

The Eastern European Welfare State: Viability and Prospects for Development

Pavel Ovseiko

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MAX-PLANCK-INSTITUT FÜR GESELLSCHAFTSFORSCHUNG • KÖLN
MAX PLANCK INSTITUTE FOR THE STUDY OF SOCIETIES • COLOGNE

MPI für Gesellschaftsforschung
Paulstrasse 3
50676 Köln
Germany

Telephone +49 (0) 221/27 67-260
Fax +49 (0) 221/27 67-555
E-Mail ovseiko@mpi-fg-koeln.mpg.de
World Wide Web <http://www.mpi-fg-koeln.mpg.de>

Abstract

This paper presents an attempt to move on from the specifics of my research, which concerns the politics of health sector reform in Eastern Europe, to discuss general issues of viability of the Eastern European “welfare state” in the context of transitional political and social change. In doing so, however, the paper exclusively refers to the health sector. The paper is organised as follows. It starts with the introduction to the topic of the post-socialist “welfare state” and goes on to explore the difference between the Western capitalist welfare state and its Eastern socialist counterpart. It proceeds further by posing the question why in the course of transitional reforms the existing welfare arrangements were altered. First, the answer is sought in the domain of state-building in conjunction with the problems of legitimacy of new reformist governments and the type of rationality behind the reforms. Then, the domain of party politics is considered. Here, two rival hypotheses on the nature of party competition in Eastern Europe are discussed and a brief analysis mapping development in the Hungarian politics along the lines of the left-right and libertarian-authoritarian value scales is provided. Finally, international pressures on domestic policy making in the area of social policy are examined. The paper closes with an outline of conflicting prospects for development of the welfare state in Eastern Europe.

Zusammenfassung

Dieser Aufsatz stellt einen Versuch dar, von meinem speziellen Forschungsgegenstand, Reformpolitik im osteuropäischen Gesundheitssektor, ausgehend, allgemeine Fragen zum „Wohlfahrtsstaat“ in Osteuropa im Kontext politischen und sozialen Wandels zu diskutieren. Dabei bezieht sich das Papier jedoch durchgehend auf den Gesundheitssektor. Es beginnt mit einer Einführung in die Thematik postsozialistischer „Wohlfahrtsstaaten“ und schließt eine grundlegende Unterscheidung zwischen westlich-kapitalistischen und osteuropäisch-sozialistischen Typen an. Im Anschluß daran wird der Frage nachgegangen, aus welchem Grund im Zuge der Reformen die bestehenden wohlfahrtsstaatlichen Regelungen geändert wurden. Die Antwort wird zuerst im Bereich der Staatenwerdung in Verbindung mit Problemen der Legitimität junger Reformregierungen und der Art von Rationalität, die hinter diesen Reformen steht, gesucht. Daraufhin wird die Parteipolitik thematisiert. Hier lassen sich zwei rivalisierende Thesen zum politischen Wettstreit in Osteuropa diskutieren, in Verbindung mit einer kurzen Analyse der Entwicklung in Ungarn anhand von Werteskalen in den Dimensionen links-rechts sowie libertär-autoritär. Schließlich werden internationale Einflüsse auf innenpolitische Prozesse der Sozialpolitik untersucht. Der Aufsatz umreißt im Schluß mögliche Konfliktlinien der weiteren Entwicklung des Wohlfahrtsstaates in Osteuropa.

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In facing the future we start from the present. To a substantial extent, future choices reflect present judgements of past achievements.

Rose and McAllister, 1986, p.3

1 Introduction: post-socialist “welfare state”

It is hardly possible to argue that something like the Western-type capitalist welfare state existed in countries of the former Eastern Block. Indeed, in those countries with a centrally controlled and planned economy there was no capitalism. Nonetheless, there were guarantees by the constitution for the universal provision of social services commonly associated with the welfare state. Such provisions existed on the condition of being employed. The logic behind the emergence of the welfare state in Western Europe was completely different from the logic of the state provision of social services in Eastern Europe. In broad terms, in Western Europe, it was a triumph of society over (market) economy; in Eastern Europe, vice versa, triumph of (planned) economy over society¹. The state provision of social services in Eastern Europe served the purpose of assigning workers to workplaces. As such, to employ the neo-Marxist jargon, it served the purpose of “commodification” rather than “de-commodification” (Esping-Andersen, 1990).

In terms of systems analysis, the welfare state is a product of evolutionary development, whereas, arguably, “the constitutional state can be considered as a product of theoretical reflection” (Luhmann, 1990, p.143)². The welfare state actualises itself in a democratic context of modern political system. The latter is not a traditional arbitrary state but a *Rechtstaat* implementing its policies via “communicative media” of money and the law.

¹ It is important to recognise that in Eastern European countries there were no civic institutions and political participation through which actually the welfare state emerged in the West (Marshall, 1965).

² This is a prone to criticism argument in the context of Western states where the dynamics of modern constitutionalism *per se* could account for further development of the welfare state. Nonetheless, this argument is helpful to bridge the gap between different kind of states (Western and Eastern European) which regarded themselves as constitutional states, in order to focus one’s attention on the emergence of the welfare state.

Modern polities emerged from traditional (hierarchical) societies as a result of “functional differentiation” brought about by the market and division of labour. The democratic context of a modern political system is crucial for the existence of the welfare state as it is a “function system” which emerges and endures through self-reflection and pressures coming from the democratic system, coded as competing programmes of the government and opposition, political parties, trade unions and so forth. Drawing on the Luhmann line of argumentation, it is important to recognise that countries of the former Eastern Block are better perceived as traditional societies and arbitrary states with a result that they simply did not have a context needed for the emergence of the welfare state. Furthermore, the universal provision of social services in Eastern Europe never developed in a “function system” akin to the welfare state as it did not have self-reflection and democratic pressures³.

Although the way the socialist “welfare state” emerged was fundamentally different from its capitalist counterpart, effects of the both welfare states on economy and society shared many similarities. In the social sphere, the state gained influence on the individual and threatened to enclose all aspects of the individual’s life. In the economic sphere, the universal and expansionist provision of social services contributed to the withdrawal of workers from the labour force. “De-commodification” of the labour force in Eastern Europe started to be a trend in the late 1960s. It appeared in the form of the reduction of the amount of working hours per week and the retirement age, introduction of longer vacations and a parental leave, growth of secondary and tertiary education, increased duration of a sick leave, etc.

If employing the Titmuss (1974) classification of the modes of provision of welfare—which comprises the residual model, the industrial achievement model, and the institutional redistributive model—the following comparisons and contrasts can be drawn. One, the socialist “welfare state” was mainly akin to the institutional redistributive model of the welfare state. Although being employed or officially redundant was a necessary

³ The “welfare state” in Eastern Europe did not have its own semantics; it existed only in terms of being a sector of the economy and part of the Party and Government’s effort to promote people’s well-being.

precondition to receive social services, provision of social services predominantly was external to the work place⁴. Furthermore, redistribution existed in favour of the working class. In addition, many industries and institutions had their own welfare facilities, which usually were better than ones provided by the state. As such, the socialist “welfare state” shared common features with the industrial achievement model. Finally, there were embedded in the socialist “welfare state” incentives similar to the residual welfare state model to seek a better employment or to rely on the family if one could not secure sufficient level of income via his or her primary job.

The socialist “welfare state” was financed via general taxation and based on rationing and centralised planning and administration. That is why it proved to be highly efficient. It is somehow akin to the Beveridge model of the welfare state. The difference between the socialist model and the Beveridge one is that the latter separates financing and providing of services while the former simultaneously controls supply and demand by the same administrative apparatus. In the past, this model proved to be both effective and efficient. To take the health sector as an example, during the 1950s, health improvements in Eastern European countries outpaced those in most Western countries and by the mid-1960s life expectancy in Eastern European countries was only one or two years less than in Western countries (Barr, 1996, p.24). At the same time, in the 1960s, overall spending on the health sector in Eastern European countries was two times lower (about 2% of GDP).

In the 1970s, however, declining effectiveness of national health services in Eastern European countries (mainly due to the persisting lack of funding) demonstrated a need for substantial improvements in health care provision. Many Eastern European countries came up with proposals for health care reform in the 1980s, but until the 1990s none of the substantial changes in health care provision had yet been implemented. In the 1990s, health care reforms instead of re-forming existing national health services fully or partially dismantled them in favour of fee-for-service insurance-based health care systems. It is unclear why the reforms happened in this way. There is no evidence that the centrally run

⁴ In the countries of the former Eastern Block, there was no official unemployment and truancy was considered to be a civil offence.

and financed general taxation health care systems are not viable under the conditions of democracy and market economy and are comparatively less efficient⁵. Furthermore, from the efficiency point of view, it would be a better solution to enhance existing institutions instead of deviating from a path-dependent way.

Fee-for-service health care provision, privatisation as well as introduction of competition among insurers resulted in ineffective fragmented organisational structures and uncontrolled escalation in health care spending. It also created incentives for growing health inequalities between different social groups, between cities and rural areas, and for the division between health care and public health services as well as between different services of health care. For example, in the Czech Republic, privatisation of medical practice combined with the switch to the fee-for-service health care provision accounted for the overuse of medical services and generally increased national spending on health care compared to the pre-transitional period (Potucek, 1994; Scheffler and Duitch, 2000). Cost escalation was rapid, from 6.5% of GDP in 1991 to 9.5% of GDP in 1995 (Goldstein et al, 1996). Furthermore, 18 of 27 health insurance funds went bankrupt to the effect that now the state General Health Insurance Fund controls more than 80% of the “market”⁶. In Poland there were also no efficiency gains from decentralisation and introducing the quasi market in the health sector (Aksman, 2000) and, starting January 1, 2003, local health insurance funds will be centralised under the auspice of the National Health Protection Fund. In Hungary the Self-Governments of Social Insurance created in 1993 appeared to be a failure and were re-centralised in 1998 (Kahan and Gulácsi, 2000).

Economic and social costs of the market-oriented reforms along the lines of the Bismarck insurance-based model proved to be high. With a little counteracting power, doctors, pharmaceuticals and manufactures of medical equipment took advantage of the state loss

⁵ For example, Norway, with effect from January 2002 onwards, is strengthening its centralised health care system by taking over the responsibilities of all Norwegian hospitals from local authorities to the central Government. Furthermore, the United Kingdom is not switching the source of funding of the NHS to social insurance but rather, with the perspective to 2020, considering allocation to the NHS of more funds raised through general taxation (Wanless, 2002).

⁶ Data of the Institute of Health Policy and Economics, 2002.

of control over the health sector and the introduction of market mechanisms in the public health system. The insurance-based health system provided an opportunity for uncontrolled spending. In the Czech Republic, where fee-for-service principle is applied, it is common for physicians to bill health insurance companies for more than one hundred hours per week, which is a hardly possible work schedule (Mihalyi, 1998). Furthermore, patients can informally pay doctors for prescribing brand-name drugs and expensive treatments. According to a survey conducted in Hungary, 5-6 patients out of 10 gave “gratitude money” to the GP and 8-9 patients out of 10 paid the surgeons and gynaecologists (Kornai, 2000). The total amount paid in 1998 as gratitude money is estimated to be USD154 million (Bognár, Gál and Kornai, 1998). Privatisation of pharmacies gave pharmaceuticals access to information about the actually prescribed drugs to the effect that they can control prescription of their drugs. Pharmaceuticals pay doctors in average 10% of the cost of prescription if doctors prescribe their brand-name drugs instead of generic drugs (Personal interviews). Manufactures of medical equipment create material incentives for public health managers to purchase their costly specialised equipment. In Hungary, in 1990-96 purchases of expensive specialised equipment such as CT scanners and MRI systems increased dramatically, whereas no funds were left to replace and upgrade conventional cost-contained X-ray machines (Mihalyi, 2000).

Although in the course of transition the results of the early reforms were revised to the effect that the opposite strategies (nationalisation and re-centralisation) were opted for, they also did not bring efficiency and equity gains. Such inconsistency of the reforms, owing to changes of ideologically different governments, might even generate more inefficiency. At any rate, consistent reform of the reforms is still on the agenda. At the same time, decentralisation and “democratisation” of the health sector governance—which resulted in the increased participation of doctors and other interest groups in health sector decision-making process, reallocation of decision-making functions and susceptibility of reforms to conflicting ideologies—created a number of veto points and dramatically reduced the problem-solving capacity of the health sector governance system. For example, in 2001, the former Hungarian government attempted to pass the law against gratitude payments. However, it was not adopted due to lobbying of the Hungarian Medical

Chamber which is a self-regulatory body of the medical profession responsible, *inter alia*, for issuing a code of ethics.

On the whole, the loss of the state control over the self-interested rational action in the health sector and inability of society to regain this control appears to be a persistent problem in the whole of Eastern Europe. In this vein, I want to put forward an argument that, broadly, this is not only a theoretical problem of the potential advantages of the state controlled Beveridge model of the welfare state over the Bismarck model of work-based social insurance; rather, it is also a problem of the institutional context of reforms. It is argued that, in economic terms, effectiveness and efficiency of the capitalist economy is not solely attributed to the market, but to the market beneficially constrained by society (Streeck, 1997). In the countries of the former Eastern block, the state took over society in controlling the economy. More crucially, the state did not leave mechanisms—above all, political participation—for society to constraint the state-economy tandem driven by the values of increasing production⁷. Countries of the former Eastern block inherited from their socialist past “a bad society incapable of sustaining a good economy” (*ibid*, p. 209). As such, the failure of the reforms to produce effective and efficient outcomes could be attributed to the disregard of the architects of reforms to the importance of the ability of society to put “beneficial constraints” on the unleashed market forces. On the other hand, it could be a miscalculation by the reformers of the time of what exactly was needed for society to absorb the politically introduced institution of citizenship and to generate social values and attitudes needed for constraining the free market.

Why instead of singling out the efficient by design and workable within the context of Eastern Europe socialist “welfare state” from the collapsing economy and enhancing it, did

⁷ It is a wry paradox that the today’s failures of capitalism resemble yesterday’s failures of socialism. Yesterday, socialist managers in order to meet unreal targets of increased production were taking funds from the “non-producing” sector of the economy, i.e. social services, education, research and development in favour of the “producing sector”, i.e. industry and agriculture. Today, in order to meet unreal targets of earnings growth and glamour rating, capitalist managers, in the retail business, are squeezing suppliers and spending less on stores, in banking and insurance, taking staff out of branches and retraining those who remain as sales people, in the energy sector, cutting back on exploration. When managers of Enron and WorldCom could not meet unreal targets of earnings growth in excess of 10 per cent, they, in the tradition of socialist managers, simply made the growth up (FT, 29-30.06.2002, p.9).

new political regimes let it wither away and opted for costly institutional change? In explaining this, I will consider three arguments in the areas of the state-building, party politics and international pressures. First, the new regimes did not need/could not have output-oriented legitimacy coming from the effective solutions for public policies. Second, new post-communist regimes were ideological opponents of the welfare state. Lastly, new regimes had international pressures on welfare state reform in terms of budgetary constraints, means of administration, and promotion of the private sector.

2 State-building

In attempting to explain the destiny of the socialist “welfare state” in the context of social and political change, I will use some concepts from political sociology and political science. Namely, I will rely on the ideal types of sources of political power (coercion, money, prestige, knowledge, organisation), forms of authority/domination (charismatic, traditional and legal-rational) and types of rational behaviour (instrumental- a value-rational) devised by Max Weber (1978). I will also rely on the concepts of input-oriented and output-oriented democratic legitimacy developed and discussed by Fritz Scharpf (1997, 1999) in the context of Western legal-rational legitimacy. Below, I will elaborate on this.

The new post-communist regimes did not need output-oriented legitimacy that comes from the effective solutions for public policies. The communist authority relied predominantly on coercion rather than other sources of political power, which nonetheless they possessed. Arguably, the communist authority in the 1980s was traditionally legitimised. Therefore, the welfare state was taken for granted by the people. By inertia, when people became citizens to the effect that they could vote, they did not recognise the issue of the welfare state. Agenda-setters also did not pay much attention to the issue of the welfare state. Democratisation, building up civil society and establishing a market economy topped the agenda. It is difficult to interpret the nature of legitimacy which new post-communist authority had. I tend to think that it was both charismatic and, to a certain

extent, legal-rational. Naturally, new post-communist regimes came to power in the stream of the democratic discourse featuring such axioms as a wider participation of masses in the decision-making process and consensus-seeking⁸. By the very idea of democratic changes they took over the former communist regimes on the ground of being “government by the people” rather than “government for the people”. Therefore, their legitimacy came in the form of input-oriented rather than output-oriented legitimacy and they, in the short run, did not need to acquire output-oriented legitimacy.

It is equally important to recognise that new post-communist regimes could afford to have output-oriented legitimacy. Weber discusses legal-rational legitimacy in conjunction with bureaucracy. For him, bureaucracy is crucial for capitalist efficiency because it can eliminate all “personal, irrational, and emotional elements” from official business (Weber, 1978, p. 975). Democratic regimes, however, tended for ideological purposes to eliminate from official business the cadre of socialist state bureaucracy. In decision-making they relied on the advice of ideologically close to their political leanings small groups of experts. In implementation of some of their idiosyncratic decisions, new governments still had to rely on the former socialist state bureaucracy. However, this implementation was not perfectly bureaucratic as it sometimes relied on a fear of being sacked or sympathy to new regimes and a gratitude for not being sacked. As a result, new regimes did not have a bureaucracy that could produce efficient outcomes.

The above Weberian perspective on early transformation can be complemented with a Marxian view on social and political change. In general, Weberian analysis assumes that actors are trapped into the “iron cage” of incremental rationalisation; the bars of this “iron cage” are materialistic values (Weber, 1978). On the contrary, in his analysis, Marx allows for instability and uncertainty that can produce a revolutionary transformation: The latter is not driven by any moral values, but rather material values derived from history.

⁸ For example, in 1990 in Hungarian state hospitals the system of consensus management was introduced. According to this system hospital directors were meant to be elected by their fellow doctors (Mihályi and Petru, 1999, p. 15).

Arguably, the logic of revolutionary transformation driven by values of capitalism can be plausibly applied to the period of early transition in Eastern Europe.

An architect of Polish economic reforms, Balcerowicz (1995), describes this period as the period of "extraordinary politics". In doing so, he gives justification for radical economic reform, or "shock therapy" as it is also known. He assumes that radical economic change is possible only during a limited period of "extraordinary politics". According to him, a spirit of revolutionary enthusiasm—which is accompanied by a readiness to make "sacrifices" for the sake of a better future—creates a "political capital" to carry out radical economic reform. Once "political capital" is exhausted, "normal politics" returns, and the opposition reduces the scope of further progress to incremental changes. Indeed, the early transitional period did offer extraordinary opportunities for small groups of decision makers to initiate policy change and that they did so in some idiosyncratic ways to the effect that in 1993 the opposition came to power. From this perspective, as the socialist "welfare state" was part and parcel of the socialist economy, it could be deliberately dismantled in some sort of *coup d'état contre l'état providence* as an attempt to get rid of all socialist during the period of "extraordinary politics".

Although the notion of "extraordinary politics" is an apt metaphor to describe early transition, Balcerowicz fails to make it into a consistent economic argument. Except for "sacrifices", he is notorious for another contribution to economics that is totally irrelevant to the framework of methodological individualism. According to him, prior to a return of "normal politics", "political capital" can be exhausted by "envy" (Balcerowicz, 1995). Admittedly, neither "envy", nor reluctance to make further "sacrifices" exhaust political capital. Rather, inability to fulfil unreal electoral pledges of a prosperous future of "people's capitalism", growing social inequality and unfair competition favouring the insiders of reforms, exhaust political capital. From this line of argumentation, I propose to explain Balcerowicz's attempt to accommodate "sacrifices" and "envy" into economic discourse by the type of rationality underlying his "reform for the sake of reform" theorising. Simply put, Balcerowicz's model of reforms assumes value-rational behaviour and fails to accept instrumental rationality. For Balcerowicz (as well as for Marx) values are

of material nature and derived from history. For the fact that capitalism proved to be advantageous over socialism he accepts values of capitalism and believes that capitalism will be viable within the context of Eastern Europe and advantageous for the whole of population⁹. On the contrary, it is fair to assume in a rational choice manner that the population does not take reforms normatively but rather treats them as a dependent variable of other factors affecting individual payoffs (e.g. Przeworski, 1991).

3 Party Politics

I want to argue that the new post-communist regimes were ideological opponents of the welfare state. In order to appreciate this argument, one needs to know whether ideology matters in Eastern Europe and, if it is so, to understand by what mechanism ideology can influence actual policy outcomes. In established democratic countries, party competition, which is predominantly based on ideologically contending political programmes with low electoral volatility, provide such a mechanism. Through political participation different social groups who are in favour of the welfare state can achieve it¹⁰. In non-democratic countries, party competition is mostly based on client-patron relations, the charismatic appeal of leaders and characterised by high electoral volatility. In such conditions, the welfare state is probably achievable but is definitely subject to historical contingency. Below, I will outline two rival hypotheses about the prevalent pattern of party competition in Eastern Europe and then sketch out main divides around which this competition revolves¹¹.

⁹ This line of reasoning goes in tandem with the view of the IMF and the World Bank which were highly influential in the beginning of transition. They assumed that it is simply enough to set up capitalist institutions and they will create capitalism.

¹⁰ There is however evidence that Western European countries are currently experiencing a period of dealignment when parties lose their traditional social bases (e.g. Rose and McAllister, 1986). Another characteristic for Western European countries feature is a decrease of salience of traditional left-right and authoritarian-libertarian values in favour of post-material values (e.g. Inglehart, 1990).

¹¹ With regard to Eastern Europe, Kitschelt et al, however, propose not to use the term 'cleavage', pointing out that these political systems are new and thus it is difficult to distinguish cleavages from divides or divisions (Kitschelt, 1999, p. 63)

There are two rival hypotheses regarding the prevalent pattern of party competition in Eastern Europe. Simply put, the first one holds that party competition in Eastern Europe is of the non-Western pattern (clientelistic, charismatic and highly volatile); the second one holds that it is of the Western pattern (programmatic and lowly volatile). In their seminal work on the emergence of party competition in Western Europe Lipset and Rokkan (1967) suggest that party competition in Western Europe is organised around societal cleavages such as centre/periphery, religious/secular, urban/rural and capital/labour. They put forward an argument that party competition acquires these cleavages and reproduces them even despite the initial conflicts that created these cleavages are gone. Currently, there is a growing concern in literature about the decline of class voting in Western Europe. One part of this argument comes from changes in the class structure itself; another, from the assumption that modern political institutions and parties themselves craft cleavages (Evans (ed.), 1999). An implication of the below paragraphs on the formation of party competition in Eastern Europe is that the absence of strong *Western-esque* social bases of party competition in Eastern Europe does not necessarily mean that it is impossible for the creation of a stable programmatic party system. Nonetheless, the absence of social bases of party competition extinguishes the opportunity for Eastern Europe to have the welfare state created as a result of class struggle.

One of the non-Western hypotheses on the formation of party competition in Eastern Europe was put forward by Kitschelt (1995, p.451) and is known as the *tabula rasa* hypothesis. It starts with the statement of the fact that programmatic party competition is a) costly in terms of coordination and consensus-building costs and b) difficult to achieve as it requires high sophistication¹² of the electorate as well as economic growth and sectoral change that would upset possible clientelistic and charismatic party coalitions. It then builds upon its four arguments (*ibid*):

¹² In a nutshell, political sophistication is a measure of one's political believe system (PSB). PSB in its Converseian sense is a 'configuration of ideas and attitudes in which the elements are bound together by some form of constraint of functional interdependence' (Converse, 1964, p. 207). Generally, the larger, the more wide-ranging, and the higher-constrained one's PBS is—the more sophisticated it is. Naturally, more politically sophisticated people should be better at maximising their interests via a political system (Luskin, 1987).

- the communist experience left people with “civilizational incompetence” to develop active civic participation in political debates (Sztompka, 1993)¹³;
- the fluidity of property rights hinders creation of economic and social cleavages;
- the existing “cacophony of political entrepreneurs” rather than parties with credible reputation makes an intelligent vote difficult;
- whatever programmatic differences among parties are, they are just window-dressing concealing the identical liberalisation policies imposed by international organisations.

Another non-Western hypothesis was put forward by Evans and Whitefield (1993) and is known as “missing middle”. They suggested that, in Eastern Europe, voter volatility may be as high as a result of the absence of stable social cleavages and *mezzo*-structures (*viz.* intermediate organisations between the state and an individual) which contribute towards creation of a social identity. On the face of it, the lack of social identity that could be translated into political interests as well as the absence of civic culture to participate in meaningful political activities to defend their interest may result in high voter volatility. Taking this into account as well as a high cost of programmatic party competition, highly volatile party competition based on clientelistic and charismatic appeals is more likely to emerge in Eastern Europe than lowly volatile party competition based on programmatic appeals.

The pro-Western hypothesis draws on the argument that the introduction in the beginning of transition of democratic political institutions makes people learn them, relate their marketisation experiences to them and eventually exploit them. As a result, rational voters and party leaders bring about a pattern of programmatic party competition. It is crucial to point out that in order to make a rational vote voters need to have some knowledge about

¹³ Sztompka proposes that the attempt of pre-modern societies to modernise themselves via socialism resulted in “fake modernity” as distinguished from Western “true modernity” (1993, pp.88-89). The effect of “fake modernity” is captured by the concept of Eastern European “civilizational incompetence” which denotes a lack of a) enterprise culture which is indispensable for participation in market economy, b) civic culture which is indispensable for participation in democratic polity, c) discursive culture which is indispensable for participation in free intellectual flow and d) everyday culture which is indispensable for daily existence (*ibid.*).

possible effects of voting and their payoffs. Naturally, the first democratic elections (founding elections) were characterised by the absence of such knowledge because of a lack of the previous experience about the market economy and liberal democracy. In spite of the fact that the founding elections were not meaningful in terms of outcomes as voters were *substantively* irrational¹⁴, such elections were important for learning about different parties, policies and how the policies they chose affected their payoffs. Therefore, the next elections were more meaningful and so forth. Overall, this hypothesis emphasises “political learning” over evolution of social cleavages (Whitefield and Evans, 1999). Another type of the pro-Western hypothesis (known as “modernisation”) holds that success of communism in modernising economies of Eastern European countries created occupational, educational and other cleavages as well as a basis for deepening these cleavages under the conditions of market economy and democracy (Evans and Whitefield, 1993). As such, with a lapse of time, parties in Eastern Europe may develop clear programmatic divides and stable social bases for party competition along the lines of those pre-transitional cleavages. Most clearly, the idea that cleavages in party competition in Eastern Europe resemble ones in the West is articulated by Kitschelt (1992). In doing so, he however makes a crucial distinction between the dynamics of party competition in countries with market and nonmarket allocation of economic resources in the status quo (Figure 1)¹⁵.

¹⁴ Substantive rationality differs from procedural rationality in the way that the latter is a constant whereas the former is a function of political sophistication (Luskin, 1987, p.864). Procedural rationality requires that people behave instrumentally-rational, i.e. in accordance with a kind of personal cost-benefit analysis. For example, procedural rationality may lead some people to be politically unsophisticated. On the contrary, substantive rationality requires that people have their costs and benefits operationalised.

¹⁵ This framework is based on the spatial theory of elections (e.g. Downs, 1957) which holds that voters choose candidates who best represent their policy positions and that candidates seek to maximise votes. Vote-maximising parties tend to avoid extreme policy positions which are assumed to match policy positions of a minority of the electorate. Instead, vote-maximising parties locate their policy-positions in the middle of the political spectrum to capture a majority of the electorate. However, spatial models of elections has been recently challenged by models based on the theory of symbolic politics. The latter assumes that voters affectionately react to political symbols (issues) and do not rationally evaluate candidates and their stands (for a critical evaluation of different models of election cf. Iversen, 1994).

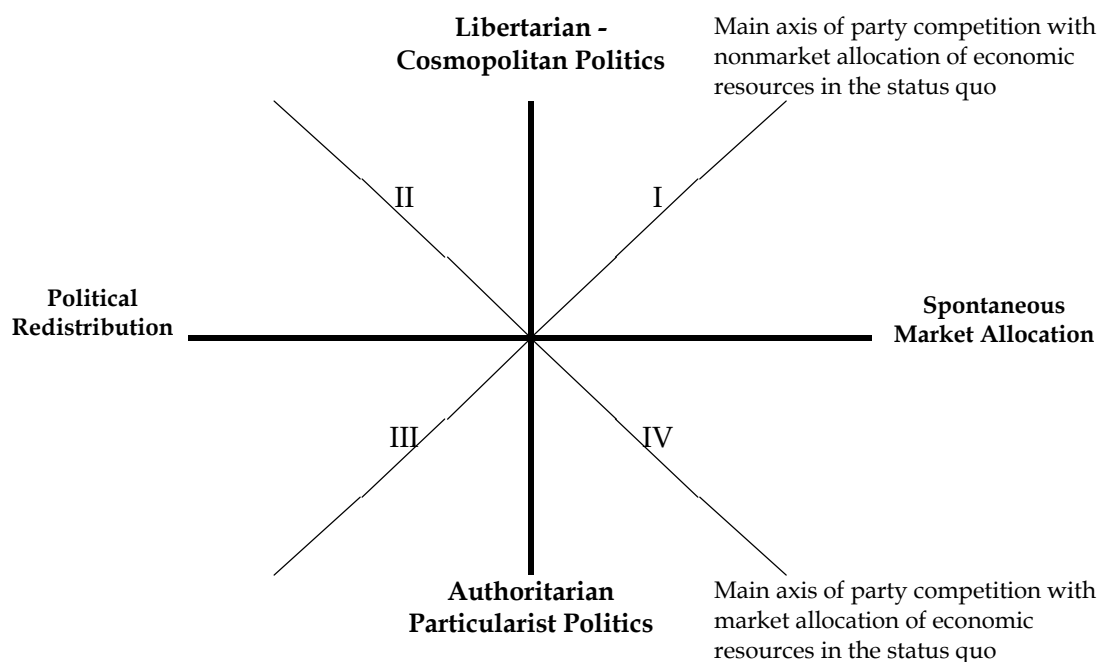
Both hypotheses above bear a great deal of *prima facie* plausibility and are supported by some empirical research¹⁶. The latter goes in line with another hypothesis, namely that cleavages and social bases of party competition in the Eastern European politics may vary from country to country. This view was first articulated by Evans and Whitefield (1993) as a “comparative communist approach”; it holds that different communist and pre-communist legacies and transitional paths contribute to the formation of different patterns of party competition in different countries. Indeed, a number of empirical studies repeatedly showed that different transitional countries have developed different patterns of party competition and political cleavages (e.g. Kitschelt et al, 1999, Markowski, 1997; Kitschelt, 1995; Evans and Whitefield, 1993). For example, the Czech Republic, Hungary and Poland are considered to have the most clearly articulated programmatic patterns of party competition; Bulgaria, Romania and the Baltic countries have less programmatic ones; and Serbia, Russia and other countries of the former USSR have rather clientelistic and charismatic patterns of party competition. When it comes to programmatic party competition, the Baltic countries and Serbia demonstrated the prevalence of ethnic/language political cleavage over traditional left-right and libertarian-authoritarian cleavages. Following the “comparative communist approach”, below, I will briefly consider Hungary as an example. In doing so, I will employ the Kitschelt’s framework of political cleavages (Figure 1).

In Hungary, party competition is regarded to be programmatic. It is however not intensively polarised in terms of left-right and libertarian-authoritarian values and is characterised by a high electoral volatility. To be brief, I will contrast the most successful political party, *viz.* the former ruling communist party Hungarian Socialist Party (MSZP), with its major counterparts. In 1990, MSZP entered the election with a democratic and leaning towards the left programme. It however lost the election to the Hungarian Democratic Forum (MDF) which advocated more intensively for liberal democratic and

¹⁶ For example, Huber and Inglehart (1995) attempted to examine the meaning of the left-right discourse in 42 countries including the newly emerged democracies in Eastern Europe in order to find out whether a secondary dimension of political polarisation existed. Their results hold that political conflict in Eastern Europe is clearly structured along left-right dimension, also reflecting authoritarian-democratic polarisation and some issues of nation building: traditional culture versus new culture, isolationism versus internationalism, and xenophobia.

free market reforms (quadrant I). Nonetheless, MSZP managed to capture 10.9 per cent of the seats and establish itself as an oppositional party. However, having won the 1994 election, it made a great rightist turn, so that its actual policies favouring liberal democracy and free markets were mainly congruent with the quadrant I, being closer to the quadrant IV. It is important to note that MSZP managed to win the election mainly because of their technocratic experience gained when the party used to be a ruling communist party and the disappointment of the electorate with the middle-right policies of MDF which did not bring expected prosperity and stability. The main campaign slogan of MSZP was “Let Competence Govern” and the party promised to “modernise” the country with minimal social costs (Bozóki, 2002, p.19).

Figure 1: Linkages between libertarian/authoritarian and market/nonmarket dimensions of political competition



Bases on: Kitschel, H. (1992) The Formation of Party System in East Central Europe, *Politics and Society*, Vol. 20 No1, March 1992, p. 17.

When being in power, MSZP managed to complete the privatisation of major state properties and to introduce hard-line monetarist reforms under the so-called “Bokros-package”. As these reforms were introduced by stealth and, *inter alia*, aimed at the drastic cutting off state funding for social services, some of them were ruled out by the Constitutional Court. Although the reformist measures resulted in the economic growth

and decrease of unemployment, MSZP lost the 1998 election. One of chief reasons for that was the lost of their social bases, i.e. the losers of transition (mainly workers, employees of the state-owned enterprises and public services as well as pensioners) (Bozóki, 2002, p.19). The MSZP successor, Fidesz-MPP (The Alliance of Young Democrats–Hungarian Civic Party), pledged to stop radical liberalisation policies initiated by MSZP in favour of a greater role of the state. In fact, it continued practicing softened liberalisation and proved to be rather authoritarian, so that the policies during its term in office fall into the quadrant IV, being closer to the quadrant III of the Kitschelt framework. Many disenchanted members of the public even speculated that their rule was more dictatorial than the Hungarian Stalinist regime of the 1950s. In the 1998 platform, MSZP put less stress on its commitment to radical economic reform and argued for reform of social services. Nonetheless, it did not drop its beliefs in liberal democracy and free markets as instruments to modernise Hungary. In the election-winning 2002 platform, MSZP stated its commitment to further modernising reforms but at the same time articulated a great concern with a decline of social services, especially, health. Nonetheless, it is clear now that the Hungarian Socialist Party (MSZP) does not support involvement of the state into economy in general and welfare policies in particular. All in all, the actual politics of the last decade in Hungary fell into the quadrant I and sometimes II one of the Kitschelt framework rather than the quadrants I and III as he initially argued.

In light of the above analysis, the question now is how to explain the inconsistency between the MSZP claim to be a socialist party and its non-socialist policies. In a comprehensive study of MSZP, Bozóki plausibly argues that the party employs “the catchy but empty slogans of competence and modernization” along with “Europeanization” (2002, pp.6, 17) to consolidate their elite and grass root supporters. To the date, such “politics with a Janus face” (ibid p. 2) resulted, on the one hand, in liberal democratic and free market policies serving the interests of a new elite and, on the other hand, it attempted not to drastically dismantle social services, which are favourable for the grass root supporters. I want to argue that MSZP managed to secure support of the new elite because by itself it is elitist. The core of MSZP is non-dogmatic part of the former communist ruling party elite who managed to abandon communist ideology and to apply their political

knowledge and skills to democratic party competition. The new elite, i.e. winners of transition, are former middle-level managers who successfully exploited their knowledge, experience and managerial authority in the conditions of the emerging market economy (Eyal et al, 2000)¹⁷. As such, being part and parcel of the elite, MSZP easily wooed its support. Creating a stable social base, however, proved to be a problem for MSZP. It started as a labour party but soon lost support of the workers and other losers of transition because of its radical neo-liberal policies. At the same time, it gained some votes of young professional urban dwellers. More recently, it attempted to regain support of the state sector employees and pensioners.

Such absence of a stable social base has two major implications. One, it makes the Hungarian party system, which was created top down, unstable. High electoral volatility and low variation of policies practiced by different parties provides a possibility for charismatic and clientelistic party competition to emerge. Another, the working class currently is unable to mobilise itself for a meaningful collective political action. MSZP, a party which claims to represent the working class, lost its support. The working class votes are dispersed among different parties. It makes the logic of class struggle not applicable to the Hungarian politics. Therefore, it is unlikely that the workers and other social groups interested in the welfare state can bring it into being via political action.

¹⁷ The success of the managerial elite is a powerful argument to explain social change in Eastern Europe. Prior to the Eyal et al study (2000), there were attempts to apply an adjusted Goldthorpe and Wright schema to measure class structure in Eastern Europe, mainly led by Evans (op.cit.). However, those attempts did not show significant crystallisation of classes. In their study, Eyal et al (ibid) employ a more sensitive schema which draws extensively on Weber and Bourdieu. The central tenet of this schema is cultural capital. The study concludes that the formation of classes in post-communist classless society does not go along the occupational lines. Rather, a new bourgeoisie is stemming from the socio-economic groups which accumulated the most of cultural capital during communism. Under conditions of market economy, they convert their cultural capital into economic resources. According to the study, a new bourgeoisie is represented by highly educated middle-aged people who started their careers and achieved middle managerial positions during communism. Another thought-provoking finding of the study is that the optimising strategy for the new bourgeoisie was not to steal unprofitable state property and become owners but to sell it off to foreign investors and become managers in enterprises with international capital. In overall, the study emphasises the precedence of cultural capital as a source of power in the emerging Eastern European societies over property and political capital.

4 International Pressures

As it is evident from the previous section, the actual politics of the transitional period in Hungary were exclusively concerned with liberal democratic and free market policies and did not significantly vary according to ideological claims of ruling parties. The same state of things is observed in other Eastern European countries. For example, in Poland, each of five post-communist governments attempting to fulfil expectations of the IMF and World Bank followed the same “shock therapy” policies devised by Balcerowicz (Markowski, 1997, p.223). Thus, the received wisdom—a type of “conspiracy theory”—gathers that domestic policy-makers were pressed to follow “one size fits all” policies designed and financed by different kinds of international organisations. The latter comprises supranational organisations such as the European Union (EU), international financial institutions such as the International Monetary Fund (IMF), World Bank Group in general and International Bank for Reconstruction and Development in particular, European Investment Bank (EIB), European Bank for Reconstruction and Development (EBRD), multilateral agencies such as the World Health Organisation (WHO) and International Labour Organisation (ILO), bilateral aid agencies such as USAID and Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) GmbH. Indeed, at first sight, it is plausible to assume that the international organisations possessed a critical mass of expertise and financial resources to initiate and sustain policy change in the area of social policy. However, I want to argue that although international pressures existed, their impact should not be overestimated and that the dynamics of actual policy change in the area of social policy was more complex. In reconstructing this dynamics, the central role should be given to domestic policy makers. Furthermore, it should be taken into consideration that not all international pressures appeared to be antagonistic to the development of the welfare state.

For the analysis of transitional social policy, it is helpful to distinguish two periods of international attention to social policy transformation: 1) from 1989 to 1995 and 2) from 1995 onwards (Orenstein and Haas, 2002, p. 24). A characteristic feature of the period of early transition is that international organisations, above all the IMF and World Bank, in lending funds and giving policy recommendations were not concerned with social policy.

Their lending strategy was predominantly concerned with the restoration of internal and external macroeconomic balance, structural adjustments and privatisation. It was believed that “market forces, once liberated from government repression and inserted in a balanced macroeconomic context, could set into motion a sustained growth process” (Zecchini, 1997, p.250)¹⁸. As such, loans of the international financial institutions were given to fill the twin deficits (fiscal and external) and rarely were earmarked for any sector, including the social one. Therefore, it is the neglect of international organisations to the social sector rather than their actions that accounted for initial policy change in the area of social policy. Domestic policy makers were left relatively free to set social policy and they took this chance to initiate policy change.

The international financial institutions, especially, the IMF and World Bank, played a central role in debt restructuring and new loan agreements which were subject to economic reforms and structural adjustment programmes. As such, it is important to recognise that in addition to their core institutional financing function, the international financial institutions fulfilled another equally important function. They “embodied the most pervasive form of economic conditionality that can be applied to a sovereign state, albeit subject to multilateral surveillance” (Zecchini, 1997, p.240). In assessing the impact of the loans of international financial organisations on the national economy as well as their conditionality, one should neither exaggerate, nor downplay it. Total lending by the international financial institutions to the largest beneficiary countries i.e. Hungary and Czechoslovakia during four years between 1990 and 1993 equalled to 9.4 % and 8.3% of their 1992 GDP respectively (Zecchini, 1997, p. 243). The funding received by each country yearly represented the equivalent of some 2% of GDP. The latter is a quite significant figure, but it is still not enough to solely initiate policy change. Nonetheless, it proved to be crucial in the context of transition when policy change was initiated by domestic policy makers who used this funding to sustain policy change. The funding was crucial in the

¹⁸ This formula came to be known as the “Washington Consensus”. The term, coined by Williamson (1990), originally summarised a set of policies for Latin America approved by most of official Washington. However, soon, it lost its original meaning and became a catchy word for liberalising economic reforms propagated by Washington-based institutions like the World Bank (Williamson, 1999). Later, I will use this term in its latter sense.

early transition period as it was used to sustain industries dependent on import in order to mitigate the deterioration of living standards.

On the whole, the conditionality of the funding, or more correctly, eagerness of domestic policy makers to apply these conditions to the social sector, had a negative impact on it. In the health sector, for example, it resulted in the challenges to cut budgets, promote the private sector and to introduce user charges (Walt and Gilson, 1994, p.355). Having faced these challenges, Eastern European governments started looking for new solutions for social services. New governments had a low problem-solving capacity as they lost direct control over the economy, did not have their own bureaucracy and could not rely on the socialist state bureaucracy¹⁹. Three reasons account for the latter. One, the former socialist cadre of bureaucracy was regarded as an ideological foe. Second, the old bureaucracy had a limited knowledge of the market economy. Lastly, bureaucracy was generally considered as only generating red tape and impeding democratic governance. Therefore, in design and implementation of reforms in social services the new governments relied on covert and ideologically close to them domestic and foreign groups of policy advisers.

Orenstein and Haas argue that having no pressures from international organisations on social policy in the period of early transition, domestic policy makers came up with new (inefficient) solutions for social services in “an idiosyncratic manner that reflected momentary alignments of intellectual and political recourses and historical conditions in a particular country” (2002, p.14). However, drawing on the sociological (organisational) institutionalist perspective (e.g. Hall and Taylor, (1996), Immergut, (1998), Campbell, 1998), I want to argue that being free to set social policy, domestic policy makers were influenced by international organisations. This was the cultural influence in terms of cultural change brought about via transmission of cultural practices and routines associated with the market economy and democracy. This influence came in the form of new policy ideas and models, or, in an abstract level, in the form of cues, scripts, symbols and classification

¹⁹ Programmes of technical assistance and training mainly targeting government officials and public enterprises were run by the EC and EBRD and accounted, in Eastern Europe, for about 12% of funding from all international organisations during 1990-1993 (calculated from: Zecchini, 1997).

systems and, in a wider sense, a new cognitive framework. The new cognitive framework (let us refer to it as the Washington Consensus) “enabled” and “empowered” domestic policy makers to generate new solutions for social services by providing cues and scripts that “constituted” legitimate forms of actions (Campbell, 1998, p. 382)²⁰. Legitimacy of international organisations was due to knowledge of the market economy that they had and critical financial resources that they supplied new governments with. Therefore, the “idiosyncrasy” of new solutions for social policy could be better explained by the logic of “transposing” Washington Consensus to reform of social services. This logic differed from the logic of instrumental rationality. Rather, it was based on the “appropriateness” of the reform to the new emerging institutional setting and “the role that collective process of interpretation and concerns for social legitimacy play in the process” (Hall and Taylor, 1996, p. 20). Simply put, reformers thought that if a particular model of social services is successful in a rich democracy, it would be appropriate in the context of Eastern European countries aspiring to become rich democracies. At the same time, a historical insight can elevate the explanation. For Eastern European countries the fall of communist regimes provided an opportunity to get rid of Soviet domination and to “come back” to their “genuine” history. Therefore, new governments could derive inspiration for new design of social services from the pre-war arrangements. In that time, Poland, Hungary and the Czech Republic had a Bismarckian-type health care provision for workers of certain industries and civil servants²¹. Therefore, it might account for the fact that those countries decided to restore the “old” type of health care arrangements (Mihályi, 1999, p.8).

On their own terms, the early period of transition witnessed the success of the conditionality policies imposed by international financial institutions. Eastern European countries managed to liberalise and stabilise their economies. However, the result of such liberalisation and stabilisation did not meet the initial expectation. For example, the trade deficit was reduced mainly due to cuts in import that was essential for domestic

²⁰ Another way of looking at it is that a cognitive framework constraints actions by limiting possibilities for actions (Campbell, 1998, p.382).

²¹ The scope of health care arrangements varied from country to country. For example, the most of the Czechs were covered with health insurance, whereas more than two thirds of the Poles were not insured (Marrée and Groenewegen, 1997).

production. A share of the output of the privatised enterprises in the GDP did not grow. Privatised banks willingly gave credit to state enterprises having a state guarantee and were reluctant to fund new private enterprise. Structural changes led to unemployment and newly created jobs were of poor quality. In such conditions, public funds were not able to absorb a negative impact of economic depression and unemployment because the tax base itself was falling short. As a result, social resistance to reforms was growing and in countries such as Poland Hungary, Bulgaria, Estonia, Slovakia, and Slovenia, non-communist governments lost office to new governments led by reformed former communist ruling parties.

In lending funds and giving policy recommendations, international financial institutions had to reconsider their policies. It is important to recognise that although, in the beginning of transition, international financial institutions possessed knowledge of the market economy they did not have knowledge of how to deal with reforms in post-socialist countries. Their knowledge therefore was more of the nature of beliefs rather than genuine knowledge²². By the middle 1990s, international organisations were able to evaluate and correct their initial policies. As the main instrument of international financial institutions to influence borrowing countries was “conditionality” of loans, reconsideration of the their strategies by international financial institutions resulted in the “evolution of conditionality” (Zecchini, 1997, p.257). It required complimenting liberalisation and stabilisation policies with reforms of social security, taxation, privatisation and corporate governance (*ibid.*). Therefore, from the middle 1990s, international organisations got involved into social policy in Eastern Europe. For example, World Bank lending to former

²² From *the epistemology perspective*, knowledge is the justified true belief. By contrast, *the sociology of knowledge perspective* holds that knowledge is the socially recognised true belief (Maffie, 1999, p. 22). As such, it endeavours to trace the actual path of belief formation which takes into account inescapable social nature of human cognition. As a result, the difference between the two positions brings about the distinction between genuine and socially recognised knowledge. Furthermore, this difference can be interpreted as the difference between knowledge and power (*ibid*, p.31). If to employ one of sociological conceptions of knowledge, *viz.* ‘beliefs which are taken for granted or institutionalized, or invested with authority by groups of people’ (Bloor, 1991, p.5; cited in Maffie, 1999, p.31), the Washington Consensus illustrates the authority of international organisations over the knowledge on whether liberal markets can handle the public sector. By the middle 1990s, it became evident that the initial believe of international organisation in the latter was not justified by the actual experiment that was run in Eastern Europe.

Eastern block countries for social assistance has skyrocketed from less than USD 400 million in 1991 to almost USD 4 billion in 1999 (World Bank, 2000).

Before considering the direct influence of international organisations on social policy in Eastern Europe, it is worth noting that for the World Bank, to have its attention focused on the social sector is an achievement of fundamentals of which were laid in the 1980s. Before this, social services such as health care and primary education were regarded as “pure welfare spending, which could not be justified by any productive outcome” (Nelson, 1999, p. 49). Although World Bank’s attitude to the social sector has changed in the early 1990s, it still was viewed in the pure economic context. The social sector was viewed from the vantage point of investments that are important for sustainable growth in the context of monetary and fiscal stability (e.g. World Bank, 1993). Thus, the main approach of the World Bank to social services’ reform in Eastern Europe was to prevent the social sector from withering away but to keep its expenditure on the minimal level²³.

It is no wonder that major policy recommendations of the World Bank in the area of social policy were concerned with de-institutionalisation of still mostly universally provided social services into a means-tested safety net (World Bank, 1996, 2000). In line with these recommendations, in 1995-1996, Eastern European countries started to decrease universality of social services and to target social benefits to the most needy. Stripped to its essentials, conditionality of loans provided by the World Bank and IMF challenged Eastern European countries to turn post-socialist *welfare* into *workfare*. Thus, involvement of the World Bank in the area of industrial relations was growing. Its attention was focused on measures that reduce hiring and firing constraints and decentralise collective bargaining. In general, trade unions were viewed as impediments of further reform as they imposed efficiency costs by putting upward pressures on wages, setting limits on flexible working

²³ The primary concern of the World Bank with fiscal policy is the most clearly seen on its recommendation regarding pension reform. The World Bank urged Eastern European countries to raise retirement ages to international norms disregarding the fact that life expectancy in Eastern European countries was lower than in Western countries and that in some Eastern European countries it fell down during transition. For example, in Hungary, the retirement age was increased to 62 years for both men and women, whereas a male life expectancy dropped down to 67 years.

arrangements and hindering adoption of the laws that reduce termination costs (World Bank, 2000, pp.23-25)²⁴.

Except for Washington-based international financial institutions, the European Union influenced social policy of Eastern European countries. This influence mainly came in the form of the “soft regulations” regarding EU accession, technical assistance and training of the state bureaucracy. Unlike in the EU member countries, this influence appears not to be antagonistic to development of the national welfare state. Orenstein and Haas (2002) put forward the threefold “Europe effect” argument. The economic part of the argument holds that Eastern European countries did not drastically reduce social expenditure in the period of early transition as the former USSR states did because Eastern European countries saved their economies from collapse due to trade and investment opportunities provided by Western Europe. The political part of this argument holds that Eastern European political parties on both sides of the political spectrum “understand the need to commit to European norms and levels of social expenditure” (ibid, p. 12). The administrative part of the argument holds that the EU provided ministries of Eastern European countries with “experience and expertise on European social welfare”. Both economic and administrative parts of the argument sound plausible, although the latter needs some correction. Unlike the “one size fits all” policy advice of the Washington-based organisations, the EU does not give direct policy prescriptions. The main EU instrument to build the required for accession democratic and administrative institutions in Eastern Europe is “twinning” under the PHARE Programme²⁵. Twinning means that Eastern European governmental and non-governmental agencies looking for advice and funding from EU should autonomously chose the member state co-operation partners, whose advice they want to

²⁴ A comparative study of multinational companies revealed that participation of Eastern European workers in trade unions is quite limited as compared with Western Europe and it is declining (ILO, 1996). Employees of the multinationals are very poorly informed about the operation of the company, their participation in the management bodies of the subsidiary companies is rare and they do not know that their companies had established European Works Councils. Generally, the new employees are not keen on joining trade unions as they are young, highly-skilled and well educated.

²⁵ In the adopted in 1997 Agenda 2000 proposals on enlargement, the Commission proposed to bring together different form of pre-accession support to accession countries under the single framework of Accession Partnerships. Later, twinning was devised a major instrument of this framework. Although twinning was fully operationalised in 1998, it reflected earlier principles of EU assistance to Eastern European countries (EC, 2000).

rely on, and then the EU funds their cooperation. Naturally, policies for Eastern European countries resulting from such co-operation reflect not imaginary “European social welfare” but welfare policies and arrangements in “twin” member states.

The main criticism of the political part of the above “Europe effect” argument is that in the European Union itself there are no agreed norms and levels of social expenditure (Scharpf, 2002). The current logic of integration is economic rather than social. Despite EU concerns, the postulates of social dumping and economic and social cohesion are not legally enforced. As such, even though EU accession provides member states with leverage on accession countries policies, with rare exceptions, the area of social policy is left to domestic policy makers²⁶. The exceptions are health and safety at work, public health, anti-discrimination, and employment including the European Social Fund and social dialogue. One, however, should not overestimate the influence of the EU upon domestic policy makers. For example, in Hungary, the previous “conservative” government easily disbanded the Ministry of Labour, Interest Reconciliation Council and Interest Representation Council of Public Institutions as well as weakened other tripartite institutions overseeing and mediating collective bargaining. The newly elected government, drawing on support from the EU, is promising to renounce some of the rights of local union sections repealed by the 1992 Labour Code, restore and strengthen the disbanded institutions as well as to include employers’ associations and trade unions in regional development councils, the supervisory boards of pension and health funds, and decision-making bodies in charge of education, training and retraining programmes (Tóth and Neumann, 2002).

²⁶ The so-called Copenhagen criteria for accession stated in the Agenda 2000 limit EU leverage on accession countries to the following: stable democratic institutions, respect for human rights, a market economy and the capacity to absorb the *acquis communitarian*.

5 Conclusion: Prospects for Development

In outlining prospects for the development of the welfare state in countries of Eastern Europe, my concern is both with the existence of the welfare state and its efficiency. The period of early transition shows that the scope of the former socialist welfare arrangements was initially preserved intact. Only when administrative reforms introducing market mechanisms and decentralisation generated high inefficiencies—which laid a heavy burden on the shrinking budget—the scope of the social services and transfers was drastically reduced. Following the logic of this paper, I will consider three domains which can contribute to the understanding of the prospects for development of an efficient welfare state in Eastern Europe, *viz.* the state, party politics and international pressures.

The possible crisis of input-oriented legitimacy can be a significant factor accounting for the emergence of the efficient welfare state. It is crucial to recognise that political changes in Eastern Europe were not simply changes of the political leadership and the mode of production. Rather, Eastern European countries underwent a transformation of the states. There was a project to replace former traditional states with modern capitalist states. As such, Eastern European countries are currently undergoing the process of state-building. The new state is supposed to be based on the legal-rational type of legitimacy. Introduction of the institution of citizenship and the rule of law created mechanisms for such legitimacy. My argument is that the first post-communist governments fully exhausted the potential of the populist input-oriented legitimacy. The return of the reformed former communist parties to office in many Eastern European countries supports this argument. Being put in the “iron cage”, people of those countries no longer believe in the fairy tale of “people’s capitalism”. In order to survive, the new state must gain positive legitimising beliefs of the masses. The source of such beliefs is effective and efficient solutions for public policies. As such, if the new state survives, *volens nolens*, it has to effectively and efficiently deal with social policy. This argument however holds true under the condition that state-building in Eastern Europe follows the way of the inclusive democratic state, not a limited liberal state. In the latter, social policy is reduced to public policy to the effect that social welfare is replaced by individual workfare. Therefore, the prospect for development of the Eastern

European welfare state depends on further development of top-down introduced democracy.

It is important to recognise that in Western European countries, democracy has been developed bottom-up. Democratic party competition is based on historical social and economic divides. In Eastern Europe, such divides are minimal. Eastern European societies are better thought of as rank rather than class societies (Eyal et al, 2000). Thus, until socio-economic divides are developed, political participation can only be sustained by parties themselves²⁷. However, up to now, the actual performance of different parties in office did not reveal strong divides between them. They generally pursued the same liberal democratic and free market policies. Thus, it is not likely that they can craft strong political cleavages and the electorate may simply lose interest in meaningful political action. On the other hand, according to the Ricker's (1986) theory of cleavage formation, if politicians persistently lose elections they will try to introduce new issues and dimensions of political competition. As such, the issue of the welfare state can be brought in through the logic of party competition. This however requires that the Eastern European politicians, who are currently probably best perceived as "political entrepreneurs", stay in business despite inevitable losses of elections.

International pressures can substantially influence domestic policy making in the area of social policy. It has been shown that in Eastern Europe there are two sorts of pressure coming from Washington and Brussels respectively. The Washington-based international financial institutions propagate deinstitutionalisation of the post-socialist social welfare arrangements with a view to turning social welfare into individual workfare and introducing decentralised bargaining. Although the EU influences national governments of the accession countries, in the area of social policy, its influence is limited and does not reach as far as the scope and design of national welfare arrangements are concerned.

²⁷ Political participation is achievable through high economic, political and individual costs and it may be too expensive to strive for when other important goals such as state-building and social and economic development are at stake (Kaase and Marsh, 1979, p.30). Students of early democratic attitudes repeatedly found that mass publics were unable to apply general democratic principles to concrete political situation whereas elites did so (ibid.). There seems to be a question whether Eastern European countries can afford to pay a high price for political participation or not.

However, given the (non-enforced) commitments of the EU to economic and social cohesion and its concern with social dumping, the EU can positively rather than negatively influence development of national welfare states in Eastern Europe. At least, its influence is not antagonistic to welfare state development. Cooperation between EU accession countries and member countries regarding institution building is subject to bilateral agreements. Therefore, it is difficult to predict what institutional design of the welfare state each of the accession countries may want to borrow from the member states, if they decide to do so. In the field of industrial relations, Brussels, contrary to Washington, puts on the accession countries pressure to develop a strong system of tripartite collective bargaining. The latter provides Eastern European countries with an option to develop their welfare arrangements along the lines of the Bismarck model of work-based social insurance.

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