects only an interim situation - the story is still unfolding. After ten years, it seems that in the CEE countries with relative stability the political gains serve practically everybody, while the economic gains favour a minority. The negative aspects include the fragmentation of the integrative institutions; weak concern with welfare rights; the demolition of collective structures (of the 'social property', Castel 1995) that could counterbalance the weak position of the strata that have been left out of the privatisation drive; the massive increase of poverty, insecurity and inequality; and the withdrawal of the state from its civilising and welfare functions.

The region is, again, seen by many as a laboratory, but this time the laboratory serves for experiments in 'the individualising of the social'. The adjustments or alterations already implemented prove the feasibility of this project without major upheavals in the majority of the countries. Yet quiescence does not necessarily mean acceptance – resignation is more characteristic. There prevails indeed a shared feeling of powerlessness. A Czech sociologist expresses it nicely when he says: 'It is of course not very pleasant to be one of the white mice in such a laboratory' (Potucek 1999). I can only hope that this shared gloom will prove to be unjustified on the longer run.

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TABLES

Table 1.

Government revenue and expenditure in percentage of GDP

Various countries, 1991-1997

Central and Eastern European Countries		
	% of revenues	% of expenditures
Bulgaria		
1991	37	40
1993	33	45
1997	33	33
Croatia*		
1996*	46*	47*
Czech Rep		
1993	35	35
1996	31 (35*)	31 (36*)
1997	30	31
Estonia		
1991	24	22
1993	29	28
1996	34 (33*)	33(34*)
Hungary		
1991	51	55
1993	48	56
1996	42 (40*)	45 (43*)
Latvia		
1995	15	19
1996	31(30*)	32(31*)
1997	37	36
Poland		
1994	42	44
1997	39	41
Romania		
1991	36	34
1993	34	31
1996	28	31
Russia		
1995	14	17
1996	13 (19*)	20 (25*)
1997	12	17
Slovenia		
1993	43	42
1997	40	42

Table 1, continued

Data for comparative purposes:

Western European Countries		
	% of revenues	% of expenditures
Austria		
1991	35	39
1993	37	41
1996	36 (37*)	40 (42*)
Denmark		
1991	38	39
1995	39	41
France		
1991	41	44
1993	41	47
1996	42	47
Greece		
1991	23	37
1996	22	33
Netherlands		
1991	34	37
1993	35	38
1996	28(45*)	30 (48*)
1997	27	29
Portugal		
1991	34	42
1993	34	45
1996	34	42
Sweden		
1991	43	43
1993	39	51
(1996*)	35 (42*)	39 (46*)
1997	37	38

Source: IMF International Financial Statistics, December 1998. Own calculations.
Data in ( ) and marked by an *: World Bank 1999:234-236. The data are in the majority of cases identical, but
in some cases there are more or less significant discrepancies I am unable to explain. The World Bank presents data only for 1996.

Table 2.

Public expenditure on family and maternity benefits in CEE countries, 1989-1995

	1989	1995	GDP, 1989=100	In real terms, 1989=100
	In % of GDP			
BULGARIA				
Family Allowances	1,6	0,9	76,5	43
Maternity and child care	1,1	0,3		21
CZECH REPUBLIC				
Family Allowances	1,2	1,0	85,3	71
Maternity and child care	0,3(1990)	0,6		171
HUNGARY*				
Family and maternity	4,0	2,7	83,0	56
LATVIA				
Family and maternity	0,4	1,6	50,0	200
*ROMANIA***				
Family Allowances	2,9	0,7	82,2	20
Maternity and child care	0,3	..		..
SLOVAKIA				
Family Allowances	2,9	1,5 (1994)	86,9	45
Maternity and child care	1,0	0,9(1994)		78

Sources: UNICEF (1997): 95 ; * Budget data **Fajth 1996, Table 1
Only countries with available data for both years

Table 3
PENSION REFORMS IN THE TRANSITION COUNTRIES

	COMPREHENSIVE REFORM PROGRAM			SECOND (MANDATORY, PRIVATE, FUNDED) PILLAR INTRODUCTION			MAJOR FIRST (PUBLIC, PAYG) PILLAR REFORM			MAJOR THIRD (PRIVATE, VOLUNTARY) PILLAR INTRODUCTION		
Country	n prepa-ration	Approved	Legis-lated	In prepa-ration	Approved	Legis-lated	In prepa-ration	Approved	Legis-lated	In prepa-ration	Approved	Legis-lated
Hungary			X			X			X			X
Latvia		X			X				X	X		
Kazakhstan			X			X			X			
Poland		X				X		X				X
Croatia		X			X			X			X	
Romania	X			X			X			X		
FYR Mac.	X			X			X					
Russia	X			X			X				X	
Slovenia	X			X			X			X		
Bulgaria	X			X			X				X	
Cz. Rep.	X								X			X
Slovak Rep.								X			X	
Ukraine	X			X			X				X	
Armenia	X								X	X		
Georgia	X								X		X	
Lithuania	X								X		X	
Estonia									X			X
Albania									X	X		
Kyrgyz Rep.	X							X		X		
Uzbekistan	X						X			X		
Azerbaijan	X						X			X		
Moldova	X						X				X	
Belarus							X					
Bosnia & Herc							X			X		
Tajikistan							X					

Source: Rutkowski:19

Table 4

Reported number of regular and occasional social assistance
per 10.000 population
(Countries for which data are available)

	1989	1993	1995
REGULAR SOCIAL ASSISTANCE			
Bulgaria	915	1089	999
Czech Rep.	95	691	1041*
Hungary	116	355	623
Latvia	-	1572	2509
Poland	273	410	469 *
Slovakia	41	1026	930
Slovenia	41	155	179
OCCASIONAL SOCIAL ASSISTANCE			
Bulgaria	388	982	896 *
Czech Rep.	241	541	513 *
Hungary	793	2115	2382
Latvia	-	368	5567
Poland	262	738	770*
Slovakia	83	219	229*
Slovenia	203	80	237

*1994
Source: Unicef 1997:152

Table 5

Implementing World Summit for Social Development Commitment in Central-Eastern European countries (without FSU -CIS)

	POVERTY PLANNING			POVERTY ESTIMATE		POVERTY TARGETS	
	Explicit national poverty plan in place	Explicit national poverty plan under develop-ment	No plan, but poverty reduction in national planning	Extreme poverty estimate	Overall poverty estimate	Target for extreme poverty reduction	Target for overall poverty reduction
Albania			•	•	•		
Bulgaria			•	•			
Croatia	none						
Czech Rep.	none						
Estonia		•		•		+	+
Hungary	none						
Latvia		•			•		
Lithuania		•		•			
Moldova	•			•	•	•	•
Poland		•		•	•		
Romania		•		•	•	+	+
Slovakia	none						
Slovenia			•		•		

Source: UNDP 1998, Table 2.A.1

Legend:

- = in place

+ = under preparation

Table 6a

State expenditures on social welfare-social policy 1989-1996, Hungary only, in % of the GDP and in real value, 1989=100

	In % of GDP					**Items in real value**	
	1989	**1991**	**1993**	**1995**	**1996**	**1996/1989**	**1996/91**
Consumer price subsidies	2,6	1.8	0.6	0.6	0.7	23	40
Health care	5,7	5.3	5.1	4.3	4.5	69	87
Education	7,0	5.5	5.2	4.3	4.1	51	76
Housing subsidies	3,5	2.5	1.1	1.2	0.9	22	35
Unemployment	0,0	0.7	1.7	0.9	0.7	*	102
Pensions	9,1	11.5	11.4	10.4	9.9	95	88
Social assistance	0,3	0.6	1.0	0.9	0.8	232	136
Family support	4,0	4.6	4.1	2.7	2.2	48	49
Sick-pay	1,2	1.3	1.1	0.8	0.5	36	39
Total	*33,4*	*33.8*	*31.2*	*26.7*	*24.3*	*63*	*73*
I*n real value, 1996/1989	100	**86**	**77**	**68**	**63**		
1996/1991		**100**	**89**	**80**	**73**		

Source: Lelkes 1999, CSO Yearbooks, own computations