Characteristics of the Central European Welfare System

HORIBAYASHI Takumi*

Abstract

This article attempts to characterize the present Central European welfare systems, i. e. those of Poland, Hungary and the Czech Republic. After summarizing the main features of the communist social policy and welfare system, it traces the process of formation and transformation of welfare systems in these countries since the political change of 1989, examining several determinants of the emerging welfare system in the region. Finally, it defines the present Central European welfare system. The impact of international organizations on the region is also examined.

Key Words: welfare system, social policy Central Europe, economic transformation, World Bank

Introduction

There are different perspectives on the emerging social policy and welfare system in Central Europe. While some authors emphasize their inclinations to neoliberal residualism, others point to their similarities to the European model. There is also a view that stresses the still existing legacies of the communist era in the present Central European welfare system.

This paper attempts to characterize the present Central European welfare systems, i. e. those of three countries, Poland, Hungary and the Czech Republic. It also deals with an issue of globalization in a limited dimension: the impact of international organizations on the Central European welfare system.

This paper is divided into three parts. The first part summarizes the main features of the communist social policy and welfare system. The second part traces the process of formation and transformation of welfare systems in the three Central European countries since the political change of 1989, examining several determinants of the emerging welfare system in the region.

* Professor, Kanazawa University Faculty of Economics.

The third part (the conclusion of this paper) defines the present Central European welfare system. The issue of the impact of international organizations on the region is examined in the second and third parts.

I. Social policy and welfare system in the communist era

Until 1989 a similar social policy and welfare system existed in Central and Eastern Europe and the former USSR. To summarize Deacon's accurate view (Deacon, 2000), their basic features could be enumerated as follows.

- The welfare system was an inseparable part of a total, political and economic system which was controlled by monopolized power, i.e. the communist party-state, and had minimal market mechanism and political democracy. In return for political subjugation, people were provided by the party-state with highly subsidized food, housing, transportation and basic necessities, as well as free education and health care services (although patients actually had to pay a gratuity to doctors to receive good treatment).
- The communist regime (party-state) also guaranteed employment and an egalitarian wage system with hidden privileges of the power elite, i.e. nomenklatura. Thus, there existed a distribution according to job status as well as political status. Regarding the gender issue, females received favorable treatment such as a three-year child-care leave with partial wages (grants) and the right of resumption of their previous job, but the communist regime did not guarantee gender equality. Among other things, only females-not both genders-had the double burden of maintaining a paid job in the workplace and providing unpaid family care.
- Party-state monopolized decision making on the allocation of the national product and freely shifted resources between accumulation and consumption, and between individual consumption and socialized provisions such as pensions and health care. Universal social insurance funds for pension and health care were not separated from the state budget. The pension system guaranteed subsistence for the elderly; however it was eroded due to the lack of a suitable index-linking benefit system.
- Pensions and other benefits were related to a wage system in which some categories of workers (in particular, employees in the heavy industry sector) had privileges.
- Another feature of the communist welfare system was that state enterprises provided several cash and in-kind benefits and services to their employees, employees' families and retirees, such as several sorts of allowances, subsidized recreational facilities, vacations and day-care facilities. The trade union played a role in the provision of benefits and services.

Esping-Andersen simply summarizes the above features of the communist welfare system, "[T]he old communist regime was characterized by three basic pillars: full and quasi-obligatory employment; broad and universalistic social insurance; and a highly developed, typically company-based, system of services and fringe benefits" (Esping-Andersen, 1996: 9).

Concerning the definition of the communist welfare system, Deacon, Hulse and Stubbs call it "state bureaucratic collectivist regime," and take it to be "a particular product of the expropriation of capital and the paternalistic management of the state" (Deacon, Hulse and Stubbs, 1997: 42-3). At the same time, they suggest that the communist welfare system had, to some extent, common features with "the European conservative corporatist tradition" in which "the workplace and a contract between government and trade unions dominated the entitlement system" and "the benefits reflected acknowledged status differences between workers" (Deacon, Hulse and Stubbs, 1997: 91). Moreover, the communist welfare system, in our view, had common features with the social democratic regime too, because it brought a high degree of decommodification and female participation in the workforce (regarding the well-known classification of welfare regimes into liberal, conservative and social democratic, see Esping-Andersen, 1990: 1999).

The communist welfare system had its achievements and defects. With regard to the former, Ferge, a well-known Hungarian expert on social policy, indicates, "despite all its inhuman features and tragic failures, state socialism was not unqualified evil. Unlike its political or economic system, its social (societal) policy was not an artificial construct, forced in an inorganic way on the country... By developing, and assuring access on a mass scale to the health system, to education, and to stable incomes, it contributed to the eradication of practically feudal social distances, the very significant reduction of utmost poverty, and the development of human capital..." (Ferge, 1997a: 108). She, at the same time, refers to the defects of communist welfare system. "The main defect of social policy in these states [state socialism] was that it was permeated with the totalitarian logic of the former political system. To mention just a few corollaries, because the legal system was arbitrarily dominated by politics, (1) rights remained illusory; (2) social policy, like everything else, was ideologically loaded; and (3) all measures were developed without citizen's participation or control or any attempts of consensus building" (Ferge, 1997b: 301).

Kornai, the best-known Hungarian economist, criticizes the "premature welfare state" created in his country. He argues, "What I meant and still mean by premature welfare state is a country ahead of itself by comparison with its realistic economic potentials... The [Hungarian] welfare state has outgrown its desirable extent. It needs cutting back and reforming, and at the same time preserving to the extent that is desirable and needful... Underlining the principle of need means that the state should refrain if possible from giving money to those who are not in need." Kornai criticizes not only the "premature welfare state" but also the monopolistic welfare state. "The trouble with the welfare system developed in this country is that it has a monopoly. It used to be an exclusive state monopoly... I am convinced that monopolies are not a good thing, for several reasons. First they reduce efficiency... The individuals supplied by monopolies are at their mercy, without any freedom of choice" (Kornai, 1997: 95-96).

Although both scholars mainly describe the communist welfare system in Hungary, seemingly they present their own evaluations of the communist welfare system in general. In relation to those evaluations, some (mainly experts of social policy) proposed democratization of the welfare state, while others (mainly neoliberalism-oriented economists) insisted on a reduction of the welfare state in the transformation period following the collapse of communism.

Ⅱ. Changes of social policy and welfare system after 1989 in Central Europe

The characteristics of the communist social policy and welfare system that have been revealed above were also essentially valid for three Central European countries: Poland, Hungary and the Czech Republic.

Since 1989, several factors have influenced the formation and transformation of social policy and the welfare system in Central Europe. Among them, important determinants existed, as enumerated below:

- Social costs of transformation,
- Traditional European welfare system,
- Neoliberalism as the dominant orientation in the world before and after 1989,
- Advice and commitments of international organizations such as the World Bank and the International Labor Organization(ILO),
- Legacies of the communist era.

This part of the paper analyzes the social policy and welfare system in the Central Europe after 1989, examining these determinants.

a. Social cost of transformation and "emergent" social policy

The Central and East European countries have replaced the communist party-state system with a system governed by the rules of market and parliamentary democracy since 1989. Politics with freedom and democracy is, with varying degrees, now in operation across almost all the post-communist countries. In general, three Central European countries, Poland, Hungary and the Czech Republic are the top runners of democratization among the post-communist countries.

On the other hand, after heavy depression due to economic transformation ("transformational recession"), the countries have entered onto the path of growth, starting in 1992 in Poland, and in 1994 in Hungary and the Czech Republic. Economic growth has continued in

Poland and Hungary, although in Poland the GDP growth rate has been moderate since 2000. The Czech Republic, although having once overcome the transformational depression in 1994, experienced recession again from 1997 to 1999, but then resumed economic growth (KOPINT-DATORG, 2002).

It is important from the viewpoint of social policymaking that social (societal) costs of transformation, i. e. negative phenomenon due to the system change (Szamuely, 1996), have been heavy in all post-communist countries, including those of Central Europe, and they required "emergent" social policy in the region. The main social costs of transformation were represented in such phenomena as excessive mortality, mass unemployment, the increase in the economically inactive population, the rise in poverty, and the increase of income inequalities.

Life expectancy had already been declining since the 1960s in the USSR and across Central and Eastern Europe, mainly due to underfunding and inadequacy of the medical systems, and underdevelopment in the preventive approach to health care (Ellman, 1997). In addition to those defects, stress brought about by the drastic system change increased the high mortality and decline in life expectancy, particularly for males of working age, after the collapse of communism in the region.

While life expectancy at birth of males drastically fell in Russia from 64. 2 to 58. 2 years, it slightly fell also in Hungary from 65. 4 to 64. 8 years during the period of 1989-94. It fell slightly in Poland during the years 1990-92. In the Czech Republic, the same matter occurred, but only in 1990 (Szamuely, 1996).

The transformational depression caused unemployment in the post-communist countries and negated a basic component of the communist welfare system, i. e. full employment. In Poland, after the unemployment rate peaked in 1993 (16. 4%), it gradually declined until 1998 (10. 4%); however it has risen again to 18. 6% in 2001. During the years of transformational depression of 1990-93 in the Czech Republic, the unemployment rate was relatively low (3. 5%, 1993). But it rose significantly from 1997 and reached 9. 4% in 1999, although it slightly decreased to 8. 9% in 2001.

In Hungary, the unemployment rate registered 12. 1% in 1993, then it gradually declined to 5. 7% in 2001 (KOPINT-DATORG, 2002). However, the recovery of employment rate is slow in comparison with the decrease in unemployment. It means that there are many economically inactive people, more than 2 million, among the 6 million of working age in Hungary (Frey, 1998). The Roma ethnic minority, unskilled and less educated workers, and the inhabitants of undeveloped areas are over-represented among the unemployed, while the economically inactive population is mainly composed of students, early retired pensioners, and housewives withdrawn from the labor market and provided with child-care allowance in the country (Frey, 1998).

While the percentage of females in the total unemployment is higher than that of males in Poland and the Czech Republic, it is less than 50% in Hungary (ECE, 1996). However, the decline of the economically active population was more drastic among females than males after 1989 in Hungary. Thus, it could be said that the gender-gap (bias) in the labor sphere that already existed in the communist era (see above) has grown, to varying degrees, in the respective post-communist countries.

Poverty is not a new phenomenon in the region. It already existed under the communist regime. Sociologists dealt with the issue of poverty, for instance, in the Czech Republic and Hungary (Adam, 1999; Andorka, 1997). In Hungary, the dissidents set up SZETA, the Foundation to Support the Poor, to assist the poor in 1978 (Lomax, 1999). Andorka reveals that about 1 million Hungarians, i. e. 10% of the population, lived on a per capita household income lower than the subsistence minimum (a poverty line which is defined as the value, per capita household income, of a basket of certain goods and services needed by an average household in order to maintain a minimum standard of living) in the 1980s (Andorka, 1997).

The poor in communist Hungary were composed of unskilled workers, peasants, and inhabitants of villages and small towns. In addition to the old poor, the new poor appeared; both strata increased rapidly during the years of economic transformation in the 1990s. The proportion of the poor to the total population increased threefold by the middle of the 1990s in Hungary, if the subsistence minimum is applied as the poverty line. Even if another poverty line such as classifying as poor those with 50% of the average net income is used, the fact of increasing widespread poverty could not be denied. The new poor were families with three or more children, the unemployed and the economically inactive population (Andorka, 1997). The Roma ethnicity, whose majority fell into unemployment, also was over-represented among the poor after the economic transformation in the country.

Likewise, poverty spread rapidly in Poland and the Czech Republic during the years of system change. The proportion of the poor to total population is higher in Poland than in the other two countries (Adam, 1999).

As the system change, including marketization and privatization, was in motion in the post-communist countries, the social structure changed, as reflected in the growth of income differentials. In the case of Hungary, in 1988, the year preceding the system change, the income of the highest household decile was 5. 8 times higher than that of the lowest household decile, while in 1994-95 the former was 7 times higher than the latter (Kolosi and Sági, 1999).

Likewise in the Czech Republic, the income ratio between the lowest and highest household deciles increased from 2. 6 in 1988 to 3. 2 in 1996 (Potůček, 2001). According to a report by the World Bank, the income differential on the basis of Gini coefficient was widest in Poland in 1993 (World Bank, 1996).

Some researches suggest that quite a number of the new rich (or new elite) appeared from the old elite, at least in the first stage of system change, and the winners, in general, were persons with "cultural capital," the well-educated (Eyal, Szelényi and Townsley, 1997; Kolosi and Sági, 1999).

Unlike economic policy which was carried out on the basis of ex ante designed and, more or less, systematic programs-which were strongly influenced by Bretton Woods institutions inspiring neoliberalism-, social policy of the first stage of the system change had the character of "emergency responses" in the region (Cichon, ed. 1995). To put it another way, emergency measures were introduced to deal with the social costs of transformation such as mass unemployment, widespread poverty and deteriorating living standards.

All the countries in this region rapidly introduced unemployment benefits, social assistance benefits and pension provisions to fight rampant inflation.

In the three countries under discussion, decrees on employment were enacted and unemployment insurance was introduced in the beginning phase of the system change. The unemployment benefit plans were initially generous and wage related, but later became limited in terms of the replacement rate and length of entitlement because of budgetary pressure, as well as permeating neoliberalism in the region. For instance, the length of entitlement of benefits was reduced from two years to one year in Hungary. Likewise, in the Czech Republic unemployment benefits were paid for one year in 1991: 90% of earnings for the first six months and 60% of earning for the next six months in 1991. Later, the length of entitlement of benefits was reduced to six months, and in 1999 only 50% of earnings were paid for the first three months and 40% of earnings for the next three months (Potůček, 2001).

The Czech Republic, from the beginning stage of the system change, attached much importance to its active employment policy, including organizing professional training and requalification programs and supporting small-scale business. Thus the proportion of expenditure on the active employment policy to total expenditure on employment policy was more than two-thirds in 1994 in the Czech Republic, while in Poland, this proportion was only 12% on average in 1993-5(Adam, 1999). Such a difference in policy approach could be explained partly from the different unemployment rates in two countries in the early stage of the system change. At the same time, it could be speculated that the Czech Republic drew the lessons from the experiences of active employment policies in the advanced countries, for instance in Sweden.

The pension provision strategies were modified, mainly for improving the living standard of pensioners and for preventing an increase in unemployment in the early phase of the system change in Poland and Hungary. In Poland, automatic indexation of old-age benefits to wage increases was introduced in 1990, while in Hungary pensions were adjusted twice a year following wage levels as a result of parliamentary action in 1992 (Müller, 1999). Moreover, both countries applied generous eligibility conditions to old age and disability pensions in order to promote early retirement. Early retirement was considered to be an alternative to unemployment. But this measure had a side effect of increased system independency ratio due to the increase of the number of pensioners of working age and led to financial difficulties of the pension system in Poland and Hungary.

All three countries, in the early stage of the system change, enacted decrees regulating social assistance that were intended as a safety net for those who were no longer able to help themselves. Social assistance is a means-tested benefit for poor people. Ferge, analyzing the practice of social assistance in Central and Eastern Europe, argues; "There are also widespread shortages of funds at local level. Responsibility for some types of assistance may be shared with central authorities, but very often the locality is solely responsible... Since there are many competing claims for these funds, the locality may not be able to provide for all needy... [A]s many as 50 to 60 percent of the eligible poor are not receiving assistance..." (Ferge, 1997b: 305-6).

In Hungary, a new subsidy for parents, in addition to the existing family allowance and child care leave, was introduced in 1992. That was means-tested support, directed at families that had three or more children and lived below the poverty line. Although it was also a component of the social assistance system, at the same time it created disincentives for mothers to work outside the home (Goven, 2000). To sum up, the initial social policy after 1989 could be characterized to be an "emergent response" to the social costs of transformation.

b. Shift to a traditional European welfare system

According to a publication of ILO-CEET (the International Labor Organization, Central and Eastern European Team), the social security system in Central Europe by the mid-1990s had a character of emergent response to the outcomes of economic transformation, while it showed a shift to the three-tier social security system prevalent in Western Europe, which had existed in the region prior to 1950 (Cichon, ed., 1995).

The three-tier consists of social insurance plans, universal benefits and social assistance policies. Certainly, such a shift occurred, to varying degrees, in the region by the mid-1990s. Alongside the creation of the three-tier system, European-style tripartite institutions were also established. Thus, it could be said that, parallel with the emergent response, to some extent, the Europeanisation of social policy occurred in the region.

As for social insurance policies, Hungary was the most advanced example of a social insurance-based social security system in the region by the mid-1990s. In Hungary, the social insurance fund was separated from the state budget in 1989 and an employment insurance fund was introduced following the enactment of the Employment Act in 1991. After the legislation of a law which defined elected boards for pension and health care funds, the representatives of the employees were elected by vote in 1993. The board of the pension fund was composed of the representatives of contributors, the employer and the employee and also delegates of the retired. Ferge notes, "The establishment and election of the social security self-governments is one of the most important achievements" (Ferge, 1995: 156), although the right wing cabinet abolished self-governments of social insurance in 1998.

The Czech Republic (the then Czecho-slovakia) introduced a health care insurance system with competing insurance funds in 1991. There, besides one general insurance company, a number of NPO-style insurance funds was created on the basis of industry (sector), profession and firm. Although the main contributors are the employer and the employee, the government also pays contributions for the unemployed, the retired, women on maternity leave and children without support (Adam, 1999). Because the hospitals, except some small ones, have not been privatized, the government has financed their investment cost and medical education. Therefore, health care funding in the Czech Republic is a combination of the Bismarckian-style of insurance and Beveridgean-style of state funding. One problem that occurred by the mid-1990s in the country was the growth of expenditure on health care (its percentage of GDP rose from 5. 4 in 1991 to 8. 1 in 1995: see, OECD, 1996).

Poland also introduced a health care insurance system with a number of insurance funds. However, unlike the Czech Republic, the reform of the health care insurance system was delayed and not carried out until 1999. As for pension funding in Poland, although the pension fund was separated from the state budget in 1986, the state budget transferred the resources into the pension fund to balance its account in the 1990s. The same thing occurred in Hungary, too. Such financial situations and the strong presence of the World Bank in both countries (Poland and Hungary) caused the partial privatization of the pension system in the late 1990s (see below).

The shift to an insurance-based social security system in the region is considered to be a return to the Central European (or European) tradition as well as an easy way of institutional restructuring for ex-communist countries. Deacon notes "The logic of the post-Communist development was towards a conservative, corporatist kind of welfare policy. Workplace entitlement to welfare and existing workplace status differentials inherited from state-socialist days could be readily converted into insurance-based, wage related and differentiated benefit entitlements of the Austro-German, Bismarckian kind" (Deacon, 2000: 151-2).

As for universal benefits, there were legacies of the communist era. Through the retention of the family allowance and child care leave with partial wages, the principle of universal provision was maintained (or enhanced, as in the case of Hungary where the family allowance was made universal in 1990) in the early phase of the system change in the region.

On the other hand, the right to return to one's previous job after child care leave was eroded by the narrowing labor market and often strengthened gender-bias. Moreover, universal benefits were converted into means-tested ones as a result of permeating neoliberalism and strong pressure from the World Bank in the mid-1990s in the region (see below).

The ILO, whose branch was established in Budapest in 1992, has provided the post-communist countries with the technical assistance to set up the institutional framework of industrial relations and social dialogue prevalent in continental Europe. The tripartite bodies at the national level were established in the three countries in the early stage of the system change.

In Hungary, the Interest Reconciliation Council was established in 1990 as an institution for social dialogue among government, employers and employees. Likewise, a tripartite body was established in the Czech Republic (then Czecho-slovakia) in 1990 and in Poland in 1993-4. These bodies were initially established to mitigate social tensions such as the Hungarian taxi drivers' demonstration against inflation and the massive and chaotic wave of strikes in Poland. Nevertheless, these bodies have not always functioned well because of the frequent antagonism between the government and trade unions or among rather fragmented trade unions (in Hungary and Poland).

In the Czech Republic, a tripartite body functioned relatively well even under the neo-conservative Klaus government. This can be attributed partly to the tactics of the government to keep wages low in return for low unemployment through negotiation with trade unions (Orenstein, 1996) and partly to the less fragmented structure of the trade unions. Moreover, a publication of the ILO considers that the tripartite dialogue in the Czech Republic has become an integral part of government since 1998, the year when the social democratic party came into office (Casale, Kubinkova and Rychly, 2001).

The number of workers and employers covered by collective bargaining at the sectoral level has recently increased in the Czech Republic, while the decentralization of bargaining at the firm level is one of the recent developments in Hungarian industrial relations. The latter development could be considered a sign of the shift of industrial relations toward the model of Anglo-Saxon countries.

And last but not least, some parts of German or other Western European-style corporate governance were introduced in the Czech Republic (participation of employees' representatives on the supervisory board) and Hungary (Work councils at the firm level). This is another example showing a certain degree of Europeanisation of the institutional setting in the region.

While some international organizations, especially the ILO and the UNICEF, encouraged the post-communist countries to establish a European-style welfare system, the European-based actors did not necessarily play such a role (except the Council of Europe).

The UNICEF has provided for technical advice to post-communist countries for child welfare. It proposed to maintain universal benefits and services and opposed the residual approach to the welfare policy.

The EU directed a part of its PHARE program to advise on social security policy (Fagin, 1999), but its policy advice to the post-communist countries did not have a systematic orientation toward the traditional European-style of welfare. Deacon, Hulse and Stubbs point to the battle between the Euroliberals and the Eurocorporatists within the EU as an explanation for the inconsistent policy recommendations to the East (Deacon, Hulse and Stubbs, 1997). Rys notes that the EU generally gave the applicants to EU membership policy recommendations in which social protection issues were reduced to their economic aspect (Rys, 2000). Although the EU requires improvements in the protection of human rights (e. g., those of ethnic minorities) to applicants of the East, it doesn't necessarily stress the safeguarding of social rights. Orenstein and Haas (2002) note that the "Europe Effect" made Central Europe maintain relatively high levels of the welfare spending. But, in our view, there is not clear evidence that the EU itself intentionally intensified this effect.

The EBRD initially attempted to play a role in the sphere of social security in post-communist countries. But in order to avoid overlapping with the role of the World Bank, it was limited to providing assistance to the private sector in the region.

The OECD, which the three Central European countries joined in the mid-1990s, took a stance seeking to reconcile economic and social requirements. Its stance is, to some extent, similar to the recent idea of "the third way" (Giddens, 1998, 1999; Giddens ed., 2000) in terms of policy emphasis on social investment (Its stance is called social-liberalism: see Deacon, Hulse and Stubbs, 1997).

However, it was the World Bank that had the strongest influence on the restructuring of the ex-communist welfare system, as revealed below.

c. Permeation of neoliberalism into the Central European welfare system, with the World Bank as its promoter

Widespread neoliberalism was one of the remarkable phenomena from the beginning of the system change in the post-communist region. Its signs were seen in economic policy more than in social policy and welfare systems in the early round of the system change.

Orenstein and Haas attribute this time lag to the lower priority of social policy among a set of transformation policies for the domestic decision-makers in the region and the Bretton Woods institutions by the mid-1990s (Orenstein and Haas, 2002). Their explanation is partly true. It is certain that the domestic decision-makers in the region and the Bretton Woods institutions, in particular the IMF, gave the highest priority to the economic policies in which economic stabilization and privatization were the main purposes.

On the other hand, one of the neoliberalism-inclined Bretton Woods institutions, the World Bank, imposed social conditionality such as tightened eligibility conditions for social security on the post-communist countries in return for granting the structural adjustment loans. For instance, the World Bank advised Hungary to scale down maternity and child care benefits in 1992 (Goven, 2000).

Accordingly, Orenstein and Haas do not adequately describe social policymaking in the early period of the system change, because their description omits the above fact. Another fact to be noted was that the first post-communist governments in the region hesitated in drastically reducing social expenditures, due to fear of losing popularity.

Ferge expressed well such a complexity of the early period of the system change in Hungary. "It is to the credit of the Antall government [the first post-communist government] that welfare benefits did not deteriorate faster... The entire period [1990-94] was characterized by a contradictory mixture of gaining ground of neoliberal ideals enhanced by conservative elements, the inadequate fulfilment of needs growing as a result of impoverishment, the temporary patching up of problems and *ad hoc* popularity seeking ideas" (Ferge, 1995: 157).

Around the middle of the 1990s, the neoliberal approach to social policy became more visible than before in the region. It occurred in the environment of a rapidly deteriorating state budget and external balance both in Hungary and Poland. Even in the Czech Republic, which did not face a severe imbalance, social policy shifted toward neoliberalism in the middle of the 1990s.

The core of the neoliberal social policy inspired by the World Bank was comprised of the following two elements: first, targeting the provision of welfare benefits to the "truly needy," thus reducing the social expenditure, and second, privatization of the pension system (Deacon, 2000).

Around the mid-1990s, universal benefits and services such as family allowance and paid child care leave were converted into means-tested benefits, and the principle of free education and health care was eroded by the introduction of co-payments for dental care and tuition in the universities in Hungary. The austerity program, including these measures, was called the "Bokros Package" because the name of the then financial minister of Hungary was Bokros. Kornai supported this austerity program and criticized the "premature welfare state". In his view, overspending on welfare continued under the first post-communist government in Hungary (Kornai, 1997), while the Hungarian majority stood against the "Bokros Package". Although this "package" was modified to some extent and Bokros was forced to resign in 1996, the essential parts of the austerity program were put into operation in the country. As a result, the percentage of welfare expenditure in the budget to GDP decreased to 20.9 in 1996, from 26.3 in 1994, in Hungary (Andorka and Tóth, 1999).

Likewise, in Poland the universal family allowance was converted into a means-tested one in 1995. Then, only families whose household incomes per capita were less than 50% of the average were entitled to the allowance. Also in the Czech Republic, those whose income was above 1.8 times more than the established minimum were not entitled to a family allowance after this was converted into a means-tested benefit.

As noted above, the eligibility of unemployment benefits was also gradually narrowed in the region. Thus, the number of benefit recipients as a percentage of the unemployed declined in Hungary from 77 in 1991 to 29 in 1996, in Poland from 79 to 54 and in the Czech Republic from 72 to 50 (Adam, 1999).

As for the pension system, its reform was carried out with the paradigm shift in Hungary in 1998 and in Poland in 1999. The original idea of pension reform was suggested to both countries by the World Bank. The reform process was led by each country's Ministry of Finance, which cooperated with the World Bank. The main concern of the World Bank was to limit the public PAYG scheme to a minimum scale (first pillar), to introduce the mandatory and individually funded, privately managed and non-solidaristic second pillar, and to establish the additional voluntary third pillar as well. Hungary introduced such a new pension system composed of three pillars in 1998, but the proportion of the second pillar to total contributions was smaller than initially proposed by the Ministry of Finance. The reason for this was that the Ministry of Finance was obliged to compromise with the Welfare Ministry that, at least initially, stuck to the Bismarckian-Beveridgean tradition (Müller, 1999). A number of social policy experts also stood against the idea of the World Bank concerning the pension reform, as expressed in a publication entitled "Averting the Old Age Crisis" (World Bank, 1994). The new Polish pension system introduced in 1999 was essentially similar to the Hungarian one, but it had more of insurance elements because, in addition to having an individually funded second pillar, the "notional defined contribution" (NDC) plan was also arranged in the first pillar to enhance the contribution-benefit link.

In contrast with the Hungarian and Polish cases, the Czech Republic maintained its public PAYG scheme, although voluntary pension funds were allowed after 1993 there. Müller explains this bifurcation in the pension systems of Central Europe from the constellation of the main actors (the World Bank, the Ministries of Finance and the Welfare Ministries) and the structural conditions (the pension funds, state budgets and external balances) in the three countries concerned. On one hand, the deteriorating financial situation of the existing PAYG plan led to its dependence on budgetary subsidies as well as to the commitment of the Ministry of Finance to pension reform. Moreover, the fiscal crises made the Ministries of Finance strong actors in pension reform in Hungary and Poland. On the other hand, the high external debt in both countries created a situation in which the World Bank imposed social conditionality in return for funding. In such an environment, both the World Bank and the Ministries of Finance, which were inclined to neoliberalism, could carry out pension reform with a paradigm shift in Hungary and Poland. As the Czech Republic, where a PAYG plan was sustainable, did not face serious problems regarding the state budget and external imbalance, the main driving force of pension reform was the Welfare Ministry, which was traditionally inclined toward Bismarckian-Beveridgean paradigms. Thus, the Czech Republic maintained its public PAYG structure (Müller, 1999).

The ILO-CEET supports pension reform within a PAYG structure and gathers research on pension reform (Cichon, Hagemejer and Ruck, 1997; Fultz, ed. 2002). Interestingly, the previous Senior Vice-President and Chief Economist of the World Bank suggest that a shift to an individually funded and privately managed pension system is not always the best solution (Orszag and Stiglitz, 2001). And the following description of Deacon, Hulse and Stubbs is also deserving a note: "Within the World Bank it is perhaps most evident that a heated and hard fought struggle of ideas and policy prescriptions is under way. Here we identified a 'camp' associated with European wage related state funded social security systems and a 'camp' associated with a flat rate-possibly means and assets tested-residual pensions policy" (Deacon, Hulse and Stabbs, 1997: 148).

d. Legacies of the communist era in the post-communist welfare system

Although neoliberalism has become a notable element of the post-communist social policy, especially since the mid-1990s, it has failed to permeate deeply into society due to the legacies of the communist era. Esping-Andersen describes, "East and Central Europe is clearly the most under-defined region, a virtual laboratory of experimentation. If it is at all possible to generalize, there is at least clear one trend: where neoliberal welfare policies (often inspired by the Chilean model) were pursued most vigorously, they were punished in subsequent democratic elections... [S]o neo-liberal welfare policies in Eastern Europe seem to revitalize socialism" (Esping-Andersen, 1996, p. 267).

Certainly, neo-liberal economic policy "revitalized" socialism and helped ex-communist (presently the Social Democratic or Socialist) parties regain office in Poland (1993) and Hungary (1994). But the Social Democratic and Socialist Party-led coalition governments were also punished by people in "subsequent elections" in 1997 (Poland) and 1998 (Hungary) and lost their majorities because their governments adopted policies reducing welfare expenditures.

In Hungary, the subsequent conservative government abolished tuition at the universities and re-universalized the family allowance to maintain its popularity among the electorate. Nevertheless, in the 2002 general election, the conservative parties were defeated by the Socialist Party that was in cooperation with a liberal party, Alliance of Free Democrats. The Socialist party promised the electorate many welfare measures such as an extra provision for pensions and an increase in wages for public employees, including low-paid school teachers and health care providers. As in Hungary, the Social Democratic Party came back into office in 2001 in Poland. All the examples described above show that the majority of the population in the region expect a deep commitment from the state in regard to social protection. According to Ferge, people in the ex-communist region "would turn more willingly to public authorities when in need than to churches, non-governmental organizations, or charitable institutions" (Ferge, 1997b: 315). Csontos, Kornai and Tóth refer to the relation between such an attitude and (a weak) "tax awareness" in the region (Csontos, Kornai and Toth, 1998; Kornai, 1997). Without details, it could be confirmed that the vast majority of the people in post-communist countries expect a strong welfare commitment from the state and that this attitude is a legacy from the communist era.

As already noted, Orenstein and Haas attribute a significant level of social expenditure in contemporary Central Europe to the "Europe Effect" (Orenstein and Haas 2002). However, we consider the above legacy as a more important factor to explain the relatively strong welfare commitment of the state in Central Europe.

Thus, the weak movement toward privatization of health care and education in the region could be considered as a "Legacy Effect". In fact, the primary care (GP) facilities were almost exclusively privatized, but the hospitals were predominantly managed by the central and local governments in the region. Privatization of education was mostly concentrated on the tertiary level and the percentage of secondary school pupils enrolled in private schools was still 8% in Hungary, 7% in the Czech Republic and 4% in Poland in 1996-7 (Deacon, 2000).

The informal sector (hidden economy) and, in general, informality are also legacies from the past regime, especially in countries where the second economy prevailed, as in the case of Hungary. While the informal sector plays the role of a hidden safety net for the unemployed, the involuntarily economically inactive population and the lower income earners, it narrows the taxation base. Equally important, those working only in the informal sector are not entitled to social insurance benefits such as public pension and health care.

And informal sector, to some extent, is related to the dual structure of a labor market which reflects a gender gap in the region. "[T]he labor market is bifurcating in multiple ways: into public and private, to be sure, but within this into regular and secure jobs, coded as male, and into unstable, part-time work and multiple jobs occupied mostly by women. While equally a part of the private sector and potentially lucrative, these latter jobs offer neither security nor social benefits" (Gal and Kingman, 2000: 61).

Social capital or social network resources also play the role of a safety net. But distribution of social capital is dependent on the past social structure (legacy from the communist era). As already described, many representatives of the old elite became the new rich on the basis of the old social network resources. Likewise, the old poor are largely overlapped with the new poor. It should be noted that the new poor tended to be excluded from social networking in the 1990s (Angelusz and Tardos, 1999). This suggests that there exist those who can access neither a formal nor an informal safety net.

Ⅲ. Conclusion

We could sum up the above-description as follows.

- The transformation of the welfare system in Central Europe was determined by several factors: the social costs of the economic transformation, the traditional European model of welfare, neoliberalism, and the influence of international organizations and legacies from the communist era.
- Social policy in the early years of the system change in Central Europe had a character of "emergent response" to the social costs of the economic transformation such as mass unemployment, widespread poverty and decreasing living standards. Emergent policy measures were composed of establishing unemployment benefits and social assis-

tance, and adjustment of pension benefits to wage increases.

• The process of instituting emergent social policy overlapped with a transition to the traditional European model of welfare. Namely, by the mid-1990s, three tiers of welfare system were established in Central Europe: social insurance, universal benefits and social assistance. In addition, the European model of corporatistism, tripartitism, was introduced to promote social peace. The ILO and UNICEF encouraged Central Europe to introduce a traditional European-style welfare system. The European or Europe-based organizations had a minimal impact on the creation of the traditional European-style welfare system in Central Europe. Advice of the EU to the candidate countries of Central Europe focused on the economic aspects of social policy and not much on safeguards of social rights.

• Although the permeating of neoliberalism and the presence of Bretton Woods institutions were significant from the beginning of the system change in Central Europe, their influence on social policy making has been enhanced since the mid-1990s. Neoliberal social policy was promoted by the Ministries of Finance in cooperation with the World Bank. The key to the neoliberal social policy was the conversion of universal benefits into means-tested ones and the privatization of the pension system. The principle of universal provision was eroded in the three Central European countries. The privatization of pension system was partially implemented in Hungary and Poland, while the Czech Republic maintained its PAYG pension system.

• The legacy from the communist era still remains. People continued to expect a strong commitment to welfare from the state and have resisted attempts by post-communist welfare regimes to move toward a residualist welfare state.

The above summary leads to two questions: first, what type of welfare system has appeared or is appearing in Central Europe? Second, to what extent could we attribute the formation or transformation of Central European welfare systems to external factors such as the intervention of international organizations?

As for the first question, there are several answers whose differences are caused by the complexity of the features of the welfare systems after the political change. As noted above, the ILO-CEET suggests that the welfare systems of Central European countries have come to resemble those of traditional systems in Western Europe. Orenstein and Haas stress the "Europe effect" in the formation of post-communist Central European welfare systems (see above).

On the other hand, some experts of social policy such as Ferge and Standing (Standing, 1996)—the latter was the first director of the ILO Budapest office—maintain that neoliberalism has largely influenced social policy making in the region. Ringold (Ringold, 1999) and Kornai emphasize the large effect of the legacies of the communist era on the post-communist welfare systems.

In our view, the welfare systems in Central Europe are now still in their formative stage and it is too early to define their type. Nevertheless, our view is close to Deacon's well-balanced one, "[S]ome of the countries were slowly reforming their social policies in the direction of one or other variant of Western welfare policy. 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 was evident and continuing in the late 1990s. 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 at the margins" (Deacon, 2000, 156).

In our view, the Central European welfare system resembled that of continental Europe in the early stage of the system change, and since the mid-1990s it has developed into a neoliberal system. But it has not become a residualist welfare system yet due to the resistance of the majority of society, in which the legacy of the communist era still remains. The tension between "a European-style social market" and "IMF-World Bank-backed residualism" was expressed in the tension between "budget-induced" austerity plans by the governments and resistance of the people to these plans, resulting in repeated power (governmental) alternations.

As for the degree of the effect of international organizations on the welfare system in Central Europe, Bretton Woods institutions were most influential. Deacon calls this increasing, ideologically motivated, influence by global actors' on the national welfare policy "political globalization" and distinguishes it from economic globalization (Deacon, 2000). To use this terminology, the main actors of "political globalization" were the Bretton Woods institutions, and the ILO emulated them in Central Europe.

The strength of intervention of the World Bank varied from one country to another. It depended on the degree of foreign debt of the respective countries. While Hungary and Poland, having faced serious external imbalances, were exposed to strong intervention from the World Bank in the formation of their welfare systems, the Czech Republic was not so strongly influenced by it. The attempts of the World Bank faced resistance from the people. It sometimes accomplished its policy objectives, but sometimes failed, or at least, was obliged to compromise with the people's wishes in the region. It could be said that the World Bank was a very strong actor but not always winner in the region. As already pointed out, attention should be paid also to different views on welfare policies within the World Bank.

The impact of the EU has been weak on welfare system formation in Central Europe since 1989, in spite of increasing economic relations, and geographical and cultural closeness between them. This resulted partly from policy priorities and partly to a poorly defined "European social model." The policy priority of the EU was to establish a single market and to introduce a single currency in the 1990s, which resulted in enhanced economic competition and restricted fiscal policy within its member countries (Chapon and Euzéby, 2002).

On the other hand, under the new situation of the creation of a single market and a single currency, the corresponding "European social model" has neither been conceptualized nor shared by all EU members (Rys, 2000). Thus the EU did not offer a clear welfare model to the post-communist countries and the World Bank tended to be involved with the preparations for Central Europe's entry into the EU (Orenstein and Haas, 2002; Funck and Pizzati eds. 2002).

The future social policy and welfare system of the Central European countries depend on not only their own choices but also the EU's choices: whether they seek a "European social model" or aim only to be the winner in global economic competition.

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